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Report No: PAD1423

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$75 MILLION

TO THE

REPUBLIC OF PANAMA

FOR A

STRENGTHENING THE SOCIAL PROTECTION AND INCLUSION SYSTEM PROJECT

September 1, 2015

Social Protection and Labor Global Practice  
Latin America and Caribbean Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective August 4, 2015)

Currency Unit = Panamanian Balboa (B/)

1 B/ = US\$1

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

<i>120/65</i>	Non-contributory pension program “120 at 65” ( <i>120 a los 65</i> )
CCT	Conditional Cash Transfer
CIRO	InterMinisterial Coordination Committee
CPF	Country Partnership Framework
CPRO	Provincial Coordination Committees
DA	Designated Account
EVS	Social Vulnerability Survey ( <i>Encuesta de Vulnerabilidad Social</i> )
FM	Financial Management
FUR	Single Information Collection Form ( <i>Ficha Única de Registro</i> )
IBRD	International Bank for Reconstruction and Development
IDB	InterAmerican Development Bank
INADEH	National Professional Training Institute ( <i>Instituto Nacional de Formación Profesional y Capacitación para el Desarrollo Humano</i> )
INEC	National Institute of Statistics and Census ( <i>Instituto Nacional de Estadística y Censo</i> )
IPEA	Research and Applied Economics Institute ( <i>Instituto de Pesquisa e Economia Aplicada</i> )
IPP	Indigenous Peoples Plan
IPPF	Indigenous Peoples Planning Framework
MEDUCA	Ministry of Education ( <i>Ministerio de Educación</i> )
MIDES	Ministry of Social Development ( <i>Ministerio de Desarrollo Social</i> )
MIS	Management Information System
MITRADEL	Ministry of Labor ( <i>Ministerio de Trabajo y Desarrollo Laboral</i> )
NCB	National Competitive Bidding
OBD	Output-Based Disbursement
PAIL	Support to Labor Market Insertion Program
PMT	Proxy Means Test
RO	Network of Opportunities ( <i>Red de Oportunidades</i> )

RUB	Single Beneficiary Registry ( <i>Registro Único de Beneficiarios</i> )
SERPE	National Employment Service ( <i>Servicio Nacional de Empleo</i> )
SOE	Statements of Expenditures
SSPS	Secretariat of the Social Protection System
UEAF	Administrative Financial Executing Unit ( <i>Unidad de Enlace Administrativo-Financiero</i> )
UNDP	United Nations Development Programme

Regional Vice President:	Jorge Familiar
Country Director:	J. Humberto Lopez
Senior Global Practice Director:	Arup Banerji
Practice Manager:	Margaret Grosh
Task Team Leader:	Edmundo Murrugarra



**PANAMA**  
**STRENGTHENING THE SOCIAL PROTECTION AND INCLUSION SYSTEM**  
**PROJECT**

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## PAD DATA SHEET

*Panama*

*Strengthening Social Protection and Inclusion System (P155097)*

### PROJECT APPRAISAL DOCUMENT

*LATIN AMERICA AND CARIBBEAN*

*Social Protection and Labor Global Practice*

Report No.: PAD1423

Basic Information			
Project ID P155097	EA Category C - Not Required	Team Leader(s) Edmundo Murrugarra	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 01-Mar-2016	Project Implementation End Date 28-Feb-2022		
Expected Effectiveness Date 28-Feb-2016	Expected Closing Date 28-Feb-2022		
Joint IFC No			
Practice Manager/Manager Margaret Ellen Grosh	Senior Global Practice Director Arup Banerji	Country Director J. Humberto Lopez	Regional Vice President Jorge Familiar Calderon
Borrower: <i>Ministerio de Economia y Finanzas</i>			
Responsible Agency: <i>Ministerio de Desarrollo Social</i>			
Contact: Aida Batista	Title: <i>Secretaria Ejecutiva del Sistema de Protección Social</i>		
Telephone No.: 5075005856	Email: aibatista@mides.gob.pa		
Project Financing Data(in USD Million)			
[ X ] Loan	[ ] IDA Grant	[ ] Guarantee	
[ ] Credit	[ ] Grant	[ ] Other	
Total Project Cost:	75.00	Total Bank Financing:	75.00
Financing Gap:	0.00		

Financing Source		Amount					
Borrower		0.00					
International Bank for Reconstruction and Development		75.00					
Total		75.00					
Expected Disbursements (in USD Million)							
Fiscal Year	2016	2017	2018	2019	2020	2021	2022
Annual	3.00	6.00	15.00	16.00	16.00	16.00	3.00
Cumulative	3.00	9.00	24.00	40.00	56.00	72.00	75.00
Institutional Data							
Practice Area (Lead)							
Social Protection & Labor							
Contributing Practice Areas							
Social, Urban, Rural and Resilience Global Practice							
Cross Cutting Topics							
[ ] Climate Change							
[ ] Fragile, Conflict & Violence							
[ ] Gender							
[ X ] Jobs							
[ ] Public Private Partnership							
Sectors / Climate Change							
Sector (Maximum 5 and total % must equal 100)							
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %			
Health and other social services	Other social services	80					
Education	Vocational training	20					
Total		100					
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.							
Themes							
Theme (Maximum 5 and total % must equal 100)							
Major theme	Theme	%					
Social protection and risk management	Social Safety Nets/Social Assistance & Social Care Services	35					
Social protection and risk management	Social Protection and Labor Policy & Systems	40					



Social dev/gender/inclusion	Indigenous peoples	10
Social protection and risk management	Income Support for Old Age, Disability & Survivorship	15
Total		100
<b>Proposed Development Objective(s)</b>		
The Project Development Objective is to increase the efficiency of the social protection system and improve the income generation capacity of the poor and vulnerable.		
<b>Components</b>		
<b>Component Name</b>	<b>Cost (USD Millions)</b>	
Strengthening and efficiency of social protection system	25.00	
MIDES territorial structure and direct family support	17.00	
Productive inclusion services for the poor and vulnerable	33.00	
<b>Systematic Operations Risk- Rating Tool (SORT)</b>		
<b>Risk Category</b>	<b>Rating</b>	
1. Political and Governance	Moderate	
2. Macroeconomic	Low	
3. Sector Strategies and Policies	Moderate	
4. Technical Design of Project or Program	Substantial	
5. Institutional Capacity for Implementation and Sustainability	Substantial	
6. Fiduciary	Substantial	
7. Environment and Social	Moderate	
8. Stakeholders	Moderate	
<b>OVERALL</b>	Substantial	
<b>Compliance</b>		
<b>Policy</b>		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]
Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]
Have these been approved by Bank management?	Yes [ ]	No [ X ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]
<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01		<b>X</b>
Natural Habitats OP/BP 4.04		<b>X</b>

Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

### Legal Covenants

Name	Recurrent	Due Date	Frequency
INADEH Agreement (Legal Agreement, Schedule 2, Section I. B.1)	X		Throughout implementation

#### Description of Covenant

To facilitate the carrying out of Part 3.1 of the Project, the Borrower, through MIDES, shall enter into an agreement with INADEH (the INADEH Agreement) under terms and conditions acceptable to the Bank and set forth in the Project Operational Manual.

Name	Recurrent	Due Date	Frequency
MITRADEL Inter-Institutional Agreement (Legal Agreement, Schedule 2, Section I. B.2)	X		Throughout implementation

#### Description of Covenant

To facilitate the carrying out of Part 3.2 of the Project, the Borrower, through MIDES, shall enter into an agreement with MITRADEL (the MITRADEL Inter-Institutional Agreement), under terms and conditions acceptable to the Bank and set forth in the Project Operational Manual.

Name	Recurrent	Due Date	Frequency
Independent Auditor (Legal Agreement, Schedule 2, Section I, D. 1 and 2. a. and b.)	X		Throughout implementation

#### Description of Covenant

The Borrower through MIDES shall no later than 30 days after the Effective Date, select, hire and retain an Independent Auditor, under terms of reference acceptable to the Bank, and cause it to carry out a periodical technical verification of compliance, prepare and furnish to the Borrower quarterly Independent Verification Reports of scope as set forth in the Project Operational Manual.

<b>Conditions</b>				
<b>Source Of Fund</b>	<b>Name</b>			<b>Type</b>
IBRD	Project Operational Manual			Effectiveness
<b>Description of Condition</b>				
The Project Operational Manual is adopted by the Borrower in a manner satisfactory to the Bank.				
<b>Source Of Fund</b>	<b>Name</b>			<b>Type</b>
Borrower's resources	Front-end fee			Disbursement
No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee. The Borrower has selected to pay the Front-end fee with own resources.				
<b>Source Of Fund</b>	<b>Name</b>			<b>Type</b>
IBRD	Retroactive Financing			Disbursement
No withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed US\$15,000,000 may be made for payments made prior to this date but on or after the date one year prior to the date of this Agreement, for Eligible Expenditures under the Project.				
<b>Source Of Fund</b>	<b>Name</b>			<b>Type</b>
IBRD	INADEH Training Payments and Stipends			Disbursement
<b>Description of Condition</b>				
No withdrawal shall be made for payments under Categories (2) and (3) unless: (i) the Borrower, through MIDES, retains an Independent Auditor; and (ii) the INADEH Agreement has been executed, on terms and conditions acceptable to the Bank.				
<b>Source Of Fund</b>	<b>Name</b>			<b>Type</b>
IBRD	MITRADEL Intermediation Payments			Disbursement
<b>Description of Condition</b>				
No withdrawal shall be made for payments under Category (4) unless: (i) the Borrower, through MIDES, retains an Independent Auditor; and (ii) the MITRADEL Inter-Institutional Agreement has been executed, on terms and conditions acceptable to the Bank.				
<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Edmundo Murrugarra	Team Leader (ADM Responsible)	Senior Social Protection Economist	Team Leader	GSPDR
Daniel Jorge Arguindegui	Procurement Specialist	Senior Procurement Specialist	Procurement	GGODR
Dmitri Gourfinkel	Financial Management Specialist	Financial Management Specialist	Financial Management	GGODR
Claudia Regina Baddini	Team Member	E T Consultant	Component 1	GSPDR

Gabriela Grinsteins	Team Member	E T Consultant	Counsel	LEGLE
Gonzalo Javier Reyes Hartley	Team Member	Senior Specialist	Component 3	GSPDR
Gunars H. Platais	Safeguards Specialist	Senior Environmental Economist	Environmental Specialist	GENDR
Julieta M. Trias	Team Member	Economist	Impact Evaluation	GSPDR
Karla J. McEvoy	Team Member	Social Protection Specialist	Component 1	GSPDR
Kimberly Vilar	Safeguards Specialist	Social Development Specialist	Component 2	GSURR
Maria Virginia Hormazabal	Team Member	Finance Officer	Disbursement Specialist	WFALN
Meilyn Gem	Team Member	Operations Officer	Local operations specialist	LCCPA
Paula Maria Cerutti	Team Member	Consultant	Analytical and statistical support.	GSP04
Rocio Mariela Malpica Valera	Counsel	Senior Counsel	Legal advisor and Counsel	LEGLE
Snjezana Plevko	Team Member	Senior Economist	Component 3	GSPDR
Tania Lucia Gaona	Team Member	Temporary	Project Assistant, Operations	GSPDR

#### **Extended Team**

<b>Name</b>	<b>Title</b>	<b>Office Phone</b>	<b>Location</b>

#### **Locations**

<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
Panama	Veraguas	Provincia de Veraguas		<b>X</b>	
Panama	Guna Yala	Guna Yala		<b>X</b>	
Panama	Panama	Provincia de Panama		<b>X</b>	
Panama	Los Santos	Provincia de Los Santos		<b>X</b>	
Panama	Los Santos	Provincia de Los Santos		<b>X</b>	
Panama	Panama	La Chorrera		<b>X</b>	

Panama	Herrera	Provincia de Herrera		X	
Panama	Darien	Provincia del Darien		X	
Panama	Colon	Provincia de Colon		X	
Panama	Cocle	Provincia de Cocle		X	
Panama	Chiriqui	Provincia de Chiriqui		X	
Panama	Bocas del Toro	Provincia de Bocas del Toro		X	
Panama	Embera	Embera-Wounaan		X	
Panama	Ngoebe-Bugle	Ngoebe-Bugle		X	
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>					
Consultants Required?    Consultants will be required					

## I. STRATEGIC CONTEXT

### A. Country Context

1. **Panama has made significant progress in reducing poverty on the back of sustained high growth rates, but certain segments of the population continue to live in vulnerable conditions.** The country grew at an average of 7.2 percent per year between 2007 and 2014, resulting in a decline in poverty from 39.9 percent to 25.8 percent, and a decline in extreme poverty from 15.6 percent to 11.3 percent.<sup>1</sup> Although growth at the aggregate level has been largely pro-poor, significant economic differences persist in the country and differing rates of poverty reduction have led to the poor becoming increasingly concentrated in remote geographic areas where indigenous peoples live. The indigenous territories, or *comarcas*, have the highest poverty rates (between 80 and 90 percent) and the lowest poverty declines: just 4.2 percentage points between 2007 and 2014. In 2014, extreme poverty was five times larger in *comarcas* (58.2 percent) compared to the national incidence. As a result, extreme poverty has become an indigenous phenomenon: in 2007, 24 percent of all extremely poor people in Panama lived in the *comarcas*, a figure which rose to 42 percent in 2012. Other human development outcomes are also lagging in the *comarcas*: household heads have on average only 5.1 years of education (4.5 fewer than the national average), are concentrated in the agricultural sector, and work mainly as self-employed or unpaid family workers. The slower poverty reduction in *comarcas* and rural areas points to the need to address bottlenecks in access to basic services and productivity.

2. **Although growth has generated jobs in recent years, certain groups face particular labor market difficulties, including youth, social protection beneficiaries and women.** Recent growth had an impact on poverty as reflected in reduced unemployment rates (4.3 percent in 2014) and higher labor incomes that explain two-thirds of the reduction in poverty. Still, labor markets did not benefit all individuals in the same way. Youth unemployment in 2014 reached 10.3 percent, more than twice the national rate, and was particularly high among secondary education graduates (14.8 percent),<sup>2</sup> reflecting in part a mismatch between labor markets needs and the skills of graduates. Youth from extremely poor families in urban areas have not only lower levels of secondary completion, but also unemployment rates reaching 17 percent. Unemployment tends to be geographically concentrated in certain urban areas, reaching 9.8 percent in areas such as Colon, the city with the highest concentration of Afro-Panamanians.<sup>3</sup> Despite higher educational performance, women still face lower wages and the participation of women in the labor force, although increasing, is lower than men, half for those 15-24 years old.

3. **Uneven poverty reduction emphasizes the need for a differentiated approach to social programs across geographic areas and social groups in Panama.** Such an approach will need to go beyond the provision of social subsidies to alleviate the immediate income needs of the poor to include services that are culturally appropriate and interventions to stimulate income-generating opportunities within Panama's rural and urban areas.

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<sup>1</sup> Using the national poverty line. World Bank. 2014. "Panama: Locking in Success: Panama Systematic Country Diagnostic."

<sup>2</sup> Ministry of Economy. 2014. "Situación Laboral de los jóvenes. Encuesta de Mercado de Trabajo. Marzo 2014."

<sup>3</sup> Estimates using the *Red de Oportunidades* Impact Evaluation Survey, 2014.

## B. Sectorial and Institutional Context

4. **Social protection programs played an important role in poverty reduction in rural areas, resulting in increasing coverage of the most vulnerable.** While growth was responsible for much of the poverty reduction at the national level, the reduction of poverty and extreme poverty in rural areas was primarily driven by government transfers. Indeed in these areas, in the absence of government transfers and social programs, extreme poverty would have increased.<sup>4</sup> The creation of the Ministry of Social Development (MIDES) in 2005 was a first key effort in coordinating social policies, and especially social protection initiatives in Panama. Among MIDES interventions are the following Conditional Cash Transfer (CCT) programs: (i) *Red de Oportunidades* Program (RO) for families with children up to 17 years old (or highest grade of secondary school); (ii) the non-contributory pension program *120 a los 65* ('120/65', hereafter), and (iii) the social assistance transfer for people with disabilities *Angel Guardián* (*Angel*). Both the coverage and the benefits of MIDES CCT programs have expanded, reaching greater numbers of beneficiaries: RO covers more than 60,000 households in extreme poverty (reaching close to 70 percent of households with children in *comarcas*); *120/65* has more than 100,000 elderly beneficiaries; and *Angel* has already reached more than 10,000 out of a target population of 55,000 people with disabilities.

5. **Despite the positive impact of social protection programs on rural poverty reduction, Panama faces challenges in improving efficiency and effectiveness of these programs and some segments of the population in remote areas are not covered.** While coverage has expanded, important inclusion and exclusion targeting errors in certain programs reduce the Government's capacity to address those in real need. While the RO achieved its coverage target of 70 percent of families with children in *comarcas*, the remaining 30 percent of households still have no access to RO in areas with 90 percent poverty rates. Similarly, some elderly poor are excluded from the *120/65* Program, especially in the *comarcas* where an estimated 15,000 individuals have been recently registered. An estimated 40 percent of the benefits of the *120/65* Program, targeting the poor and vulnerable elderly, go to the higher income quintiles.<sup>5</sup> Given existing budget constraints and limited operational capacity to carry out recertification of beneficiaries, a large number of eligible elderly are not entering the Program and remain uncovered, especially in remote areas.<sup>6</sup> A similar situation is observed in *Angel*, where the majority of beneficiaries reside in urban areas where relatives of people with severe disabilities have easier access to both MIDES offices and health providers to certify specific disabilities. Under the new administration, improvements in coverage and recertification have begun but are limited by the operational capacity on the ground. For instance, the existing network of social workers (professional level) and family support staff (technical level, *promotores*) do not provide information on the complete set of MIDES programs, but rather different groups of personnel work separately for each program, creating inefficiencies. As a result, the limited number of personnel and fragmentation in their roles reduces their ability to enroll and provide outreach to eligible families in remote areas. Weak eligibility and targeting instruments in certain programs have also resulted in long waiting periods

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<sup>4</sup> World Bank. 2014. "Panama: Locking in Success: Panama Systematic Country Diagnostic."

<sup>5</sup> World Bank. 2015. Panama Social Sector Institutional and Expenditure Review.

<sup>6</sup> Rubalcava and Perez, 2015. *Evaluación de Impacto del Programa 120 a los 65. Consultoría para el Banco Mundial. Evaluación de Impacto Social y de Pobreza.*

for program uptake, such as in *I20/65*. Thus there is still the need to improve targeting and reduce leakage of these programs.

6. **Eliminating overlap of social programs is also important to ensure their efficiency and effectiveness.** Social protection programs are still not well coordinated, and have different objectives, registration forms, and eligibility conditions, resulting in missed opportunities for operational synergies and diminishing the impact on the target population. For instance, the RO Program seeks to help beneficiaries cope with poverty and uses a proxy means test (poverty) targeting instrument to identify the extreme poor. Another program, *Beca Universal* (*Beca*, hereafter), administered by the Capacity and Human Resource Development Institute, provides a cash transfer to students with passing grades and is not poverty targeted. While education related co-responsibilities are present in both the RO (school attendance) and *Beca* (grade performance), these incentives could be better harmonized to ensure more impact of the co-responsibilities (attendance and retention) and avoid duplication of efforts. Similarly, the *I20/65* benefit and eligibility structure could be harmonized with those of the contributory pension system managed by the *Caja de Seguridad Social*.

7. **Beyond efficiency and effectiveness, social protection programs lack a productive component to enhance employability.** The Government of Panama (the Government) seeks to transform social programs from pure cash transfers to those that promote employability and productive inclusion. In contrast to the coverage for other groups such as children and the elderly, coverage of programs for the productive-age population is limited. The Ministry of Labor's Support to Labor Market Insertion Program (PAIL) only covered 493 people in 2013, and the National Employment Service run by the Ministry of Labor (MITRADEL) registered around 5,000 people during 2013. Aside from specific programs, institutions such as the National Professional Training Institute (INADEH) graduates 10,000 individuals annually from a range of short training courses. None of these interventions, however, have been targeted towards the poorest in Panama. Given the challenges it faces on skills and employability, the Government approved an Employment Policy in 2014 that defines priority sectors for economic growth and the resulting employment and skills needed to support those sectors. It also launched a pilot youth apprenticeship program, *Panama ProJoven*, which aims to provide apprenticeship subsidies to 10,000 graduates from secondary education. As of 2015, this pilot is covering around 1,000 individuals.

### C. Higher Level Objectives to which the Project Contributes

8. **The proposed Project will contribute to the Social Inclusion objectives of the Government.** In July 2014, a new administration took office and introduced its Strategic Plan 2015-2019 to enhance livelihoods and capacities of the Panamanian population,<sup>7</sup> which outlines key principles for policy design. First, the Strategic Plan endorses a *rights based approach in the formulation of social policy*, expressed in the principles of non-discrimination, participation, equality and accountability, incorporated in the design and implementation of the activities included in the proposed Project. Second, it stresses the need to *articulate social and economic strategies* by linking the expansion of capabilities and opportunities for the Panamanian population

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<sup>7</sup> *Gobierno de Panama. 2014. Plan Estratégico de Gobierno "Un Solo País" 2015-2019. December 2014. Available at <http://www.mef.gob.pa/es/transparencia/Paginas/9.3-Plan-Estrategico-de-Gobierno.aspx>*



with the objective of taking advantage of the productive potential of the country. Third, the Strategic Plan points to the need to *reduce territorial gaps* by improving the diversification and productivity of the economic base, and improvements in quality of life and human capabilities. Moreover, the objective of MIDES's five-year plan is to increase the efficiency of social transfers and enhance their role as vehicles out of poverty.<sup>8</sup> MIDES' plan aims to strengthen the role of the social protection system in facilitating the transit of poor and vulnerable households towards economic autonomy, reducing dependence on programs and encouraging participation in interventions of productive development and employability. The proposed Project supports both the National Strategic Plan and MIDES' plan given that it aims to increase the efficiency of social protection programs and seeks to link social assistance beneficiaries to productive interventions, especially in the poorest areas.

9. **The proposed Project is also aligned with the objectives of the World Bank Group's Country Partnership Framework (CPF) for Panama 2015-2021<sup>9</sup> and complements policy reforms supported by the Panama Development Policy Loan (P123255).** The proposed Project directly supports the CPF's second Pillar objective of Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups, as it tackles the objectives of complementing social assistance with productive inclusion and improving access to basic services in a sustainable manner. The proposed Project also complements the First Programmatic Shared Prosperity Development Policy Loan (P151804) which aims to strengthen social transfer programs through the expansion of inclusion policies and opportunities.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

10. **The Project Development Objectives are to increase the efficiency of the social protection system and improve the income generation capacity of the poor and vulnerable.** The efficiency of the social protection system would be increased through improved performance and enhanced harmonization of MIDES CCT programs. Improved income generating capacity of the poor and vulnerable will be addressed through increased participation of the poor and vulnerable in productive inclusion programs.

### B. Project Beneficiaries

11. **The proposed Project will benefit existing participants in MIDES CCTs by improving the functioning of existing programs, and supporting productive inclusion interventions to both current CCTs' beneficiaries and other families that have not been covered.** The coverage of MIDES CCTs includes 60,352 households in RO, 111,783 elderly in *120/65*, and 11,193 people with severe disabilities in *Angel*. These 183,328 direct recipients, however, represent a larger number of beneficiaries – estimated around 600,000 individuals - since household members also benefit from program transfers. In addition to existing beneficiaries, the proposed Project will benefit those who are eligible but not yet participating in these programs due to exclusion errors, through a more rapid and transparent inclusion process, which would translate

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<sup>8</sup> MIDES. 2014. *Plan Estratégico 2014-2019*. December, 2014.

<sup>9</sup> Discussed by the Executive Directors on April 7, 2015 (Report No. 93425-PA).

into shorter wait times. Furthermore, the Project will benefit an estimated additional 10,000 individuals in poverty but not eligible for MIDES CCTs because their families do not have children, elderly or people with severe disabilities, given that their inclusion in a single registry would qualify them for subsidized productive inclusion programs, such as training and labor intermediation services. From a gender perspective, 95 percent of direct beneficiaries of RO are female household heads, and at least 58,000 elderly in *120/65* are females.

### C. PDO Level Results Indicators

12. **The achievement of the proposed Project's objectives will be measured by the following outcome indicators:**

- (a) Percentage of the bottom quintile benefitting from social assistance programs, defined as MIDES CCTs (disaggregated by gender and *comarcas*).
- (b) Percentage of MIDES CCT program beneficiaries recertified (disaggregated by gender).
- (c) Percentage of households in the bottom two quintiles participating in productive inclusion programs.

## III. PROJECT DESCRIPTION

### A. Project Components

13. **Component 1. Strengthening and Efficiency of the Social Protection System** (*US\$25 million*). The objective of this Component is to strengthen the capacity of the Government to improve the harmonization, transparency, accountability and follow up mechanisms of MIDES CCT programs. This Component finances three Sub-components aimed at: (i) improving social protection system instruments; (ii) enhancing the management tools of individual social programs; and (iii) strengthening the monitoring and evaluation capacity of MIDES.

14. **Sub-component 1.1. Social protection system instruments.** This Sub-component will support the development of a *single registry* to serve as the social information system of socioeconomic conditions of the poor and vulnerable population in Panama. The single registry will then be used for analysis of program eligibility, reduction of system duplications, and design of new programs addressing other social risks. In particular, this Sub-component will finance consultancy and non-consultancy services, training, equipment, and operating costs, to carry out, among others, the following activities: (i) design of a unified information collection form (*Ficha Única de Registro*, FUR) to capture socioeconomic information of each household, and to be used across MIDES CCT programs; (ii) design, piloting and operationalization of a Proxy Means Test (PMT) instrument that estimates the index of each household's economic status; (iii) design of census and inclusion processes that register new households through the use of the FUR and the ongoing enrolment of new beneficiaries; and (iv) design and implementation of the single registry information system to manage the information collected through the FUR and generate the PMT index for participating individuals and households. Households with a PMT index that falls into a poverty category are defined as MIDES Participants.

15. **Sub-component 1.2. Social program management tools.** This Sub-component will support strengthening the management of MIDES CCTs through: (i) revision of operational

processes and operational manuals to achieve the expected coverage and update registration, eligibility and targeting tools; (ii) design of recertification strategies to strengthen the targeting of MIDES CCTs; (iii) development and revision of co-responsibility verification strategies for MIDES CCTs to ensure beneficiary compliance, and that monitoring indicators adequately reflect beneficiary compliance; (iv) strengthening the management information systems (MIS) to ensure transparency and monitoring of registration, eligibility, compliance, payments and household changes; and (v) strengthening the Government's administrative and fiduciary capacity to carry out Project activities.

16. **Sub-component 1.3. Monitoring and evaluation capacity.** This Sub-component will support strengthening MIDES capacity to monitor and evaluate MIDES CCTs, and in particular, the Secretariat of the Social Protection System (SSPS), through: (i) staffing MIDES with personnel dedicated to monitoring and evaluation; (ii) providing training and capacity building activities to selected MIDES staff; (iii) acquisition of software for statistical analysis; (iv) design and implementation of impact evaluation studies; and (v) coordinating monitoring and evaluation initiatives with other Government entities. Through this enhanced capacity, MIDES will also coordinate monitoring and evaluation efforts by other Government agencies through the Social Cabinet, an inter-ministerial entity for social policy coordination of which MIDES is the technical coordinator.

17. **Component 2. MIDES territorial structure and direct family support (US\$17 million).** This Component will support the strengthening of MIDES' territorial structure to operationalize such activities as outreach and registration, management of non-compliance, transparency and accountability, and information collection processes including implementation of feedback mechanisms, among others. This Component includes activities to enhance the role of provincial and *comarcal* coordinators, social workers and family sponsors (*promotores*) as the gateway to social programs offered by MIDES and those of other relevant institutions. Building on the existing Provincial and *Comarca* Coordinators and more than 300 *promotores*, the role of the latter will be institutionalized and scaled to better provide services across MIDES CCTs. The Component will finance two Sub-components:

18. **Sub-component 2.1. MIDES territorial coverage of *promotores* and social workers.** This Sub-component will finance the design and implementation of a MIDES territorial strategy to ensure that beneficiaries are supported regularly and the potential problems related to their participation in MIDES CCTs are promptly addressed following clear processes, outlined in the CCT programs' operational directives. Thus Sub-component will also support the MIDES *promotores* and social workers in the delivery of services to beneficiary families and to MIDES Participants. To do so, it will finance operating costs, consulting and non-consulting services, training, equipment, and materials, to carry out, among other things: (i) revision of terms of reference of MIDES *promotores* and social workers; (ii) design of a territorial allocation strategy; (iii) contracting of *promotores* and social workers for areas under-covered by the existing network; (iv) design and implementation of training programs for *promotores* and social workers, including preparation of training materials and the evaluation of training activities; and (v) financing of operating costs related to the provision of direct family support under the MIDES CCTs.

19. **Sub-component 2.2. Social feedback mechanisms.** This Sub-component will finance the design and implementation of a citizen feedback mechanism for MIDES' CCTs. The aim in the first instance is to support the development of an institutional mechanism to provide MIDES with constant inflow of up-to-date geo-referenced data on user feedback of the quality, coverage and reliability of the health and education services -which beneficiaries are required to comply with as co-responsibilities- as well as effectiveness of delivery of bimonthly payments. The information will be used to redress grievances regarding MIDES' service delivery. The types of feedback will be classified and displayed by category, including, *inter alia*, targeting errors, payment irregularities, quality, and cultural pertinence of services. This information will be processed and presented to the Social Cabinet, which is responsible for inter-sectoral coordination of social policies. This Sub-component will finance operating costs, consulting and non-consulting services, training, and equipment to carry out, *inter alia*, the following activities: (i) carrying out a diagnostic on the existing feedback entry points for the MIDES CCTs; (ii) the design of citizen feedback mechanisms, using information collected in the diagnostic; (iii) development and consultation of user protocols to establish culturally appropriate grievance redress protocols; (iv) development and implementation of awareness campaigns to promote MIDES CCTs, including grievance reporting; (v) financing of operating costs and the provision of training to selected MIDES staff to receive, channel and redress grievances according to protocols; and (vi) monitoring and using feedback data to promote improvements to health, education and payment services.

20. **Component 3: Productive inclusion services for the poor and vulnerable** (US\$33 million). This Component seeks to complement the activities of CCT programs with support to investments in human capital that enhance income generating capacity. This Component will institutionalize and scale up the productive and training activities for the poor and vulnerable population registered in the single registry. Eligible populations include those MIDES Participants and members of families who are beneficiaries of MIDES CCTs. This Component will finance two Sub-components:

21. **Sub-component 3.1. INADEH Training Services.** The objective of this Sub-component is to ensure the provision of technical training to MIDES Participants. To achieve this objective, MIDES will implement this Sub-component with INADEH as a technical co-executing agency, given its experience and national coverage in delivering training programs. This Sub-component will finance non-consulting services, INADEH training (defined as a separate expenditure category), operating costs, equipment and materials to carry out the following activities: (i) assessment of local training needs; (ii) preparation and implementation of local training plans; (iii) provision of stipends to MIDES Participants participating in INADEH training activities; (iv) evaluation of INADEH training activities related to MIDES Participants; and (v) provision of INADEH Training Payments to INADEH. Payments to INADEH will use an Output-Based-Disbursement (OBD) mechanism that will be based on an estimated unit cost per Trained MIDES Participant, and will be estimated as the incremental operating costs carried out during training activities.

22. **Sub-component 3.2. MITRADEL Intermediation Services.** This Sub-component aims to facilitate the participation of MIDES Participants in labor insertion programs, such as *ProJoven* and *PAIL*, managed by MITRADEL. Existing programs will be assessed and adjusted to respond to the socio-economic profile of the eligible population. This Sub-component will finance

MITRADEL intermediation costs (defined as a separate expenditure category), operating costs, equipment and materials to carry out, among other things: (i) identification of labor insertion opportunities for MIDES Participants; (ii) update of the National Employment Service (*Servicio Nacional de Empleo*, SERPE hereafter) for the registration of MIDES Participants and registration of MIDES Participants in SERPE; (iii) assessment of requirements for inclusion, and the inclusion of MIDES Participants into labor insertion programs; (iv) evaluation of labor insertion programs related to MIDES Participants; and (v) the provision of MITRADEL Intermediation Payments to the Borrower, through MITRADEL. This Sub-component will be implemented by MIDES with MITRADEL as a technical co-executing agency through an OBD mechanism. Disbursements will be made on an estimated unit cost per MIDES Participant completing MITRADEL programs, and will be estimated as the incremental operating costs carried out during intermediation activities.

23. **The activities in this Project are complementary to support for MIDES from other organizations, primarily the Inter-American Development Bank (IDB) and the United Nations Development Program (UNDP).** The SSPS will be responsible for coordinating activities across different institutions. The IDB has approved a budget support operation addressing the normative framework of social policy in Panama and plans an investment operation in 2016 to address complementary areas to this operation. For example, Component 1 activities will be complemented by other MIDES actions aimed at increasing the transparency of CCT programs and supported by other organizations. With IDB support, MIDES is also strengthening its Single Beneficiary Registry (*Registro Unico de Beneficiarios*, RUB) based on the various beneficiary rosters of CCT programs used to process payments to beneficiaries.<sup>10</sup> A payment system for CCT programs using financial intermediaries will also be designed and implemented based on the RUB, and financed by IDB. Finally, the Social Cabinet is supported by UNDP technical assistance to strengthen the social policy institutional setting. The SSPS will be responsible for the technical coordination of all the agencies supporting MIDES.

## B. Project Financing

24. **Project costs by components are presented in the table below.**

Project Components	Project cost	IBRD Financing	% Financing
1. Strengthening and improving efficiency of the social protection system	25	25	100
2. MIDES territorial structure and direct family support	17	17	100
3. Productive inclusion services for the poor and vulnerable	33	33	100
Total Costs	75	75	100
Total Project Costs	75	75	100
<b>Total Financing Required</b>	75	75	100

<sup>10</sup> The RUB is different from the Single Registry described in Component 1. The RUB is a database of existing beneficiaries of social assistance programs in the country, while the Single Registry is the register of the population in conditions of poverty and vulnerability regardless of eligibility for specific programs, and which will serve as a platform for policy design and analysis.

### C. Lessons Learned and Reflected in the Project Design

25. **The design of the proposed Project reflects lessons from the recently closed Social Protection Project, in particular the need to build on, and scale up, activities previously implemented by other agencies and the use of tested contracting mechanisms.** The Implementation Completion Report for the Panama Social Protection Project<sup>11</sup> (P098328) highlighted the importance of designing projects with relatively simple, scalable activities. Moreover, the use of known agencies with proven implementation experience will ensure better results on the ground. The proposed Project is structured in three components with activities that have been carried out by the implementing agencies before. Therefore, activities such as training by INADEH are not new to MIDES, but this Project will develop the institutional and financial mechanisms for scaling it up. Another lesson is that using tested contracting mechanisms, such as performance-based payments, is an effective way to expand other services. This Project uses the OBD mechanism for training and intermediations services as it places the incentive on reaching the desired results rather than inputs. This type of results-based mechanism demonstrated significant results during the implementation of health sector activities in Component 3 of the closed Panama Social Protection Project (P098328). In addition, this Project also pays special attention to the design and coherence of MIS for different social programs, and the Results Framework is designed on the basis of existing information and known data sources.

26. **The proposed Project also makes use of the community network of Family Committees to ensure cultural pertinence.** The closed Social Protection Project showed the importance of Family Committees in the development of productive and social activities. These Committees are groups of RO beneficiaries that discuss implementation challenges at the local level and in the previous Social Protection Project (P098328), were critical in triggering productive initiatives (training, cooperative production) that can be expanded in the proposed Project. By relying on Family Committees for definition of training activities and other adaptations of MIDES programs, the Project seeks to ensure that its activities are demand driven and culturally pertinent.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

27. **The proposed Project will be implemented by MIDES given its institutional capacity developed during the Social Protection Project (P098328).** As was the case for the previous project, the proposed Project will be implemented by MIDES under the coordination of the SSPS and with support from the unit responsible for administrative and fiduciary activities - UEAF (*Unidad Ejecutora Administrativo Financiera*). The proposed Project will be implemented in accordance with a Project Operational Manual, acceptable to the World Bank, and adopted by the Government prior to effectiveness.

28. **Component 3 will be implemented by MIDES with INADEH and MITRADEL as technical co-executing partners.** MIDES would sign inter-institutional agreements, under terms and conditions acceptable to the World Bank and set forth in the Project Operational Manual, with

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<sup>11</sup> World Bank. 2015. *Panama - Social Protection Project*. Report Number ICR 3317, March 18, 2015. Washington, DC.

INADEH and MITRADEL for the implementation of Sub-components 3.1 and 3.2, respectively. The INADEH Agreement would include both: (i) MIDES' obligations to provide INADEH Training Payments to INADEH in accordance with the procedures set forth in the Project Operational Manual, and Stipends to MIDES Participants receiving INADEH training; and (ii) INADEH's obligation to provide technical training and certifications to MIDES Participants, clearly outlining the INADEH certification process. The MITRADEL Inter-Institutional Agreement would include both: (i) MIDES' obligations to provide MITRADEL Intermediation Payments to MITRADEL in accordance with the procedures set forth in the Project Operational Manual; and (ii) MITRADEL's obligations to ensure the participation of eligible MIDES Participants in the adequate Labor Insertion Program and the National Employment Service, clearly outlining how MITRADEL will supervise Participants in apprenticeships. Both Agreements would also describe the technical coordination mechanism between MIDES and INADEH/MITRADEL for the implementation of the INADEH Training and the MITRADEL Intermediation respectively, and define auditing mechanisms. These Agreements would be signed prior to any disbursement under this Component.

## **B. Results Monitoring and Evaluation**

29. **MIDES will be responsible for monitoring results from Project implementation.** The proposed Project will provide technical assistance and support to enhance the capacity of SSPS to monitor implementation of Project activities and their results. It will support the re-design of the MIDES MIS to ensure that information from social programs and Project-related activities is adequately consolidated. Monitoring of Project activities will be supported through: (i) MIDES' information system and detailed reports on the status of Project components; (ii) annual operational audits that will produce timely information on the compliance of all stakeholders with the procedures and responsibilities outlined in the Project Operational Manual; (iii) World Bank implementation support missions; and (iv) surveys on specific programs. The Project Operational Manual will provide a detailed description of how Project activities will be monitored. Semiannual monitoring reports on intermediate results will be produced and published on Government websites.

30. **MIDES will be responsible for strengthening the monitoring and evaluation of MIDES interventions.** The SSPS will coordinate activities to strengthen monitoring capacity across MIDES CCT programs and for the planning and implementation of key evaluations. Two types of evaluation will be conducted during implementation. First, process evaluations will assess the operational functioning of both social programs and social protection system instruments, especially those related to the accuracy of eligibility, verification of co-responsibilities, and participation in productive and employability programs. Second, impact evaluations will be designed and contracted with technical support from the World Bank to identify the impact of CCTs on relevant variables of interest. The proposed Project will finance technical assistance to strengthen MIDES capacity on monitoring and evaluation involving other participating agencies, including the Ministry of Finance, MITRADEL, and INADEH.

## C. Sustainability

31. **Government financing of Project activities and existing capacity within MIDES is expected to contribute to the sustainability of the proposed Project.** After closing the first Social Protection Project (P098328) in 2014, the Government provided financing from its own resources to maintain operational activities previously financed by external sources. The sustainability of the proposed Project is based on this as well as Government's existing budgetary allocation to finance MIDES activities (on average, more than US\$240 million per year). The innovative interventions in Component 3 of the proposed Project are aligned with the National Strategic Plan, demonstrating Government willingness to reinforce social protection programs with productive inclusion elements. Moreover, these activities build on existing interventions carried out by MIDES and INADEH, reflecting existing capacity that will be scaled up under this Project.

## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

32. **The overall risk for the proposed Project is Substantial.** The key risks that contribute to this rating are the ones related to the technical design of the proposed Project, institutional capacity for implementation, and fiduciary management. The technical design risk is rated Substantial because the proposed Project includes output-based arrangements between different institutions as a basis for disbursements, which will require close coordination. To mitigate this risk, clearly established procedures have been included in the proposed Project's Operational Manual and inter-institutional agreements have been drafted outlining the way in which these agencies will cooperate. Institutional capacity for implementation is also rated Substantial, given the need for close coordination with other agencies (INADEH and MITRADEL), previously noted, but also given the diverse activities the proposed Project supports. Given this, additional technical personnel would be hired to carry out implementation. Fiduciary risk is also rated Substantial, as this will be the first time that the institutions involved will be using output-based disbursements. The Operational Manual will therefore include detailed procedures and policies for strengthened fiduciary controls and flow of funds.

## VI. APPRAISAL SUMMARY

### A. Economic and Financial Analysis

33. **Economic gains from this Project stem from poverty reduction effects due to improved social assistance coverage and targeting of the extreme poor, and enhanced economic opportunities.** The results of the RO impact evaluation indicate that it has had a positive impact on school enrollment of children five years or older as well as school attendance days of this group in urban, rural and indigenous areas. The program also showed positive impact in reducing both acute diarrheal disease and acute respiratory infections in children under five, and in prenatal care of pregnant women in rural and indigenous areas. These positive impacts of RO will be expanded to those in extreme poverty, namely 20 percent of the population in the poorest quintile who are eligible, but not yet covered. A direct effect of the inclusion process is the



reduction of extreme poverty by half of a percentage point among the extreme poor population with children.

34. **Improvements in the targeting accuracy and coverage of 120/65 would yield further reductions in poverty.** Increasing 120/65's coverage and improving its targeting is expected to result in significant poverty reduction in the elderly population and their respective households. About 20 percent of people aged 65 and older live under the poverty line in Panama, but less than 65 percent of the beneficiaries of 120/65 are in the poorest two quintiles (compared to more than 90 percent in RO). The proposed Project will reduce leakages and create budgetary space for increasing the coverage among the extreme poor as improvements in targeting would release program resources for those not currently covered. An extreme case scenario that dramatically improves targeting in the first two quintiles (reducing inclusion errors) can yield a reduction in poverty of about 0.7 percentage points in the total population and almost four percentage points among the population aged 65 and older. A more modest estimation of reducing by half the 120/65 beneficiaries in the richest two quintiles (that should not be eligible) and transferring these resources to the elderly extreme poor, would represent a reduction of the poverty rate by 0.2 percentage points overall and by 1.3 percentage points among this population.<sup>12</sup>

35. **The estimated benefits of the productive inclusion component include increased probability of employment, job formality and earnings.** Job precariousness is common among individuals in social assistance, especially among the youth as half of them are involved in unpaid family work. These relatively low skilled youth have significantly lower labor income earnings and the percentage employed as family workers is almost five times larger than non-beneficiaries. The estimated effects of the proposed Project result from increased employment and earnings among those participating in training activities, and from increased formal employment among those participating in labor insertion programs.<sup>13</sup> Using international evidence for comparable populations (described in Annex 5), the proposed Project is expected to increase the probability of being employed by 12 percent, and labor income gains by around 16 percent.<sup>14</sup> Overall, the proposed Project has an estimated return of US\$71.24 million from its training and intermediation component, which given the investment of US\$33 million results in a Net Present Value of \$38.2 million for this Component alone.

## B. Technical

36. **The rationale for public sector provision of social assistance and facilitating productive inclusion is based on the merits of equity and efficiency of human capital interventions.** The pattern of exclusion of the poor and vulnerable in Panama requires public interventions addressing lack of access to quality public services, poor participation in labor markets, and overall reduced economic opportunities. The proposed Project supports strengthening the efficiency and management of CCT programs in order to tackle those barriers. In addition, the

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<sup>12</sup> Bronfman, J. and G. Reyes. 2015. *Panama 100 a los 70*, en Rofman, Apella, and Vezza (eds.) *Beyond Contributory Pensions: Fourteen Experiences with Coverage Expansion in Latin America*. World Bank.

<sup>13</sup> Betcherman, G., A. Dar, and K. Olivás. 2004. *Impacts of Active Labor Market Programs: New Evidence from Evaluations with Particular Attention to Developing and Transition Countries*. Washington, D.C.: Social Protection, World Bank.

<sup>14</sup> Attanasio, O., A. Kugler, and C. Meghir. 2011. "Subsidizing Vocational Training for Disadvantaged Youth in Colombia: Evidence from a Randomized Trial." *American Economic Journal: Applied Economics*. v.3 (3): 188-220.

efficiency gains from human capital investments merit public intervention. The World Bank brings substantial expertise in expanding and reforming CCTs in Latin America and the Caribbean. The new *Brasil Sem Miséria* federal strategy, and its implementation will be a critical source of expertise on how to refine the functioning of social protection systems to link with productive interventions. The World Bank can also provide Panama with important lessons from youth training and apprenticeship projects in Argentina and in Eastern Europe. Finally, the World Bank can leverage its global knowledge on social protection system design and implementation, bringing a multi-sectoral perspective to social protection policy as the proposed Project is aligned with other World Bank-financed operations, especially the recently approved Sustainable Production Systems and Conservation of Biodiversity Project (P145621, February 9, 2015) and other operations in the pipeline.

### **C. Financial Management**

37. **Financial Management (FM) for the Project will be carried out by UEAF in MIDES, as under the first Social Protection Project (P098328).** A FM Assessment of the arrangements for the proposed Project was carried out and determined that UEAF, which implemented the closed World Bank-financed project for a number of years, has adequate capacity and a suitable organizational structure. The Project will mostly finance consultants' and non-consultants' services, goods, training, and operating costs. It will also finance stipends and payments, under an OBD approach, corresponding to training and inclusion of persons in a labor market program, which will be calculated based on the unit costs corresponding to the number of persons trained and who completed the intermediation program.

38. **The following mitigation measures will be used to reduce the FM risk of the Project:** (i) the FM arrangements for this Project are based on those used by the last Social Protection project; (ii) the primary disbursement method will be advances to the Project's Designated Account (DA) in US dollars to be administered by MIDES; (iii) Project implementation will be carried out in line with the Annual Operational Program and Project Operational Manual, including planning, implementation, monitoring, verification, and reporting of the activities to be financed under Component 3; (iv) MIDES, through UEAF, will prepare and submit to the World Bank semiannual non-audited Interim Financial Reports and annual audited financial statements; (v) Project financial statements and Statements of Expenditures (SOEs) will be subject to annual audits to be conducted by eligible external auditors and based on terms of reference acceptable to the World Bank; (vi) the eligibility of payments made under Component 3 and compliance with selection criteria will be also verified by an acceptable independent auditor on a quarterly basis; and (vii) the Project will be formally supervised at least every six months by the Bank.

### **D. Procurement**

39. **Procurement for the proposed Project will be carried out by the UEAF under MIDES.** The organizational structure for implementing the Project was assessed in April 2015. The procurement team is composed of two consultants with experience with simple and low cost processes, which were most of the processes carried out in the previous Social Protection Project (P098328, approved on July 26, 2007). However, the proposed Project involves a large number of contracts with some high costs, which exceeds the existing capacity of the unit. Key issues and risks related to procurement for project implementation include: (i) UEAF weak implementation

capacity in comparison with the expected high workload; (ii) certain deficiencies in coordination between MIDES's technical area and UEAF; (iii) the official processes of the Government which include review the General Comptroller's Office prior to signature of contracts, which could cause delays; and (iv) local procurement regulations include practices that are not acceptable to the World Bank.

40. **A number of mitigation measures have been identified to respond to the procurement risks.** Agreed upon corrective measures include: (i) maintenance by MIDES of its existing procurement staff to support Project implementation; (ii) hiring of three additional procurement analysts by MIDES with terms of reference and qualifications acceptable to the World Bank; (iii) hiring by MIDES of an international recruitment for a senior procurement specialist (full or part time, as needed), with terms of reference and qualifications acceptable to the World Bank, to coach and support UEAF procurement staff and contribute to quality control especially in high-cost contracts; (iv) implementation of the Project in line with a Project Operational Manual acceptable to the World Bank; and (v) carrying out of procurement under National Competitive Bidding (NCB) procedures using bidding documents to be agreed with the World Bank.

#### **E. Social (including Safeguards)**

41. **The Project direct beneficiaries are the extreme poor and most vulnerable populations in Panama.** Since the Project focuses on improving the efficiency of the social protection system, it is expected to have a direct positive impact in poor and vulnerable populations. Families with children living in poverty, families with severely disabled individuals and elderly individuals with no access to social security will benefit from the improvements in the management and targeting of MIDES CCTs, and the implementation of productive inclusion initiatives supported by this Project.

42. **The Project triggers OP/BP 4.10 Indigenous Peoples, given that indigenous peoples are one of the Project's beneficiary populations.** An Indigenous Peoples Planning Framework was prepared and broadly consulted with the country's twelve indigenous congresses in June 2015. It was published and disclosed to the public on July 31, 2015 on the MIDES website ([www.mides.gob.pa](http://www.mides.gob.pa)). The Framework outlines the potential effects of the programs on indigenous peoples, a plan for completing the social assessment, a process for ensuring free, prior and informed consultation with the affected indigenous peoples communities at each stage to ascertain broad community support, and procedures to prepare Indigenous Peoples Plans (IPPs) during implementation. Preliminary negative impacts have been identified as part of the preparation of the IPPF and during preparation of IPPs those impacts will be assessed and mitigation measures identified.

43. These IPPs will be prepared by MIDES and delegates from the indigenous community, in consultation with the indigenous networks and program beneficiaries. The IPPs will identify specific actions that MIDES programs will incorporate into program design in order to ensure that their programs' methodologies and services are culturally appropriate.

## **F. Environment (including Safeguards)**

44. **The Project is classified as Environmental Category C as it does not support any activities that will cause adverse environmental impacts as per Bank Operational Policy on Environmental Assessment (OP/BP 4.01).** The Project does not require an environmental assessment and none of the environmental policies are triggered.

## **G. World Bank Grievance Redress**

45. **Communities and individuals who believe that they are adversely affected by a World Bank supported Project may submit complaints to existing Project-level grievance redress mechanisms or the World Bank's Grievance Redress Service.** The latter ensures that complaints received are promptly reviewed in order to address Project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Annex 1: Results Framework and Monitoring

### Panama

### Strengthening Social Protection and Inclusion System Project (P155097)

#### Results Framework

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#### Project Development Objectives

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##### PDO Statement

The Project Development Objective is to increase the efficiency of the social protection system and improve the income generation capacity of the poor and vulnerable. The efficiency of the social protection system would be increased through improved performance and enhanced harmonization of MIDES Conditional Cash Transfer (CCT) programs. Improved income generating capacity of the poor and vulnerable would be addressed through increased participation of the poor and vulnerable in productive inclusion programs.

**These results are at** | Project Level

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#### Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values						End Target
		YR1	YR2	YR3	YR4	YR5	YR6	
Percent of the bottom quintile benefitting from social assistance, defined as MIDES CCTs (Percentage)	38	38	40	43	45	48	50	50
Percent of the bottom quintile	65	65	67	70	72	75	75	75

benefitting from social assistance, defined as MIDES CCTs (in <i>comarcas</i> ) (Percentage - Sub-Type: Breakdown)								
Percent of MIDES CCT programs beneficiaries recertified (Percentage)	n/a	4	8	20	35	45	50	50
Percent of MIDES CCT programs female beneficiaries recertified (Percentage - Sub-Type: Breakdown)	n/a	6	10	25	40	45	50	50
Percent of households in the bottom two quintiles participating in productive inclusion programs. (Percentage)	n/a	1	3	4	5	6	7	7
Direct project beneficiaries	183,328	183,328	195,000	200,000	200,000	202,000	205,000	205,000

(Number) - (Core)								
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	60	60	61	62	63	64	65	65

### Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values						
		YR1	YR2	YR3	YR4	YR5	YR6	End Target
Single Registration Form used for MIDES CCT programs (Text)	n/a	Designed Piloted	Adopted	Used for one MIDES CCT program	Used for two MIDES CCT programs	Used for three MIDES CCT programs	Used for three MIDES CCT programs	Used for three MIDES CCT programs
Percentage of poor households included in the Single Registry (Percentage)	n/a	20	35	45	55	65	65	65
Co-responsibilities verified in MIDES CCT programs (Text)	n/a	Designed and Piloted	Strategy applied to one MIDES CCT program	Strategy applied to two MIDES CCT programs	Strategy applied to three MIDES CCT programs	Strategy applied to three MIDES CCT programs	Strategy applied to three MIDES CCT programs	Strategy applied to three MIDES CCT programs
Monitoring and Evaluation	n/a	Strategy Designed	Monitoring Framework Functioning	Process Evaluation for MIDES CCT	Impact Evaluation for one MIDES	Impact Evaluation for two MIDES	Impact Evaluation for INADEH	Impact Evaluation for two MIDES

Strategy operational (Text)				programs completed	CCT program completed	CCT program completed	Training completed	CCT programs and for INADEH Training completed
Percent of MIDES CCT beneficiary households receiving program information from <i>promotores</i> (Percentage)	40	50	60	70	80	90	90	90
Percent of <i>promotores</i> completing annual training plan (Percentage)	n/a	15	35	55	85	90	90	90
Citizen Feedback Mechanisms operational (Text)	n/a	Designed	Pilot in three different locations	Operational in 30% of territorial units	Operational in 50% of territorial units	Operational in 60% of territorial units	Operational in 70% of territorial units	Operational in 70% of territorial units.
Eligible MIDES Participants enrolled in INADEH Trainings (Number)	0	500	2,500	6,000	10,000	15,000	20,000	20,000
Eligible female MIDES	0	200	1,200	2,750	4,500	7,500	10,000	10,000



Participants enrolled in INADEH Trainings (Number - Sub-Type: Breakdown)								
Eligible MIDES participants enrolled in Panama <i>ProJoven</i> program (Number)	0	150	500	1,000	2,500	4,500	5,000	5,000
Eligible female MIDES participants enrolled in Panama <i>ProJoven</i> program (Number - Sub-Type: Breakdown)	0	70	200	450	1,250	2,250	2,500	2,500
MIDES participants enrolled in PAIL program (Number)	0	50	150	750	1,500	2,000	2,500	2,500
Female MIDES participants enrolled in PAIL program	0	25	75	375	750	1,000	1,250	1,250

(Number - Sub-Type: Breakdown)								
MIDES participants included in National Employment Exchange (Number)	0	200	400	600	1,000	2,000	3,000	3,000
Female MIDES participants included in National Employment Exchange (Number - Sub-Type: Breakdown)	0.00	100	200	300	500	1,000	1,500	1,500

## Indicator Description

### Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Percent of the bottom quintile benefitting from social assistance, defined as MIDES CCTs	Number of individuals who are members of households in the bottom quintile receiving social assistance divided by the total number of individuals in the bottom quintile. Social assistance is defined as MIDES CCT programs, which include RO, 120/65 or <i>Angel</i> .	Annual.	<i>Encuesta de Propósitos Múltiples</i> .	INEC collects data. MIDES processes data.
Percent of the bottom quintile benefitting from social assistance, defined as MIDES CCTs (in <i>comarcas</i> )	Number of individuals who are members of households in the bottom quintile benefitting from social assistance in <i>comarcas</i> divided by the total number of individuals in the bottom quintile in <i>comarcas</i> . Social assistance is defined as MIDES CCTs.	Annual	<i>Encuesta de Propósitos Múltiples</i>	INEC collects data. MIDES processes data.
Percent of MIDES CCT programs beneficiaries recertified	Number of Beneficiaries of MIDES CCT programs that have been recertified divided by the number of total beneficiaries of MIDES CCT programs. MIDES CCT programs include RO, 120/65 and <i>Angel</i> .	Annual	MIDES Administrative records from selected social programs	MIDES
Percent of MIDES CCT programs female beneficiaries recertified	Number of female Beneficiaries of MIDES CCT programs that have been recertified divided by the number of total female beneficiaries of MIDES CCT programs. MIDES CCT programs include RO, 120/65 and <i>Angel</i> .	Annual	MIDES administrative records of selected social programs	MIDES

Percent of households in the bottom two quintiles participating in productive inclusion programs.	Number of households with participants in productive inclusion programs divided by the number of households in the bottom two quintiles.	Annual	MIDES Reports on coverage of Component 3.	MIDES, using information from INADEH and MITRADEL
Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage) . Based on the assessment and definition of direct project beneficiaries, specify y what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.	Annual	MIDES Reports. Includes the number of formal beneficiaries of RO, 120/65 and <i>Angel</i> formal beneficiaries. Formal beneficiaries do not include all members in the household, but only the recipient of the benefit. This is in contrast with other measures of beneficiaries where all household members are included as beneficiaries.	MIDES
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.	Annual	MIDES reports. Includes the number of formal female beneficiaries of RO, 120/65 and <i>Angel</i> . Formal beneficiaries do not include all members in the household, but only the recipient of the benefit. An estimated baseline of 118,822 female beneficiaries is based on the number of beneficiaries by gender from RO, and estimates from 120/65 and <i>Angel</i> .	MIDES

## Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Single Registration Form used for MIDES CCT programs	Design, pilot and use of the Single Registration Form (FUR) for MIDES CCT programs.	Annual	Ministerial Decree. MIDES Reports on FUR usage.	MIDES
Percentage of poor households included in the Single Registry	Number of poor households included in the single registry divided by the total number of poor households. The total number of poor households will be determined by INEC based on analysis of household surveys	Annual	MIDES Administrative Records (households in the single registry) and INEC (estimated number of households in poverty)	MIDES
Co-responsibilities verified in MIDES CCT programs	Measures the gradual implementation of the Strategy for Verification of Co-Responsibilities, across different MIDES CCT programs.	Annual	MIDES Reports	MIDES
Monitoring and Evaluation Strategy operational	Design and implementation of a MIDES Impact evaluation strategy by MIDES	Annual	MIDES Reports	MIDES
Percent of MIDES CCT beneficiary households receiving program information from <i>promotores</i>	Number of MIDES CCT beneficiary households receiving program information from <i>promotores</i> divided by the total number of total MIDES CCT beneficiary households	Annual	MIDES Reports on <i>Promotores</i>	MIDES
Percent of <i>promotores</i> completing annual training plan	Number of <i>promotores</i> completing annual training plan divided by the total number of <i>promotores</i>	Annual	MIDES Reports on <i>Promotores</i> Training	MIDES
Citizen Feedback Mechanisms operational	Design and gradual implementation of citizen feedback mechanisms across territorial units ( <i>corregimientos</i> ).	Annual	MIDES Reports	MIDES
Eligible MIDES Participants enrolled in INADEH Trainings	Number of eligible MIDES participants enrolled in INADEH trainings. Eligible is defined as those MIDES participants that	Annual	MIDES Project Implementation Reports	MIDES and INADEH

	satisfy the age and education requirements for the specific INADEH training.			
Eligible female MIDES Participants enrolled in INADEH Trainings	Number of eligible female MIDES participants enrolled in INADEH trainings. Eligible is defined as those MIDES participants that satisfy the age and education requirements for the specific INADEH training.	Annual	MIDES Component 3 reports	MIDES and INADEH
Eligible MIDES participants enrolled in Panama <i>ProJoven</i> program	Number of eligible MIDES participants enrolled in Panama <i>ProJoven</i> program. Eligible is defined as those MIDES participants that satisfy age, completed grade and other operational requirements for <i>ProJoven</i> .	Annual	MIDES Project Implementation Reports	MIDES and MITRADEL
Eligible female MIDES participants enrolled in Panama <i>ProJoven</i> program	Number of eligible female MIDES participants enrolled in Panama <i>ProJoven</i> program. Eligible is defined as those MIDES participants that satisfy age, completed grade and other operational requirements for <i>ProJoven</i> .	Annual	MITRADEL Reports	MIDES and MITRADEL
MIDES participants enrolled in PAIL program	Number of MIDES participants enrolled in PAIL program	Annual	MIDES Project Implementation Reports	MIDES and MITRADEL
Female MIDES participants enrolled in PAIL program	Number of female MIDES participants enrolled in PAIL program.	Annual	MITRADEL Reports	MIDES and MITRADEL
MIDES participants included in National Employment Exchange	Number of MIDES participants that are included in National Employment Exchange	Annual	MIDES Project Implementation Reports	MIDES and MITRADEL
Female MIDES participants included in National Employment Exchange	Number of female MIDES participants that are included in National Employment Exchange.	Annual	MITRADEL Reports	MIDES and MITRADEL

## Annex 2: Detailed Project Description

### PANAMA: Strengthening the Social Protection and Inclusion System Project

#### I. SOCIAL PROGRAMS AND SYSTEM TOOLS IN PANAMA

1. **During the last decade of fast economic growth, Panama launched a number of social programs aiming to mitigate poverty amongst targeted population groups.** In August 2005, the Government established the MIDES (Law 29 of August 1, 2005) as a means to better coordinate social policy in Panama. Subsequently, several large social assistance programs were created to cover those individuals and families in less favorable socioeconomic conditions. In 2006, the *Red de Oportunidades* program was introduced to provide cash transfers to poor families that commit to sending their children to school and completing health checkups. In 2009, the non-contributory pension program “*100 a los 70*” was established to support elderly in need. In 2010, *Beca Universal* followed, a cash transfer to children for school grade achievements, and in 2012, *Angel Guardián (Angel)* was established to provide social assistance to people with severe disabilities in poverty or vulnerable conditions. Most of the programs were launched by MIDES, with the exception of *Beca Universal* that is managed by the Capacity and Human Resource Development Institute with support from the Ministry of Education (MEDUCA). These programs were established with slightly different objectives, independent operational instruments, and varying institutional arrangements that constrain their ability to reach out to the target population, weaken service delivery and do not fully strengthen individual households’ capacity to enhance their economic wellbeing. Although there are common patterns across programs, they differ in the challenges they face and their priorities. The discussion below focuses on the conditional cash transfer programs managed by MIDES and supported by this Project: *Red de Oportunidades*, *120 a los 65* and *Angel*.

#### ***Red de Oportunidades Program for Families with Children (RO)***

2. **The RO program channels resources to the poorest mothers conditional on their children attending school and receiving basic health and nutrition services, mainly benefiting indigenous populations in rural areas.** The RO program provides a monthly US\$50 cash transfer to poor families that commit to sending their children to school and completing health checkups. As in other CCTs, RO is also linked to supply-side interventions for assuring the provision of education, health and nutrition services in rural and indigenous areas. The RO program is under MIDES administration and managed by the SSPS.

3. **The Program has been supported technically and financially by the World Bank and IDB.** Since its inception, the RO program has received technical support from the World Bank, and its implementation was financed by the World Bank and the IDB through lending operations. The World Bank supported the implementation of the RO program through the Social Protection Project (P098328) that was approved in July 2007 and closed in September 2014. The preparation of that project built on knowledge of CCTs and experiences from Mexico, Brazil and other countries.

4. **Despite a number of implementation challenges, the RO program was successful in reaching the poorest, especially in the indigenous areas.** The implementation of the RO program faced a number of challenges associated with: (a) the change in Government in 2009, shortly after effectiveness (February 2008); and (b) the difficulty in recruiting, training and retaining technical

personnel in the implementing units.<sup>15</sup> Despite these challenges, the RO program had several important achievements as demonstrated by the previous project's evaluation, including: (i) implementation for the first time in Panama of a social policy developed based on international best practice; (ii) registration and timely delivery of transfers to close to 75,000 of the poorest families, including those in remote areas and indigenous areas (*comarcas*); (iii) use of a targeting mechanism that allowed the Program to reach the poor in an objective and transparent way, delivering more than 90 percent of benefits to the poorest two quintiles; (iv) promotion of the provision of health services to a population previously excluded from vaccination services and health check-ups due to their geographical or socio-economic conditions; and (v) establishment of a network of family support personnel (*promotores*) to provide support services to beneficiary households. Some RO program features are outlined as follows.

5. Targeting: The targeting design of RO combines geographic and household level targeting methods. First, geographic targeting determines the level of poverty across territorial units (*corregimientos*) based on a poverty map and determines the target population by type of region (urban, rural, *comarcas*). Second, a household level targeting instrument (proxy means test, PMT) based on data collected through the *Encuesta de Vulnerabilidad Social* (a survey instrument) determines whether a household is eligible or not based on observable socioeconomic characteristics. The resulting targeting performance of RO has been positively reviewed<sup>16</sup> and confirms the ability of the program to channel resources to the poor in remote geographic areas.<sup>17</sup> About 46.3 percent of RO beneficiary households are indigenous, and in *comarcas* (Kuna Yala, Emberá y Ngobe Buglé *comarcas*) which almost exclusively consist of indigenous families. By 2014, more than 91 percent of beneficiaries were in the poorest 40 percent of the population (74 percent in the poorest quintile). The current PMT was developed based on the 2003 Living Standard Survey and has been updated based on the 2008 Living Standard Survey; however, the updated PMT has not yet been used. While Panama is not implementing comprehensive Living Standard Surveys, the country does carry out shorter Multipurpose Surveys and Labor Force Surveys. These surveys, however, contain less information than Living Standard Surveys and their use as a basis for PMT would produce important exclusion errors, especially in rural areas.<sup>18</sup>

6. Coverage: By 2011, RO coverage reached 75,030 extreme poor households in 586 *corregimientos* out of 655, using the *Encuesta de Vulnerabilidad Social* and the PMT. Starting in 2005, MIDES carried out a data collection activity based on the poverty map and using the *Encuesta de Vulnerabilidad Social*. This activity collected information on more than 370,000 households in the poorest areas of Panama. Then, using the PMT, the RO program determined eligibility into the RO program. By 2011, the program had achieved 75,030 households in 586 *corregimientos*, up from 20,519 households in 85 *corregimientos* in 2006. Since 2014, under the new administration, the RO beneficiary roster has been subject to revisions resulting in exclusions of households that had not received their payments for more than a year, had no children with ages below the eligible ones, or for which the PMT showed non eligible scores. With these revisions,

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<sup>15</sup> World Bank. 2015. Panama. Implementation Completion and Results Report for the Social Protection Project (IBRD-74790 TF-56734). Report No: ICR00003317. Social Protection and Labor Global Practice. Central America Country Unit. Latin America and the Caribbean Region.

<sup>16</sup> IPEA. 2009. *Evaluación de la Red de Oportunidades: Características e Impacto*. Mimeo.

<sup>17</sup> In 2012, RO received the Americas Award from the United Nations Institute for Training and Research for its role in eradicating extreme poverty and hunger.

<sup>18</sup> Rubalcava and Perez. 2015. *Comparación de Errores de Focalización entre la Encuesta de Niveles de Vida 2008 y la Encuesta de Propósitos Múltiples 2014*.



the current roster of RO is 60,000 households. Still, gaps in coverage among the extreme poor remain: RO does not reach about 18 percent of the eligible population in the bottom quintile, reflecting the limited capacity of the program to sustain household enrolment processes, especially in difficult-to-reach areas.

7. Verification of Co-responsibilities: Despite increasing coverage, co-responsibility verification has continued to face challenges. To carry out verification of co-responsibilities, MIDES signed inter-ministerial agreements with the Ministries of Health (MINSA) and MEDUCA to provide data on health care and school attendance. The operationalization of these agreements, however, suffered from information bottlenecks, such as low attendance recording by teachers, even lower reporting in digital format, and the difficulties in matching the RO roster of beneficiaries with Ministry of Education enrolment data. As a result, the MIS module for verification of co-responsibilities covers only part of the beneficiary population. MIDES has thus identified the need to seek alternative strategies for verification of co-responsibilities. In October 2014, MIDES re-launched the Co-responsibility Card (*Tarjeta de Corresponsabilidad*) to provide material evidence on compliance with co-responsibilities.

8. Recertification of Eligibility Conditions: The RO program did not recertify eligibility conditions during most of its implementation. Since 2014, under the new administration, MIDES has begun a process of collecting new household socioeconomic information to recertify household eligibility status. The recertification process is still undertaken using the original PMT and the *Encuesta de Vulnerabilidad Social* as a data collection instrument. As of July 2015, this process has covered a small percentage of beneficiaries and will need to be expanded to a larger fraction of the beneficiary population.

9. Impact evaluation: In 2014, an impact evaluation was financed by the closed project. The analysis did not shed light on chronic malnutrition dimensions due to limited number of children in the sample; however, it found that access and utilization of health care services and education facilities increased as a result of the RO program. However, the issues related to sampling and quality of data suggest the need to strengthen MIDES capacity on evaluation tools.

### ***120 a los 65 Non Contributory Pension***

10. **In 2009, the Government introduced a non-contributory pension program for those aged 70 or older in an effort to address poverty among the elderly.** The program, called *100 a los 70*, provided a US\$100 per month to all eligible persons in this age group. In 2014, the program was renamed *120 a los 65*, as it was modified to include individuals of age 65 or older and increase the benefit to US\$120 per month. Issues and challenges related to program features are discussed as follows.

11. Targeting: Weak targeting in *120/65* continues to be a challenge in reaching the most vulnerable elderly. Initially the program had two eligibility criteria: (i) be at least 70 years of age; and (ii) receive no other pension income. Relying only on social security information for exclusion purposes, the coverage of the program reached more than 100,000 elderly. In 2010, the Government introduced a new eligibility requirement through Law 86 that beneficiaries had to be in conditions of marginality, social risk, vulnerability or poverty. To operationalize this, the program introduced a socioeconomic evaluation process using a program specific targeting instrument (different from the RO instrument), which was not effective in distinguishing poor from

non-poor elderly. In 2012, the Government created the necessary legal instruments to ensure that the survey and socioeconomic evaluation both have adequate legal grounds for determining eligibility (Ministerial Resolution 225, October 4, 2012). The weak targeting instrument used by *120/65* represents a major obstacle in enhancing its ability to include the poorest.

12. Coverage: After initial coverage of more than 100,000 elderly at the beginning of the program, from 2011 to 2013, cross-checking of potential beneficiaries with data from the Tribunal Electoral (death records), *Caja de Seguridad Social* (existing pensioners), and other administrative sources allowed elimination of around 10,000 ineligible elderly. However, since the expansion of eligibility starting at age 65 in 2014, the *120/65* program has reached 111,783 beneficiaries (as of May 2015), but around 20,000 still need to be surveyed and evaluated. The selection instrument needs to be revised to become an effective tool for targeting as survey data shows large levels of inclusion errors, and the coverage needs to expand to those areas with significant estimated under-coverage, as in *comarcas*.

13. Recertification: The Program has not carried out any recertification since 2009, in part because the budgetary allocation to the program barely covers beneficiary transfers, leaving very few resources for operational activities. Additionally, the limited access to *promotores* and social workers restricted the implementation of recertification activities. In 2012, the World Bank provided technical assistance to design a targeting instrument and a gradual recertification strategy but it has not been operationalized yet.<sup>19</sup>

14. Verification of co-responsibilities: The *120/65* program requires beneficiaries to comply with co-responsibilities that range from short trainings on nutrition to regular health check-ups. Despite these requirements, co-responsibilities are not being monitored, due to the limited capacity of the Ministry of Health in both providing health services to this population and in reporting the use of these services to MIDES.

15. Impact evaluation: The World Bank supported an impact evaluation of *120/65* on households' labor incomes and employment using several years of Multipurpose Survey and Labor Force Survey data.<sup>20</sup> These findings show that the program has created a positive income effect on beneficiary households with the increased household income resulting from reallocation of labor resources. Elderly members are likely to reduce their participation in the labor market, increasing their role in family businesses and freeing younger labor. Younger members in turn increase their labor force participation (in markets) with a positive net effect. Other critical dimensions of well-being of the elderly, such as physical and mental health status, have not yet been examined with the existing surveys.

### **Social assistance program for people with disabilities (*Angel Guardián*)**

16. **The *Angel Guardián* (*Angel*) program was created to provide economic support to people with severe disabilities and in dependency conditions and extreme poverty.** The program was created by Law 39 (June 14, 2012) and provides US\$80 per month to people with severe disabilities as certified by a public institution and who are in extreme poverty.

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<sup>19</sup> Rubalcava, L., Pérez, V. 2012. *Estrategia de Fortalecimiento de la Cobertura y Focalización del Programa 100 a los 70*. Banco Mundial.

<sup>20</sup> Rubalcava and Perez. 2015. *Análisis del impacto del Programa “B/.100.00 a los 70” en indicadores de mercado laboral e ingresos del hogar*. Centro de Análisis y Medición del Bienestar Social A.C. March, 2015.

17. Targeting: A separate social vulnerability survey from those of RO and 120/65 is used to establish whether an individual is in extreme poverty. The targeting instrument has not been evaluated in detail but requires harmonization with those of RO and 120/65 in order to establish a common targeting criteria of the extreme poor. Moreover, the existing *Angel* survey is greatly constrained in identifying people with severe disabilities due to a significant percentage of rejections. Future expansion efforts need to be supported by MINSA to ensure that people with severe disabilities are adequately certified.

18. Coverage: Coverage of the program was expected to be 55,000 individuals based on household survey estimates and the 2010 National Census; however, the program only reached 10,224 in 2015. Given the international experience in measuring disability and poverty, the program requires a reassessment of the potential beneficiaries and their territorial distribution. MIDES' efforts to reach out to people with severe disabilities have proven extremely difficult, especially in rural areas where access is limited and mobility of people with severe disabilities is almost impossible. This is reflected in the number of beneficiaries in urban areas (9,860) compared to those in difficult-to-reach areas (364), totaling 10,224 beneficiaries by April 2015.

19. Verification of co-responsibilities: At present, co-responsibilities of the *Angel* program are not verified; however, this may need to be revisited to ensure that they are the most appropriate for the target group. Currently compliance is not verified due to limited Ministry of Health providers and the inherent difficulty of people with severe disabilities in accessing health providers. Alternative co-responsibilities include attendance to rehabilitation session in health centers in the locality of the beneficiary, or participation in existing educational services or health and psychological orientation workshops.

### **Existing cross-program system tools**

**20. The implementation of these social programs, and in particular that of RO, enabled the development and use of tools that will be strengthened during the proposed Project:**

- a. Social Registry: MIDES has collected data for 370,000 households that will be the basis for the Single Registry of potential and existing beneficiaries and will be used policy and program planning and monitoring. This Registry will also help identify socioeconomic risks that are not adequately addressed by specific programs or policies, such as youth unemployment or teen pregnancy.
- b. Targeting mechanism: Experience in implementing MIDES programs has shown the importance of carefully designing targeting tools to prevent discretionary decisions about program eligibility. MIDES' experience suggests that well designed PMTs ensure better (and more objective) targeting and as a result, better use of Government's financial resources to improve coverage of the poor. The challenge is to harmonize existing targeting mechanisms in an instrument that combines a common PMT with categorical filters for each program (e.g., children below 18 years old in the case of RO, and medical certification of disability for *Angel*).
- c. Delivery process at the local level: Over time, the implementation of these programs has also highlighted the need to design a territorial coverage strategy for MIDES activities. The limited personnel and infrastructure in MIDES only stresses the importance of territorial allocation of MIDES personnel (including social workers and *promotores*) and of territorial planning of activities. In contrast to other countries where

social protection programs and their operations rely on institutions with national coverage, in Panama, social protection operations rely on the territorial network of Province-level coordinators, and social workers and *promotores*. This coordination is incipient but has shown important results in payment processes.

21. **The new Government's Strategic Plan underlines the need to transform social programs and facilitate transition out of poverty through productive interventions.** In 2012, the youth unemployment rate of 8.1 percent was nearly three times the national average of 3.1 percent, with 13 percent of young women and 9 percent of young men unemployed. Labor market outcomes for the youth have worsened since 2012 and participation declined especially among males (45.7 percent in 2014) and those in urban areas (43.7 percent). Youth unemployment in 2014 rose to 10.3 percent, especially among those graduates from secondary education (14.8 percent), reflecting also in part a mismatch between labor markets needs and the skills of graduates.<sup>21</sup> In this context, active labor market policies in Panama have had limited coverage among the poor. Previous studies evaluating CCT programs in four other Latin American countries also found no impact of CCT programs on labor market participation.<sup>22</sup> This highlights that social protection programs need to be complemented with training and skills development for productive employment to effectively reach the extreme poor and most marginalized groups, beyond simply providing financial assistance.

## II. DESCRIPTION OF THE PROJECT

22. **The Project aims to increase the efficiency of the social protection system and improve the income generating capacity of the poor and vulnerable.** To address these challenges, the Project will finance three components. The first seeks to improve the efficiency and management of social programs and support the development of social protection system instruments, such as a single registry to serve as a platform for designing and monitoring social programs. The second component supports the strengthening of MIDES' territorial structure and puts in place feedback mechanisms to strengthen the grievance redress processes. The third component seeks to complement social assistance programs by providing access to productive inclusion programs for the target population. Health related activities in the previous project are not included in the current one as those are being financed separately through the Ministry of Health. Additional health care services for the elderly and people with severe disabilities, especially those in poverty, are needed to ensure proper service delivery and compliance with program co-responsibilities. However, the Government and the World Bank have agreed that such technical and financial support would be better managed in a separate operation.

### Component 1. Strengthening and efficiency of the social protection system (US\$25 million)

23. **The objective of this Component is to strengthen the capacity of the Government to improve the harmonization, transparency, accountability and follow up mechanisms of MIDES CCT programs.** Doing so is expected to increase programs' performance by improving social protection system instruments, enhancing the management tools of individual social programs; and strengthening the monitoring and evaluation capacity of MIDES. This Component finances three Sub-components.

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<sup>21</sup> "Situación Laboral de los jóvenes. Encuesta de Mercado de Trabajo. Marzo 2014" Ministerio de Economía y Finanzas, 2014.

<sup>22</sup> Arraiz and Roza 2011.

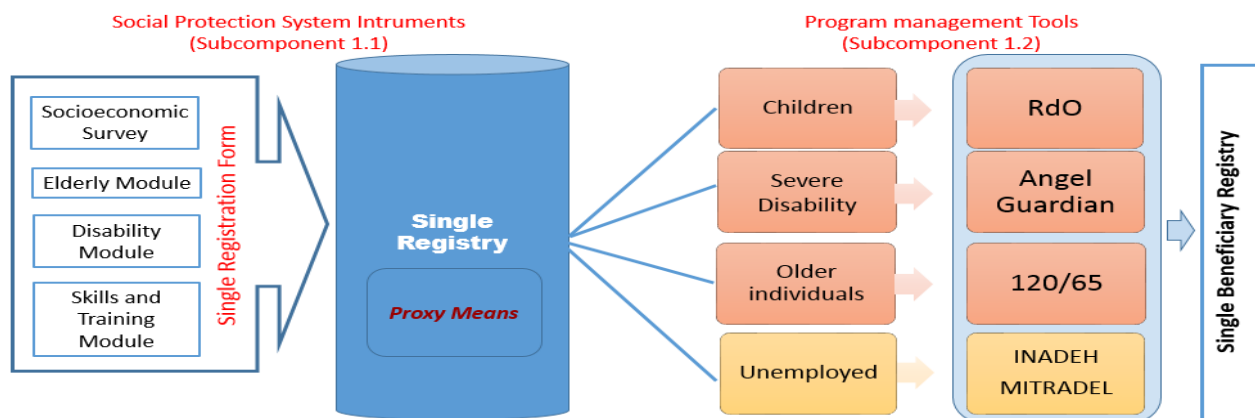
24. **Sub-component 1.1. Social protection system instruments.** This Sub-component will support the development of a Single Registry to serve as a sole social information system that maps socioeconomic conditions of the poor and vulnerable population in Panama. This Single Registry will also be used for the selection of beneficiaries of MIDES CCTs. A Single Registry differs from the Single Beneficiary Registry (*Registro Unico de Beneficiarios*, RUB) in that the former is a database of the population in poverty and vulnerability while the latter represents those current program beneficiaries identified based on program eligibility conditions.

25. **Single Registry.** The Single Registry will include existing data from nearly 370,000 households that were surveyed in geographic areas with high poverty rates from 2006 to 2009. The Project will support the re-design of the instruments to collect information for the registry, the update of household information and the registry of new households. The Single Registry will be used for analysis of program eligibility, reduction of system duplications, and design of new programs addressing other social risks.

26. **Single Registration Form (*Ficha Unica de Registro*, FUR).** In order to harmonize the data collected for the Single Registry, a modular FUR will be designed. It will gradually replace other information collection instruments used by MIDES programs. The FUR will include a core Socioeconomic Module which collects information on the socioeconomic condition of the household. As Figure 2.1 shows, FUR will also include modules to collect specific household characteristics (e.g., elderly individuals, people with disabilities, or specific skills and training needs).

27. **Harmonized Targeting Instrument.** Using the information in the FUR, the Single Registry will then estimate a household probability of being in poverty. The Project will support the update of the existing Proxy Means Test (PMT) and the periodical targeting efficiency assessments based on other datasets, such as the *Encuesta de Propósitos Múltiples*. The harmonized targeting instrument will be tailored to each program combining the results of the common PMT with categorical filters defined by the eligibility criteria of each program.

**Figure 2.1 Functioning of the Single Registry and Program Management Tools**



28. **Outreach and enrolment through census and inclusion processes.** As some MIDES CCTs show significant levels of under-coverage among the extreme poor, the Project will support information collection outreach and enrolment processes, called census and inclusion processes.

This involves, first, an outreach effort to contact households and collect socioeconomic information using the FUR (census process). The data collected is then processed and used to estimate the PMT and the household is included in the Single Registry (inclusion process). These activities will vary across geographic areas and type of programs. In *comarcas*, with high poverty rates and significant under-coverage, the outreach and enrolment processes are likely to be implemented in broader efforts covering all households in specific localities. In urban areas, a demand-based approach will take place when households reach out to MIDES representatives and MIDES personnel apply the FUR and PMT to include the household in the social registry. These alternative approaches will support the enrolment of poor and vulnerable households in the single registry.

29. **This Sub-component will finance consultancy and non-consultancy services, training, equipment, and operating costs**, to carry out, among others, the following activities: (i) design of a single information collection form, the FUR; (ii) design, piloting and operationalization of a PMT instrument to estimate a household's economic status; (iii) design of census and inclusion processes to register new households through the use of the FUR and the on-going enrolment of new households; and (iv) design and implementation of the single registry information system that manages the information collected by the FUR and generate the PMT index for participating individuals and households. Households and individuals with a PMT index that fall into a poverty category are defined as MIDES Participants.

30. ***Sub-component 1.2. Social program management tools. This Sub-component will support the strengthening of the management of MIDES CCTs and will include the following activities:***

31. Revision of Operational Processes and Manuals of MIDES CCTs. The Operational Manuals of the three programs will first need to be revised, and expected program coverage and territorial distribution of actual and potential beneficiaries will need to be updated. As Figure 2.1 shows, household information collected in the FUR and through the PMT will determine whether households included in the single registry satisfy the poverty criteria for specific programs, where each program could have different eligibility PMT thresholds. However, eligibility rules will need further strengthening in each of MIDES' CCT Operational Manuals. For example, eligibility criteria for *120/65* is still weak as it does not prevent better off individuals getting into the program. On the other hand, existing outreach processes for difficult to reach populations (especially in *Angel*) should be reassessed to better identify the target population and enroll them. As program eligibility includes poverty or vulnerability criteria for all three programs, the PMT is only one input in the decision making process. Different programs require additional information specific to the population they are targeting, such as disability certification for *Angel* or measures of marginalization among elderly individuals in *120/65*.

32. Recertification Strategies. Strategies to support recertification of program beneficiaries will need to be developed and should reflect program specific coverage and targeting challenges. The priority is to strengthen the targeting of social programs in geographic areas with larger inclusion errors. The World Bank supported the preparation of the Recertification Strategy for *120/65* which could be the basis for similar efforts in other programs.<sup>23</sup>

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<sup>23</sup> World Bank. 2013. *Estrategia de fortalecimiento de cobertura y focalización del Programa B/100.00 a los 70*.

33. Verification of Co-responsibilities. Co-responsibility verification for some MIDES CCTs was limited by incomplete information systems, misaligned incentives and timelines across ministries, and lack of information system coverage in difficult-to-reach areas. The Project will support the preparation and revision of strategies for verification of co-responsibilities that exploit existing information systems as well as the design of verification mechanisms tailored to difficult to reach areas. These strategies will include the design and implementation of reporting mechanisms for compliance with co-responsibilities.

34. Program Management Information Systems. Individual programs have established their own MIS with slightly different technological platforms and functionalities. The Project will support the re-design of program's MIS based on the new program operational directives and the requirement to have an interface among them to ensure transparency and timely monitoring of registration, eligibility, compliance, payments and household roster changes.

35. Administrative and Fiduciary Capacity of SSPS. The existing capacity of the MIDES' SSPS will need to be strengthened to manage a larger workload and carry out a number of new activities of the Project. For instance, management of the OBD mechanisms with INADEH and MITRADEL will require contracting of an independent technical verification agency while additional technical personnel and training will be required to adequately staff SSPS to manage the expected workload.

36. **This Sub-component will finance consultancy and non-consultancy services, training, equipment, and operating costs,** to carry out, among others, the following activities: (i) revision of operational processes and operational manuals to achieve the expected coverage and update registration, eligibility and targeting tools; (ii) design of recertification strategies to strengthen the targeting of MIDES CCTs; (iii) development and revision of co-responsibility verification strategies to ensure beneficiary compliance, and that monitoring indicators adequately reflect this compliance; (iv) strengthening the management information systems to ensure transparency and timely monitoring of registration, eligibility, compliance, payments and household roster changes; and (v) strengthening the borrower's administrative and fiduciary capacity to carry out Project activities.

37. ***Sub-component 1.3. Monitoring and evaluation capacity.*** **This Sub-component will strengthen the MIDES capacity to monitor and evaluate social programs.** Through this enhanced capacity, SSPS will coordinate monitoring and evaluation efforts of MIDES and other Government agencies, such as the Ministry of Finance, Ministry of Health, the Ministry of Education, and MITRADEL, among others. This Sub-component will finance consultancy and non-consultancy services, training, equipment, operating costs, to carry out, among other activities: (i) staffing of MIDES with professional personnel with adequate qualifications dedicated to monitoring and evaluation; (ii) providing training and capacity building on monitoring and impact evaluation; (iii) acquisition of software for statistical analysis; (iv) design and implementation of impact evaluation studies; and (v) coordinating monitoring and evaluation initiatives with other Government institutions.

38. **Activities in Component 1 will be complemented by other actions by MIDES aimed at increasing the transparency of social programs and supported by other organizations such as IDB.** First, MIDES will develop a Single Beneficiary Registry (*Registro Unico de Beneficiarios*, RUB) based on the beneficiary rosters of selected social programs and that will

include the information collected at the single registry. Second, the RUB will provide the basis for the design and implementation of a payment system for social programs through financial intermediaries (*bancarización*). A first objective of the payment system is to outsource these processes and reduce the administrative costs of payment processes and households' costs in collecting transfers as the use of MIDES' financial and human resources in the process of payment of social programs divert significant attention from program priorities. Figure 2.2 how system (Single Registry) and Program Management Tools financed by this Project are complementary to the RUB and Single Payment Platform supported by the IDB.<sup>24</sup>

**Figure 2.2 Single Registry, Program Management Tools, RUB and Payment Platform**



**Component 2. MIDES' territorial structure and direct family support initiative (US\$17 million)**

39. **This Component will support the strengthening of MIDES' territorial structure to operationalize such activities as outreach and registration, management of non-compliance, transparency and accountability, and information collection processes including implementation of feedback mechanisms, among others.** MIDES has more than 100 social workers who perform activities at professional level, and 300 family sponsors (*promotores*) that perform activities at technical level. For instance, while *promotores* support families by sharing program information, social workers have the capacity to perform social evaluations for potential beneficiaries.

40. **Sub-component 2.1. MIDES territorial coverage of promotores and social workers.** This Sub-component will finance the design and implementation of a territorial strategy to ensure social program beneficiaries are supported regularly, and potential problems related to their participation in program activities (registration, co-responsibilities, and payments) are promptly addressed following clear processes and turn-around times, outlined in their Operational Directives. In addition, this Sub-component will also support the MIDES *promotores* and social workers in the

<sup>24</sup> The IDB has a budgetary support operation addressing the normative framework of social policy in Panama and plans an investment operation in 2016 to address the RUB and Payment Platform discussed in this document.



delivery of services to beneficiary families and to MIDES Participants through technical training and materials.

41. **To do this, the Sub-component will finance operating costs, consulting and non-consulting services, equipment, and materials, to carry out, among other things:**

- (i) Revision of the terms of reference of MIDES *promotores* and social workers to consolidate roles across critical social programs (RO, 120/65, *Angel*) and define outcome indicators for monitoring purposes;
- (ii) Design of a territorial allocation strategy, based on MIDES workload across the three MIDES CCTs and geographic characteristics;
- (iii) Contracting *promotores* and social workers in areas under-covered by the existing network; the current distribution of MIDES staff has faced critical deficiencies in some difficult-to-reach areas and in urban areas where reservation wages are higher. As a result, some critical processes such as updating family roster information or payments have suffered from delays and higher frequencies of missing payment cases;
- (iv) Design and implementation of training programs for *promotores* and social workers, including the preparation of training materials and the evaluation of training activities; and
- (v) Financing of operating costs related to the provision of direct family support under the MIDES' CCTs.

42. ***Sub-component 2.2. Social Feedback Mechanisms.*** This Subcomponent will support the design and implementation of a citizen feedback mechanism for MIDES' CCT programs. This process will build on good practice examples of World Bank-supported ICT-enabled feedback mechanisms in CCT programs in the Philippines and Dominican Republic as well as cellphone-powered citizen reporting as supported by a World Bank project in Uganda. The mechanism seeks to, on one hand, provide MIDES with a constant flow of up-to-date geo-referenced data on user perceptions of the quality, coverage and reliability of health and education services -which beneficiaries are required to comply with as co-responsibilities- as well as effectiveness of delivery of payments. Moreover, it will provide a direct communication channel with users, in order to facilitate users to voice concerns about the programs and strengthen accountability of the programs to their users.

43. ***Monitoring.*** The project's results framework includes an indicator to monitor progress on such activities during project implementation. Intermediate targets include Protocol developed and approved for responding to citizen feedback, Public CE platform launched Inter-ministerial working group formed with the Social on citizen feedback platform including health and education Ministries; Feedback mechanism designed.

44. **Reporting methods/technology.** Users in areas with mobile connectivity will submit their reports mainly through SMS cellphone text messages from their personal cellphones, or the program's cellphones on paydays in remote areas. The Government will partner with private cell phone companies to cover the costs of the SMS messages.

45. **Use of feedback data.** The data will be collected and displayed through a public, user-friendly, electronic interactive platform which will produce instant data analysis. This analysis will then be used to leverage better quality and culturally pertinent services from the Ministries of Health and Education as well as redress grievances regarding MIDES' service delivery. The types

of feedback will be classified and displayed by category, including, *inter alia*, targeting errors, payment irregularities, teacher and/or medical staff attendance, quality of services, cultural pertinence of services, and other patterns emerging from decisions not based on objective criteria specified in the Operational Directive of the programs.

46. Third-party monitoring. In order to guarantee unbiased results, the Project will develop a third party monitoring strategy with a civil society organization to publish results of reporting and grievance redress, acknowledging efficient grievance redress and identifying ineffective or inefficient responses. MIDES has identified a set possible partners including international NGOs that support transparency.

**47. This Sub-component will finance consultant and non-consultant services, equipment, and operating costs to, among other things:**

- (i) Carry out a diagnostic study of the existing feedback entry points for the MIDES CCTs;
- (ii) Design of relevant citizen feedback mechanisms with differentiated methods and instruments tailored to different geographic areas and cultural contexts within urban areas, rural areas and indigenous territories;
- (iii) Development and consultation of user protocols to establish culturally appropriate grievance redress protocols;
- (iv) Development and implementation of communications and awareness campaigns to promote MIDES CCTs, including grievance reporting;
- (v) Financing of operating costs and the provision of training to selected MIDES staff to receive, channel and redress grievances according to protocols and demos, targeted towards women/men, children/adults of different population/ethnic groups; and
- (vi) Monitoring and using feedback data to promote improvements to health, education and payment services.

### **Component 3. Productive inclusion services for the poor and vulnerable population (US\$33 million)**

48. **This Component seeks to complement the activities of MIDES CCTs with actions that strengthen the productive capabilities of the poor and vulnerable resulting in improved income generating capacity.** This Component will finance the provision of employability and productive services for the poor and vulnerable population (MIDES Participants) to enhance their participation in labor and other markets. It is expected that, over the course of Project implementation, these activities would benefit roughly 27,000 poor and vulnerable in urban, rural and indigenous settings. This Component will finance two Sub-components:

49. **Sub-component 3.1. INADEH Training Services.** This Sub-component will finance training for poor and vulnerable individuals in selected strategic technical areas in order to improve their employability and ability for income generation. Based on international experience, the training program includes the following features: (i) training areas will be selected based on the needs of the labor market and on public and private sector needs; (ii) training types will address issues of employability and career mobility of the workforce; (iii) training will combine two types of skills instruction, a life-skills training module to help beneficiaries in specific behavior, psychosocial and remedial-related activities and technical skill modules; and (iv) training is

delivered in short modules. Specifically, the Component will finance: (i) an assessment of local training needs; (ii) preparation and implementation of local training plans; (iii) provision of stipends to MIDES participants participating in INADEH training; (iv) evaluation of INADEH training activities related to MIDES participants; and (v) provision of INADEH training payments to INADEH. This Subcomponent will exploit the lessons learned from similar interventions like PRONATEC in Brazil and PATI in El Salvador.

50. Training provider. **The training will be provided using the existing capacity of INADEH, which is a budget-financed autonomous public institution.** Its main objectives are the development and implementation of training policies and strategies, as well as design and provision of training programs for public and private sector. One of INADEH's activities is development and provision of training programs in basic labor skills for the unemployed, poor and vulnerable. In this Project, INADEH will ensure the provision of training to MIDES Participants to enhance their income generating capacity. To implement this Sub-component, MIDES and INADEH will sign an inter-institutional agreement that will provide a framework for the cooperation and define specific roles and responsibilities each of the institutions will assume in implementation of the training.

51. Selection of training participants. **MIDES will coordinate with INADEH the areas of the country where training activities will be offered and will be responsible for the outreach to potential beneficiaries.** The program will aim at provision of training to eligible MIDES Participants including both family members of MIDES CCTs' beneficiaries, and individuals that, once registered in the single registry (and assessed based on the EVS and PMT), are declared to be in poverty. To facilitate the selection and placement into the training, MIDES will provide INADEH with a list of MIDES participants (eligible beneficiaries) who are interested in the training activities. The list will include disaggregated data by gender, location (urban, rural and indigenous), region, age (15-18 years, 19-24, and over 24 years), level of education, and data on their interests, recent employment status, length and type of last employment. If there is excess demand, final placement of MIDES Participants in training activities will be done randomly. Once the participants have been selected for the course, each participant will sign a contract with INADEH.

52. Selection of Types of Training. **INADEH will provide training in six economic sectors identified as areas of strategic priority by the MITRADEL Employment Policy.** The courses offered in different geographic areas will be selected based on local employment opportunities. INADEH would adapt the content and format of its existing training programs to adjust them to specific characteristics of participants, type of activity, and municipality strategy. INADEH will develop additional programs identified as needed based on the needs assessment. The average duration of training courses will be 250 hours within a three-month period. INADEH will be responsible for organizing the course, and ensure all the training materials required are provided. The training courses will combine two modules: (i) a life-skills and general skills module of up to 100 hours; and (ii) a technical skills module of around 150 hours. The training courses will most likely be offered five hours per day. Throughout the training, the participants will undergo periodic competency assessments.

53. Payment of Stipends. **MIDES will pay each training participant a stipend to provide minimum income support for the participant, facilitate the participation in the training and offset the cost related to participation, i.e., child care, transportation, etc.** The first two stipend

payments will each be paid at the end of the first two months to all the participants that attend the training regularly, and at the end of the training, will receive one final stipend. The payment of the stipends will be done by MIDES based on the attendance and training completion records provided regularly by INADEH in accordance with operational procedures described in the Project Operational Manual.

54. Estimation of Unit Cost for INADEH. **INADEH has a schedule of standard unit costs which includes the incremental operating cost of INADEH to provide the training courses, including, inter alia, the extra hour's salary for teachers, teaching materials, transport, administration and building operation costs.** These standard unit costs will be defined by MIDES and INADEH following the methodology established in the Operational Manual and in agreement with the World Bank. The schedule of costs will be updated at least annually to take into account any modifications.

55. INADEH Training Unit Costs. **INADEH's program costs are divided in two groups:** (a) Direct Training Costs (technical training costs, soft skills training costs, and materials); and (b) Indirect Cost (administrative human resources, building operation costs, student issuance and instructor transport cost). Costs are estimated separately for urban areas and an additional cost for trainees' accommodation and meals are included for rural and difficult access areas (e.g., *comarcas*). The methodology for estimation of unit costs is described in the Project Operational Manual. An individual is said to be a Trained MIDES Participant when she has attended a minimum number of hours and received the INADEH Certificate. The estimation of the unit cost of Trained MIDES Participant is included in the Operational Manual.

56. Supervision and verification of output. **While INADEH will deliver the output Trained MIDES Participant, MIDES will carry out supervision and verification activities.** First, MIDES will carry out spot checks on training activities as described in the local training plan, to verify the implementation of the training activity and the consistency between attendance records and actual attendance. Second, MIDES will receive the disbursement requests package from INADEH that will include the supporting documentation for attendance and training completion. MIDES will review these packages before issuing INADEH Training Payments. Finally, an independent auditor will review the disbursement request packages and assess their compliance with the processes established in the Operational Manual. The report by the independent auditor will be included in the MIDES reimbursement request to the World Bank. INADEH will be responsible for the delivery of the output "Trained MIDES Participant" including support to MIDES in the preparation of the local training plan, identifying local trainers and suitable training modules and, upon approval by MIDES, implementation of the local training plan. After implementation of the local training plan, MIDES will reimburse INADEH for those MIDES Participants that successfully completed their INADEH training and were certified, now called Trained MIDES Participant.

57. **An initial estimate of the unit cost per Trained MIDES Participant is shown below:**

**Table 2.1 Unit cost estimates for INADEH Training**

Type of costs	Cost per Trainee (in US\$)
<b>Direct Training Costs</b>	
1. Teacher Cost of Technical Training	93.8
2. Teacher Cost of Soft Skills training	65.0
3. Training Materials	118.9
4. Teaching Materials	40.0
5. Student Insurance	2.8
6. Instructor Insurance	1.9
7. Instructor per diem	50.6
<b>Indirect Costs</b>	
8. INADEH Human Resources	
A. INADEH Administrative staff	22.4
B. INADEH staff working in centers	11.2
9. INADEH equipment and operating costs	
A. Water, electricity , gas and other	7.5
B. Building maintenance	14.9
C. Office supplies	3.7
D. Transportation costs	7.5
<b>TOTAL</b>	
	<b>440.1</b>

Note: Training courses in rural and difficult access areas (e.g. *comarcas*) will have an additional US\$135 due to costs of accommodation. Hence, the cost per Trained MIDES Participant would be US\$ 575.1.

58. **Sub-component 3.2. MITRADEL Intermediation Services.** This Sub-component aims to facilitate participation of MIDES participants in labor insertion programs, such as *ProJoven* and *Programa de Apoyo a la Insercion Laboral (PAIL)*, managed by the MITRADEL. These programs will be assessed and adjusted to respond to the socio-economic profile of the eligible population. Specifically, this Sub-component will finance MITRADEL intermediation costs (to be defined as a separate expenditure category), operating costs, equipment and materials to carry out, among other things: (i) identification of labor insertion opportunities for MIDES Participants; (ii) update of the National Employment Service (*Servicio Nacional de Empleo, SERPE* hereafter) for the registration of MIDES Participants and registration of MIDES Participants in SERPE; (iii) assessment of requirements for inclusion, and the inclusion of MIDES Participants into labor insertion programs; (iv) evaluation of labor insertion programs related to MIDES Participants; and (v) the provision of MITRADEL Intermediation Payments to the Borrower, through MITRADEL.

59. **National Employment Service (SERPE).** MITRADEL provides employment and intermediation services for the general population and is responsible for the SERPE (National Employment Service) that provides job search services to individuals seeking employment, linking them with vacancies offered by local firms. The Project will support the registration of MIDES participants in the SERPE through adaptation of existing MITRADEL

systems to better respond to the constraints of MIDES Participants (e.g., time restrictions for RO beneficiaries).

60. **PAIL**. As a way to provide a stronger link between individuals and formal employment, MITRADEL operates a labor insertion program called *Programa de Apoyo a la Insercion Laboral (PAIL)*, which generates employment opportunities for a period of three months in firms that have established an agreement with MITRADEL. Under this program, the Government pays for 50 percent of the minimum salary for a period of three months and provides a collective insurance against accidents to program participants. The subsidy reaches 100 percent of the minimum wage if the participant has a disability. The firm, in turn, pays the remaining amount to reach the minimum salary (or the agreed salary), provides on-the-job training if necessary, and commits to hire at least 80 percent of participants that successfully complete the three-month apprenticeship period for a minimum of an additional three-month period. In 2014, this program benefited 467 individuals in 94 firms.

61. **The Project will support the participation in PAIL of those individuals who have graduated from school more than three years ago, have little or no job experience and are not currently employed.** There are around 6,600 individuals between 18 and 29 years of age that belong to beneficiary families of RO in urban areas. According to beneficiary surveys, 52 percent of beneficiaries between 18 and 24 years of age in urban areas study, while another 16 percent work. In addition, 8 percent are either unemployed or inactive, while 23 percent work at home or declare to have “other activities”. Given these percentages and considering that a proportion of those working at home or in other activities may be interested in switching to a formal job, the Project estimates that 3,000 individuals in urban areas will benefit from internship opportunities provided by the PAIL program at a rate of around 500 participants per year.

62. **ProJoven**. In 2014, the MITRADEL launched *Panama ProJoven*, a program focused on providing internship opportunities to recent graduates from technical and vocational secondary schools. Through an agreement with MEDUCA, the program selected 11 schools to enroll students who were graduating in 2014. The program provides a week long training session on life and socio-emotional skills followed by a three-month internship period in a firm. Participants receive a compensation of US\$300 per month for participating in the internship and are eligible to get hired by the firm after the internship period. In its first round, the program enrolled and trained 550 students and has provided internship opportunities to more than 280 of them in more than 20 firms in nine provinces of the country. MITRADEL plans to expand the program to eventually reach all 12,000 graduates from secondary schools each year.

63. **The Project will finance the participation of poor and vulnerable population, already participating in MIDES social programs or classified as eligible by MIDES, in job placement and internship opportunities provided by MITRADEL.** This group will include young individuals in families that have participated in MIDES CCTs and are now graduating from secondary school, providing a smooth transition between the compliance with education co-responsibilities embedded in the RO program and the insertion in the labor market that would enhance their income generation capacity. MIDES estimates that there are around 6,000 individuals between 15 and 17 years of age enrolled in secondary schools in the areas targeted by the Panama *ProJoven* program that belong to beneficiary families of the RO program. Therefore, the Project could potentially benefit a target population of around 2,000 secondary school graduates of RO families each year.

64. Selection of beneficiaries for PAIL and ProJoven. **MIDES will be in charge of identifying the eligible population for each program each year and providing a roster of participants to MITRADEL.** In the case of *ProJoven*, MIDES will also provide the list of secondary schools with high concentrations of MIDES eligible members.

65. MITRADEL Intermediation Unit Costs. **MITRADEL's programs PAIL and ProJoven have five cost categories:** (i) Human Resources, which includes MITRADEL employees' time invested in recruiting, interviewing and job induction of the participants, as well as fostering relationships with the companies; (ii) Rentals, Furniture and Technology Services, which includes use and maintenance of technological equipment and office rental; (iii) Transport, which includes travel expenses, food and lodging of technical equipment in the various activities of program; (iv) Project Promotion, which includes preparation of leaflets, posters, flyers, radio and television spots, as well as visits to companies promoting and informing about the Project; and (v) Internships and Insurance, which includes the monthly stipend paid to students during the three-month internship, life insurance and medical expenses in case of accidents. The methodology for estimation of unit costs is in the Operational Manual. A MIDES Participant is said to have completed the MITRADEL Intermediation when they have attended a minimum number of hours and received the firm certificate of apprenticeship as established in the Project Operation Manual.

66. MITRADEL Output. **The proposed Project defines MITRADEL as responsible for the delivery of the output "MIDES Participant completing MITRADEL Intermediation," where MITRADEL will support MIDES in the preparation of a labor intermediation plan and, upon approval by MIDES, will also support the implementation of the plan.** After implementation of the labor intermediation plan through existing programs (*ProJoven* or PAIL), MIDES will reimburse MITRADEL for those MIDES Participants that successfully completed their MITRADEL intermediation program.

67. Estimation of Unit Cost for MITRADEL. **MITRADEL has a schedule of standard unit costs which includes the incremental operating cost of MITRADEL to provide intermediation services, including, *inter alia*, the extra hours of salary for personnel, materials, transport, administration and building operation costs.** These standard unit costs will be defined by MITRADEL in accordance with the Bank and MIDES. The schedule of costs will be updated at least annually to take into account any modifications. The methodology for estimation of unit costs will be included in the Operational Manual. Costs differ between PAIL and *ProJoven*. For example, while *ProJoven* pays a fixed stipend of B/.300 per month, PAIL's stipend is set at 50 percent of the official minimum wage according to the economic activity and region that corresponds with the job where the internship will be carried out. In addition, promotion activities, back-office support and interaction with participants also differ between programs. As a result, as Table 2.3 shows, the unit cost for Panama *ProJoven* has been initially estimated at close to US\$1,675 per participant, while for PAIL it is estimated at US\$1,252 per participant. These unit costs will be revised annually and included in the Project Operational Manual.

**Table 2.2 Unit cost estimates for MITRADEL Intermediation Programs (in US\$)**

Types of costs	Cost per MIDES Participant completing program	
	<i>ProJoven</i>	PAIL
Human resources	207.65	284.10
Rent, furniture and technology services	181.93	42.61
Transport	129.75	22.68
Promotion of project	73.50	43.16
Internship and insurance	995.17	859.27
Total	1674.67	1251.82

Source: Estimates based on methodology described in the Project Operational Manual.

68. Verification of MITRADEL Outputs. **MIDES will supervise and verify the delivery of MITRADEL's outputs (MIDES Participants completing intermediation program) through three mechanisms.** First, MIDES will receive periodical (monthly) information from MITRADEL on hours worked during the intermediation programs and carry out spot checks to Participants for verification. Second, MIDES will receive from MITRADEL a disbursement request package upon program completion and review it for approval of the disbursement. The package will include the names of MIDES Participants that received a certificate from MITRADEL, copies of their attendance sheets at work, and the certificate of employment provided by the firm. Third, the independent auditor will review the disbursement packages and ensure these are adequately documented according to the Project Operation Manual. The independent auditor will carry these activities on a quarterly basis.

69. Labor market intermediation services – National Employment Service. **Participants in both programs will be given access to the intermediation services provided by the National Employment Service, which will be especially relevant for those who complete their internship period and are not rehired by the firm.** This will provide a stronger link between graduates from the social program and employment opportunities in the formal sector. Other MIDES Participants that are not in MITRADEL Labor Intermediation programs are also eligible for SERPE registration



### **Annex 3: Implementation Arrangements**

#### **PANAMA: Strengthening the Social Protection and Inclusion System Project**

1. **The proposed Project will be implemented by MIDES through its existing institutional structure at central, regional and local levels, given its responsibility for key social programs.** The existing Secretariat of the Social Protection System (SSPS) under MIDES will coordinate Project implementation and will be supported by the existing UEAF for administrative, fiduciary and safeguard aspects. Implementation of Component 3 includes the participation of technical co-executers, MITRADEL and INADEH, with no fiduciary responsibilities. At the national level, the SSPS is focused on designing, directing, monitoring and overseeing the social protection system. At the regional level, provincial offices of MIDES include a provincial coordinator responsible for coordinating local agents of the program and service providers, and maintaining contact with provincial authorities. At the local level, MIDES's *promotores* and regional coordinators support the operation and logistics of the program, promote beneficiaries' participation, and oversee supply of services.

2. **The Project will be implemented in accordance with a Project Operational Manual.** The Manual includes: (i) a detailed description of Project activities and institutional arrangements for the Project; (ii) the Project administrative, budgeting, accounting, auditing, reporting, financial, procurement and disbursement procedures; (iii) the monitoring indicators for the Project; (iv) the institutional and administrative mechanisms established to ensure inter-institutional coordination; (v) the terms and conditions of the Implementation Agreements; (vi) the periodicity of the technical verifications of compliance to be carried out by the Independent Auditor and the periodicity, scope and details of the Independent Verification Reports; (vii) the methodology to calculate the unit costs for the INADEH Training Payment and the MITRADEL Intermediation Payments; (viii) the periodicity and mechanism for the provision by the Borrower of INADEH Training Payments and MITRADEL Intermediation Payments to INADEH and MITRADEL respectively; and (ix) the IPPF. The Project Operational Manual will be adopted by the Government prior to effectiveness.

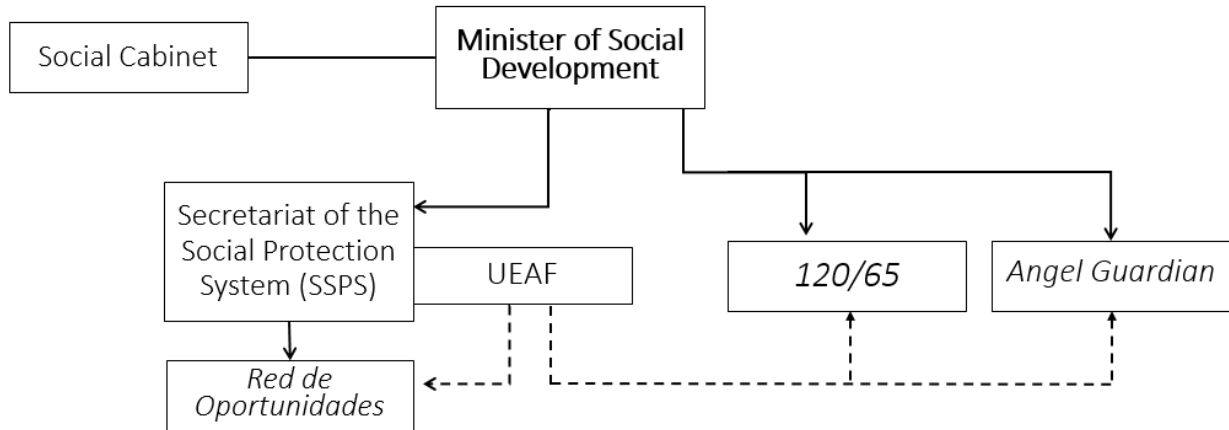
#### **3.1. Decision Making and Implementation Arrangements at central level**

3. **The SSPS makes all decisions on issues regarding Project implementation.** The Social Cabinet plays an advisory role for social development policies to the Executive and facilitates the discussion of social policy, programs and strategic evaluation among Government agencies. Figure 3.1 outlines MIDES's institutional arrangements and decision-making by topic. The SSPS reports directly to the Minister and is the coordinating agency for Project implementation (reporting lines are solid in Figure 3.1). Social Protection System instruments and activities (Sub-component 1.1) are also under the purview of the SSPS as well as the design, piloting and implementation of the payment platform to simplify payment processes in MIDES.<sup>25</sup> Activities carried out by individual programs (Sub-component 1.2) are the responsibility of each program but supported on fiduciary issues by the UEAF (fiduciary support in the Project context are dotted lines in Figure 3.1).

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<sup>25</sup> This Project does not finance the payment platform but has provided technical guidance on financial inclusion activities during preparation.

**Figure 3.1. MIDES Institutional Arrangements**



4. **MIDES is also responsible for coordinating social policies at two different levels – horizontal and vertical.** Horizontally, MIDES coordinates with other central government agencies involved in the implementation of some programs supported by the Project. In the case of RO, MIDES participates in the Inter-Ministerial Coordination Committee of RO (CIRO) with Ministries of Education and Health to ensure that services delivered to beneficiaries are properly tracked and reported to MIDES to guarantee verification of co-responsibilities. Vertically, MIDES, supported by its provincial offices, local promoters and regional teams, coordinates with provincial and local authorities as well as service providers to ensure adequate supply, verify completion of co-responsibilities and carry out the MIDES’ social programs processes at this level.

5. **At the community level, programs supported by the Project will rely on family committees or alternative existing local organizations.** These committees constitute the point of contact for beneficiary families, inform mothers about program’s procedures and operation, promote social control and supervision, conduct trainings, and provide assistance to beneficiaries. In those jurisdictions where local organizations are already operating, particularly in indigenous areas, the program will not promote new committees but will provide assistance to strengthen existing ones. Regional teams and family liaisons will support these committees.

### **3.2. Implementation Arrangements for Component 3**

6. **MIDES will sign inter-institutional agreements, under terms and conditions acceptable to the World Bank, with INADEH and with MITRADEL for the implementation of Sub-components 3.1 and 3.2, respectively.** The INADEH Agreement will include both: (i) MIDES’ obligations to provide INADEH Training Payments to INADEH in accordance with the procedures set forth in the Project Operational Manual, and stipends to MIDES Participants receiving INADEH training; and (ii) INADEH's obligation to provide technical training and certifications to MIDES Participants, clearly outlining the INADEH certification process. The MITRADEL Inter-Institutional Agreement will include both: (i) MIDES’ obligations to provide MITRADEL Intermediation Payments to MITRADEL in accordance with the procedures set forth in the Project Operational Manual; and (ii) MITRADEL’s obligations to ensure the participation of eligible MIDES Participants in the adequate Labor Insertion Program and the National

Employment Service, clearly outlining how MITRADEL will supervise Participants in apprenticeships. Both Agreements will also describe the technical coordination mechanism between MIDES and INADEH/MITRADEL for the implementation of the INADEH Training and the MITRADEL Intermediation respectively, and define auditing mechanisms. These Agreements will be signed prior to any disbursement under this Component.

7. **INADEH and MITRADEL are responsible for outputs under Component 3.** INADEH is responsible for the delivery of the output “Trained MIDES Participant” where INADEH supports MIDES in the preparation of local training plans, identifying local trainers and suitable training modules and, upon approval by MIDES, implementation of local training plans. After implementation of these plan, MIDES will reimburse INADEH for those MIDES Participants that successfully completed their INADEH training and were certified, now called Trained MIDES Participant. MITRADEL is responsible for the delivery of the output “MIDES Participant completing Intermediation program” where MITRADEL supports MIDES in the preparation of a labor intermediation plan and, upon approval by MIDES, the implementation of the labor intermediation plan. After implementation of the plan through existing programs, MIDES will reimburse MITRADEL for those MIDES Participants that were successfully inserted and completed their MITRADEL program. As soon as the outputs are completed, INADEH and MITRADEL will submit a technical report to SSPS including the information detailed in the Project Operational Manual.

8. **MIDES, in coordination with an independent auditor, is responsible to verify the outputs under Component 3.** The mechanisms for verification of output delivery are: (i) periodic on-site verification and validation conducted by MIDES local staff of the results achieved by both co-implementing entities; (ii) periodic verification conducted by UEAF of technical reports on the results achieved submitted by INADEH and MITRADEL; and (iii) quarterly Independent Verification Reports conducted by an independent auditor with qualifications, experience, and under terms of reference acceptable to the World Bank, of technical reports on the results achieved submitted by INADEH and MITRADEL. The Project Operational Manual will include details of the scope of each output delivery verification mechanisms.

### **3.3. Financial Management Arrangements**

9. **FM for the Project will be carried out by UEAF in MIDES.** The UEAF, currently financed by the MIDES’ own budget funds, will be responsible for project FM-related tasks, including budgeting, accounting, financial reporting, and preparation of the withdrawal applications. Certain project activities, such as on-site confirmation and verification of the activities carried out under Component 3, will be conducted by MIDES local staff.

10. **The FM Assessment carried out for the Project found that the UEAF has adequate experience and capacity.** The UEAF has been implementing World Bank-financed projects for a number of years. A FM Assessment of the arrangements for the proposed Project was carried out by the World Bank, in accordance with OP/BP 10.00 and FM Manual for World Bank-financed Investment Operations. The Assessment determined that the UEAF has suitable organizational structures with trained staff that possess the required experience and credentials to manage the fiduciary aspects of the Project. Given that INADEH and MITRADEL do not have any previous experience in implementation of World Bank-financed projects, UEAF will be responsible for all FM activities under Component 3. The Project will mostly finance consultants’ and non-

consultants' services, goods, training, and operating costs. It will also finance stipends and payments, under an OBD approach, corresponding to training and inclusion of persons in a labor market program, which will be calculated based on the unit costs corresponding to the number of persons trained and who completed the intermediation program.

11. **FM risk is considered substantial, however will be mitigated by a set of measures.** The following mitigation measures will be used to reduce the FM risk of the Project: (i) the FM arrangements for this Project are based on those used by the last Social Protection project; (ii) the primary disbursement method will be advances to the Project's Designated Account (DA) in US dollars to be administered by MIDES; (iii) Project implementation will be carried out in line with the Annual Operational Program and Project Operational Manual, including planning, implementation, monitoring, verification, and reporting of the activities to be financed under Component 3; (iv) MIDES, through UEAF, will prepare and submit to the World Bank semiannual non-audited Interim Financial Reports and annual audited financial statements; (v) Project financial statements and Statements of Expenditures (SOEs) will be subject to annual audits to be conducted by eligible external auditors and based on terms of reference acceptable to the World Bank; (vi) the eligibility of payments made under Component 3 and compliance with selection criteria will be also verified by an acceptable independent auditor on a quarterly basis; and (viii) the Project will be formally supervised at least every six months. A list of key mitigating measures, including pending actions are outlined below:

**Table 3.1. FM Action Plan**

#	Description of Action/Condition	Action, Condition or Dated Covenant	Responsible party	By when
1	Agreement on unitary costs and eligibility criteria of eligible outputs to be paid under Component 3.2.	A/C	MIDES /Bank	Negotiations (completed)
2	Submission to the World Bank of the final draft of the Project Operational Manual, including verification and reporting arrangements corresponding to the activities to be financed under Component 3 and FM sections.	A/C	MIDES /Bank	Negotiations (completed)
3	Submission to the World Bank of the Project's Annual Operational Program for the first year of implementation.	A/C	MIDES /Bank	Negotiations (completed)
4	Agreement on reporting template and customized SOE format for Component 3.	A	MIDES /Bank	Negotiations (completed)
5	Installation of a Financial Management Information System in MIDES.	A/DC	MIDES' UEAF	Disbursement
6	Agreement of the terms of reference for the external audits, including for the Independent Verification Report.	A	MIDES /Bank	1 <sup>st</sup> year of implementation

12. **Budgeting arrangements: The Project has been registered at the National System for Public Investments.** Hence all project funds will be allocated into the institutional annual budget of MIDES, including funds for Component 3, to be concurred by the Ministry of Finance and approved by the National Congress. Budget execution will be also subject to provisions of the General Law on Budgeting, Budgeting Classification Manual, and General Rules on Budgeting,

among others. This set of legal and regulatory arrangements, together with use of the institutional FM Information System (currently SIAFPA and starting in January 2016, ISTMO), provide for sound budget formulation, execution and control arrangements. However, it should be noted that on occasion, the initial budget allocation recommended by the Ministry of Finance and approved by the Congress is not sufficient, which could impact the pace of implementation and represents an additional risk. To partially mitigate this risk, MIDES will prepare, in a timely manner, Annual Operational Programs for the Project, which will be used for: (a) planning and budgeting purposes; and (b) supporting budget requests to be submitted to Ministry of Finance. This document will include, among others, the following information: (i) activities to be implemented and a detailed budget; (ii) annual goals; (iii) deliverables; and (iv) impact indicators. The Annual Operational Program for the first implementation year was prepared and submitted to the World Bank and found acceptable prior to negotiations.

13. *Accounting system: MIDES currently uses the national public accounting system.* MIDES is required to comply with the Governmental Accounting Manual, issued by the General Comptroller's Office. Hence, the UEAF will use the accounting standards applicable to public sector, including the standardized chart of accounts. In 2014, the General Comptroller's Office promulgated a Decree on adoption of International Public Sector Accounting Standards; however, implementation within MIDES, which will affect the project accounting system and, specifically, its chart of accounts, has not started as yet. In terms of Financial Management Information System, MIDES currently uses the SIAFPA system. However, it is expected that starting in January 2016, all line Ministries will begin using ISTMO, the new official Financial Management Information System, which is currently being pilot by a number of governmental entities. ISTMO is a modular system developed based on the SAP platform, financed by the World Bank-financed Enhanced Public Sector Efficiency Project (P121492).

14. **However, at the project level, MIDES' UEAF does not have a Financial Management Information System.** Under the previous Social Protection Project (P098328), the financial statements were prepared manually by UEAF. The proposed Project will finance the installation of a Financial Management Information System for UEAF to allow for detailed records of Project activities. The UEAF is considering the use of the Pentagon system, which is a modular system that includes procurement, accounting, budgeting, and disbursement modules. In addition to detailed registration of project transactions by component and disbursement category, the system also allows for automatic producing of required project financial statements, including unaudited Interim Financial Reports, SOEs, and banking reconciliations in formats agreed with the World Bank. Periodic reconciliations will be carried out with the national public SIAFPA/ISTMO system.

15. *Internal control and written procedures: The Project's internal control procedures will be documented in the Project Operational Manual.* Along with the existing institutional frameworks and the Annual Operational Program, the internal control procedures will be mainly focused on: (i) proper segregation of FM-related functions; (ii) management and control of long-term assets; (iii) verification and reporting of results achieved under Component 3; and (iv) adequate control of disbursements and flow of funds, among others. These procedures will be documented in the Project Operational Manual, which will include the following specific sections: (i) Project FM and disbursement arrangements; and (ii) technical and administrative framework, including estimation of unit costs and definition of eligibility criteria for activities under Component 3. A draft version of this Manual was prepared by the UEAF and submitted to the

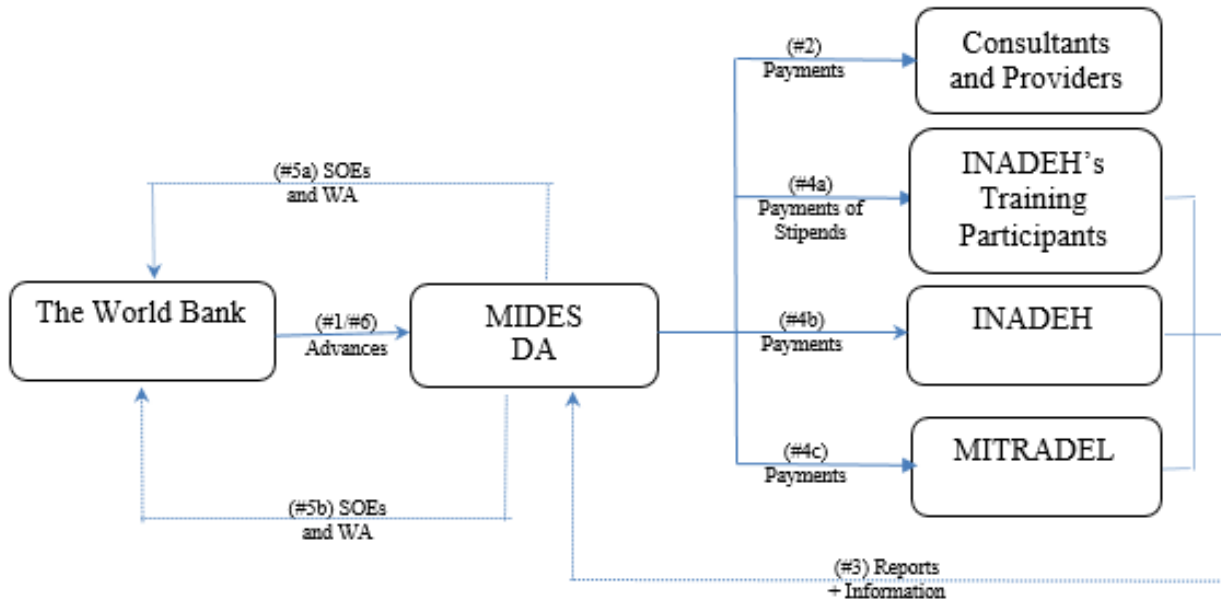
World Bank at negotiations. The final version of the Operational Manual, acceptable to the Bank, is a condition of effectiveness.

16. **At the inter-institutional level, all project Withdrawal Applications, as is the case in Panama, will be approved by the Minister of Finance or any of two Vice-ministers.** Moreover, all contracts and payments are subject to prior review, depending on their value, by the General Comptroller's Office and its oversight offices (*oficinas de fiscalizacion*), as follows: (i) institutional office (for contracts and/or payments below US\$100,000); (ii) sectorial office (for contracts and/or payments between US\$100,000 and US\$300,000); and (iii) central office for all contracts and/or payments that exceed US\$300,000. This mechanism is also applied to the contracts and/payments procured/processed by INADEH and MITRADEL.

17. **The Project Operational Manual will also outline the FM procedures and verification process separately for Component 3.** The draft presented at negotiations includes an outline of the FM procedures to be used under the Project. The final OM, which as noted earlier is a condition of effectiveness, will include, among other things, the following for Component 3: (i) criteria for selection of the beneficiaries of Component 3 activities; (ii) control and verification of attendance; (iii) examination of trainees and performance evaluation of the interns; (iv) confirmation of the number of persons actually trained by INADEH, and participants that successfully completed their MITRADEL program; and (v) reporting of the archived results and calculation of the stipends to be paid and OBD payments based on the unit costs. In terms of verification of the results achieved and eligibility of payments to be made by the World Bank, Component 3 activities will be subject to the following three verification mechanisms: (i) periodic on-site verification and validation by the local promoters of the results achieved by both co-implementing entities, e.g. number of persons actually trained by INADEH, and participants that were successfully inserted, and/or completed the MITRADEL program; and (ii) review by UEAF of periodic technical reports on the results achieved to be submitted by INADEH and MITRADEL, and preparation of customized SOEs based on unit costs to be paid; and (iii) preparation by an independent auditor with qualifications and experience, and under terms of reference acceptable to the World Bank, of Independent Verification Reports on quarterly basis. This audit, in addition to traditional audits of project financial statements, will be focused on verification and validation of the results achieved by both co-implementing entities, e.g., number of persons actually trained by INADEH, and participants that successfully completed their MITRADEL intermediation program, as well as compliance with the selection criteria.

18. *General flow of funds and information:* **The primary Project disbursement method will be advances to a segregated Designated Account (DA) in US\$ to be administered by MIDES.** In addition, the Project may request: (i) reimbursements of expenditures pre-financed from local counterpart funds; and (ii) direct payments to the Project's consultants and providers. The description of the flow of funds is presented in the following diagram, where the solid lines represent the flow of funds and the dotted lines represent the flow of information:

**Figure 3.2. Flow of Funds**



- (1) The World Bank advances the authorized amounts into the Project DA, administered by the MIDES, through UEAF, once all disbursements conditions are met.
- (2) As expenditures are incurred, MIDES, through UEAF, processes payments to the Project's consultants and providers under Components 1, 2 and 3.
- (3) INADEH and MITRADEL submit to MIDES on quarterly basis technical reports on results achieved under Component 3, which are, in turn, verified by an independent auditor.
- (4) MIDES, through UEAF, calculates the amounts to be paid, based on the independent verification reports and the established unit costs, and process payments to INADEH's training participants (stipends) and both co-implementing entities.
- (5) Project eligible expenditures are aggregated and summarized by MIDES, through UEAF, in SOEs to be formally submitted, together with a loan withdrawal application, to the World Bank in order to document the advance and/or to request new advance, whatever the case may be.
- (6) The World Bank process new advances corresponding to the documented expenditures/outputs.

19. *Disbursement arrangements:* The proposed disbursement arrangements<sup>26</sup>, are summarized below:

**Table 3.2. Disbursement Arrangements**

Disbursement method	<ol style="list-style-type: none"> <li>1. Advance to a segregated DA in US\$ to be open in the Banco Nacional de Panama.</li> <li>2. Reimbursement of those project expenditures pre-financed from the local counterpart funds.</li> <li>3. Direct payment of eligible expenditures to consultants and providers.</li> </ol>
DA and timing of documentation	The proposed DA ceilings is US\$7.5 million. The funds advanced to the DA will be documented on quarterly basis.
Supporting documentation	<ol style="list-style-type: none"> <li>1. Traditional SOE<sup>27</sup> for eligible Goods, Consultants' Services, Non-Consultant Services, Training and Operating costs financed under disbursement Category 1.</li> <li>2. Customized SOE for Stipends financed under Category 2.</li> <li>3. Customized SOE for payments made under Categories 3 and 4.</li> </ol>
Limits	The recommended minimum value of applications for reimbursements and direct payments is US\$100,000.
Retroactive expenditures	<p>Retroactive financing will be up to US\$15.0 million, in accordance with the following conditions:</p> <ul style="list-style-type: none"> <li>✓ Expenditures incurred, using World Bank Procurement Guidelines, and paid by MIDES within one year prior to the signing of the Loan Agreement.</li> <li>✓ Be subject to the same systems, controls, and eligibility filters described in this Annex. These expenditures will also be subject to the regular project external audit and independent verification, as needed.</li> </ul>

**Table 3.3. Disbursement Table**

Category	Amount of the Financing Allocated (US\$)	Percentage of Expenditures to be Financed (inclusive Taxes)
(1) Goods, Non-Consulting Services, Consultants' Services, Training and Operating Costs under Parts 1, 2 and 3 of the Project	43,000,000	100%
(2) Stipends under Part 3.1(c) of the Project	7,500,000	100%
(3) INADEH Training Payments under Part 3.1(c) of the Project	10,000,000	100%
(4) MITRADEL Intermediation Payments under Part 3.2(e) of the Project	14,500,000	100%
<b>TOTAL AMOUNT</b>	<b>75,000,000</b>	

20. Financial reporting and external audit: MIDES, through UEAF, will prepare semi-annual unaudited project Interim Financial Reports and annual financial statements. These reports will be prepared in US\$ using the standard formats agreed for projects implemented in Panama, and will

<sup>26</sup> For details, see the Disbursement Handbook for World Bank Clients.

<sup>27</sup> All SOE supporting documentation would be available for review by external auditors and Bank staff at all times during Project implementation, until at least the later of: (i) one year after the World Bank has received the audited Financial Statements covering the period during which the last withdrawal from the Loan Account was made; and (ii) two years after the Closing Date. The Borrower and the Project Implementing Entity shall allow the World Bank's representatives to examine these records.



include additional information corresponding to the Component 3 in format to be agreed prior to the first disbursement under that component. The MIDES will be responsible for submission of annually audited financial statements for the Project to be financed by Project funds. Such audits will be conducted by an independent audit firm eligible to the World Bank and based on the terms of reference acceptable to the World Bank. The main scope of the audits will be issuance of opinion on: (i) reasonability of financial information reported in Project financial statements; (ii) confirmation of the use of loan's proceeds for intended purposes; and (iii) validation of calculations of unit costs and payments, including stipends, made by MIDES to both co-implementing entities and directly to participants.

21. **In addition, Project payments financed under categories 2-4 (Component 3) will be subject to verification through preparation of quarterly Independent Verification Reports.** These reports will be prepared by an independent auditor with qualifications and experience, and under terms of reference acceptable to the World Bank, and their scope will be: (i) verification of compliance with selection criteria of participants established in the Project Operational Manual; and (ii) confirmation of the number of persons actually trained by INADEH, and participants that were successfully inserted and completed their MITRADEL program. The draft terms of reference on auditing will be agreed by the end of the first year of Project implementation. The audit reports will be subject to the World Bank policy on Access to Information. After loan effectiveness, the following financial reports will be presented to the World Bank:

**Table 3.4. Financial Reporting**

<b>Report</b>	<b>Entity</b>	<b>Periodicity</b>	<b>Due date</b>
Independent Verification Reports on compliance with selection criteria of participants and number of persons actually trained by INADEH, and participants that successfully completed their MITRADEL program.	MIDES	Quarterly	Within 45 after the end of each calendar quarter
Unaudited Interim Financial Reports	MIDES	Semi-annual	February 15 and August 15
Audited project financial statements, including validation of calculations of unit costs and payments, including stipends, made by MIDES to both co-implementing entities and directly to participants.	MIDES	Annual	June 30, or six months after the end of audit period

22. **Implementation support strategy.** Project supervision will monitor project FM arrangements and performance, identify corrective actions if necessary, and monitor fiduciary risks. Specific supervision activities include: (i) desk review of unaudited Interim Financial Reports and audit reports, with follow-up on any issues raised by auditors, as appropriate; (ii) participation in project supervisions at least twice a year to review, among other things, control systems and arrangements described in this assessment; (iii) update of the FM rating in the FM Implementation Support and Status Report as needed.

### **3.4. Procurement**

23. **Procurement for the proposed Project will be carried out by UEAF of MIDES, which reports to the Minister.** The organizational structure for implementing the Project was assessed

in April 2015. The procurement team is composed of two consultants (one procurement specialist and one assistant) with adequate capacity and experience with simple and low cost processes, which were most of the processes carried out in the previous Project.

24. **Procurement risk for the Project is rated Substantial.** Key issues and risks related to procurement for Project implementation include: (i) UEAF weak implementation capacity in comparison with the expected high workload; (ii) certain deficiencies in coordination between MIDES's technical area and UEAF; (iii) the intervention of the General Comptroller's Office prior to signature of contracts, which could cause delays, and (iv) local procurement regulations include practices that are not acceptable to the World Bank.

25. **A number of mitigation measures have been identified to respond to the risk.** Agreed upon corrective measures include: (i) maintenance by MIDES of its existing procurement staff to support Project implementation; (ii) hiring of three additional procurement analysts by MIDES with terms of reference and qualifications acceptable to the World Bank; (iii) hiring by MIDES of an international procurement specialist (full or part time, as needed), with terms of reference and qualifications acceptable to the World Bank, to coach and support UEAF procurement staff and contribute to quality control especially in high-cost contracts; (iv) implementation of the Project in line with a Project Operational Manual acceptable to the World Bank; (v) carrying out of procurement under National Competitive Bidding (NCB) procedures using bidding documents to be agreed with the World Bank; and (vi) inclusion of the following Special Procurement Provisions in the Loan Agreement:

- (a) Foreign bidders shall not be required to be registered with local authorities as a prerequisite for bidding.
- (b) No bids shall be rejected, and no provisional awards shall be made at the time of bid opening.
- (c) The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.
- (d) The invitation to bid shall not require mandatory attendance to a pre-bid meeting as a condition to bid.

26. **Procurement will be carried out in accordance with the provisions of the Loan Agreement, the Project Operational Manual, and World Bank Guidelines.** These Guidelines include the World Bank's "Guidelines: Procurement of Goods, Works and Non-Consulting Services Under IBRD Loans and Bank Credits & Grants" and "Guidelines: Selection and Employment of Consultants Under IBRD Loans and Bank Credits & Grants by World Bank Borrowers," both dated January 2011 revised July, 2014.

27. *Works:* the proposed Project is not expected to finance civil works contracts.

28. *Goods* to be financed under this Project include office materials, furniture, communication systems an equipment, among other related equipment and inputs. International Competitive Bidding procedures will be used for procurement of such good, with the exception of contracts estimated to cost below the equivalent of US\$500,000, which may be procured following NCB procedures.

29. *Non-consulting services* to be financed by the Project include survey work for household outreach and enrolment, survey services for evaluation activities, and other services. Contracts estimated to cost below US\$500,000 will be procured following NCB procedures. International Competitive Bidding procedures are not expected to be used.
30. *Bidding Documents*: International Competitive Bidding procedures will be followed for all contracts for Goods and Non-consulting services estimated to cost above US\$500,000. International Competitive Bidding will be bid using the World Bank's Standard Bidding Documents for Goods, and the World Bank Sample Bidding Document for the Procurement of Non-Consultant Services. Procurement using NCB procedures will be conducted using bidding documents to be agreed with the World Bank, which will be included in the Project Operational Manual.
31. *Shopping* will be permitted only for contracts for Goods and Non-consulting services estimated to cost below \$50,000.
32. Framework Agreements, implemented by the General Directorate of Public Procurement (*Dirección General de Contrataciones Públicas*) and acceptable to the Bank according to procedures set forth in paragraph 3.6 the procurement Guidelines, will be permitted only for contracts for goods and Non-Consulting services estimated to cost below US\$750,000.
33. *Consultant Services* to be financed under the Project will be focused on technical assistance consultancies for recertification strategies, verification of co-responsibilities, design and preparation of the FUR, revision of PMT, among other services. These services will be rendered either by firms or by individuals, as indicated in the Procurement Plan.
34. *Project Operational Manual*: All procurement procedures will be published on MIDES's web page and described in detail in the Project Operational Manual, which will include model bid evaluation reports and model reports for the preparation of short lists.
35. *Procurement Plan*: The Borrower, at appraisal, developed a procurement plan for Project implementation which provides the basis for the procurement methods. This plan was agreed between the Borrower and the Bank on August 3, 2015. The Procurement Plan will be published in the relevant procurement system required by the World Bank within 30 days of Loan Effectiveness. The Procurement Plan will be updated in agreement with the World Bank annually or as required to reflect the actual Project implementation needs and improvements in institutional capacity.
36. *Frequency of Procurement Supervision*: In addition to prior review supervision to be carried out from World Bank offices, the capacity assessment of the Implementing Agency has recommended annual supervision missions to visit the field to carry out post review of one out of five procurement actions.

## Details of the Procurement Arrangements Involving International Competition

### (i) Goods and Non Consulting Services

1. List of contract packages to be procured following ICB and direct contracting: (Not foreseen).
2. The following processes aimed at the procurement of Goods and Non-Consultant Services will be subject to prior review by Bank:
  - All contracts estimated to cost above \$500,000 for Goods and Non-Consultant services.
  - The first NCB process of Goods and Non-Consultant services regardless of the amount. All others contracts will be subject to procurement post review unless otherwise identified in the Procurement plan.
  - Direct contracting process estimated to cost \$10,000 for Goods and Non-Consultant services.
  - For all direct contracting that are prior review: the justification shall be submitted to the Bank jointly with the Procurement Plan, and the justification of the reasonableness of price along with the draft contract will be subject to prior review.

### (ii) Consulting Services

3. List of consulting assignments with short-list of international firms:

1	2	3	4	5	6
Ref. No.	Description of Assignment	Estimated Cost (US\$)	Selection Method	Review by World Bank (Prior / Post)	Expected Proposals Submission Date
1	<i>Red de Oportunidades:</i> Follow up survey and impact evaluation study	650,000	SBCC	Prior	May 2017
2	Program “120 a los 65”: Impact Evaluation Design, Survey and Study	650,000	SBCC	Prior	October 2016

4. The following Consultant Services processes are subject to prior review by the World Bank:
  - All contracts with Firms estimated to cost above US\$200,000. All other contracts will be subject to procurement post review unless otherwise identified in the Procurement plan.
  - All contracts with Firms estimated to cost below US\$300,000, the short list may be composed entirely of national consultants.

- Selection of Individual consultants estimated to cost above US\$100,000. All other contracts will be subject to procurement post review unless otherwise identified in the Procurement plan.
- For all direct contracting subject to prior review, the justification shall be submitted to the World Bank jointly with the Procurement Plan. The draft Request for Proposal shall be submitted to the World Bank for No Objection. The justification of the reasonableness of price along with the negotiated contract will be subject to prior review.

### **3.5. Social (including Safeguards)**

37. In terms of social safeguards, the Project triggers OP/BP 4.10 given the inclusion of indigenous peoples as one of the Project's beneficiary populations. An Indigenous Peoples Planning Framework (IPPF) has been prepared, broadly consulted with the twelve indigenous congresses of Panama and disseminated both in-country and on the Bank's website before appraisal.

38. The IPPF includes the potential impacts of the programs on indigenous peoples, a framework for ensuring free, prior and informed consultation with the affected indigenous peoples communities at each stage of project preparation and implementation, institutional arrangements for preparing Indigenous Peoples Plans (IPP) per indigenous community, monitoring and reporting arrangements and disclosure arrangement for IPPs to be prepared during implementation. These IPPs, during implementation, will be prepared by MIDES in coordination with delegates from indigenous community already assigned by each indigenous congress, in consultation with the indigenous women's networks and program beneficiaries. IPPs will include specific actions for MIDES CCTs in order to mitigate potential negative impacts and ensure cultural appropriateness. A draft social assessment, included in the IPPF, was prepared, describing demographic data, as well as knowledge gaps on indigenous peoples that would be completed at time of preparation of IPPs.

39. Beyond safeguards, this Project will also strive to enhance its mainstreaming of gender dimensions in response to beneficiary feedback, documented by the previous project's qualitative impact assessment. The feedback stated that the original project with *Red de Oportunidades*, which targeted women, failed to implement an empowering gender approach, by perpetuating women's roles as caretakers. The present Project intends to address this shortfall by strengthening its gender approach tailored to its diverse rural, urban and indigenous populations, by supporting women's roles as citizens, entrepreneurs and professionals as well as working with men and women in the development of an *economic empowerment plus* approach to economic empowerment and gender-based violence prevention. This approach will be mainstreamed across components and programs during implementation, especially under Component 2 and 3.

40. The Project will also develop a social inclusion plan during implementation to ensure that the MIDES three programs incorporate anti-discrimination measures. These will include the adaptation of the three MIDES CCTs to urban and rural afro-descendant beneficiaries, by (i) expanding coverage to areas with high afro-descendant populations (such as Colón, the Darien and Panama City), (ii) addressing statistical knowledge gaps that MIDES faces, (iii) establishing actions that will be incorporated to ensure culturally appropriate methodologies and (iv) proactively ensuring participation in program activities, eliminating any possible barriers to entry. Furthermore, this plan will also pilot basic anti-discriminatory measures related to diverse family compositions, sexual identity and program eligibility.

## Annex 4: Implementation Support Plan

### PANAMA: Strengthening the Social Protection and Inclusion System Project

#### Strategy and Approach for Implementation Support

1. **The design of the Implementation Support Strategy responds to the nature of the proposed Project components and its risk profile.** This Strategy seeks to ensure efficient implementation so that the Project Development Objective is achieved. The following areas and actions have been defined as part of the strategy:

- a. **Financial Management:** During implementation support, the World Bank's financial management specialist will routinely review the Project's financial management capacity, including but not limited to accounting, reporting, and internal controls to ensure that they are satisfactory to the World Bank. Special attention will be paid to financial flows and inter-agency financial transfers.
- b. **Procurement:** The World Bank's procurement specialist will work closely with the executing agencies and technical specialists to develop a detailed procurement plan. The Project will also provide resources to strengthen the capacity of UEAF to ensure that procurement is transparent, accountable, and timely. Special attention will be paid to the implementation of OBD mechanisms in Component 3.
- c. **Technical:** The implementation of technical components, especially Component 1, will be supported by technical specialists to ensure they are adequately carried out and to make sure the linkages across components are properly designed.

#### Implementation Support Plan

2. The Bank will conduct semiannual formal implementation support missions and field visits to monitor Project implementation. Detailed inputs from the World Bank team are outlined below.

- i. **Technical Inputs.** (i) technical experts and professionals to support the elaboration of terms of reference (consultant and non-consultant services); (ii) field visits to learn about other experiences and innovative and successful practices in Panama, Brazil, Argentina, and Chile in the areas of youth training, labor intermediation, and productive inclusion; and (iii) technical assistance on OBD contracts.
- ii. **Fiduciary Requirements.** During preparation, the World Bank team identified capacity-building needs for strengthening financial management capacity and improving procurement management. Support will be provided from the World Bank office in Washington, D.C. Formal implementation support of financial management reports and procurement will be carried out semiannually, while prior review will be carried out for contracts specified in the Procurement Plan as required.

3. **The Project will require the following annual implementation support during the first two years:**

**Table 4.1: Required Project Supervision**

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>	<i>Comments</i>
Senior Social Protection Specialist (TTL)	10	4	Oversight of the entire operation and supervision of technical and fiduciary aspects.
Social Protection Specialist	5	4	Support to supervision of Component 1 and 2.
Impact Evaluation Specialist	4	4	Supervision of the design and implementation of evaluation activities in Components 1 and 3.
Social Development Specialist	4	3	Support to Project implementation in Component 2.
Procurement Specialist	3	2	Support to the UEAF on relevant issues.
Financial Management Specialist	3	2	Support to UEAF on relevant issues.

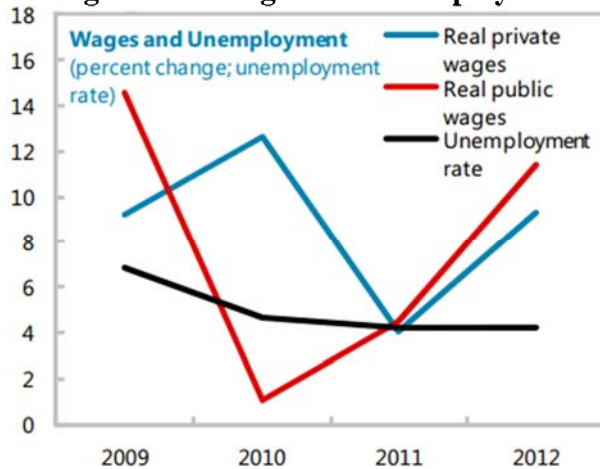
## Annex 5: Economic Analysis of the Project

### PANAMA: Strengthening the Social Protection and Inclusion System Project

1. **The estimated economic and financial impacts of the proposed Project center on the expected overall outcomes generated by the strengthening of the Government's social protection system and improved labor market outcomes.** Since traditional economic analysis tools such as estimation of the internal and external rates of return of specific sub-projects do not apply, the analysis focuses on quantifying the expected impacts of strengthening and adding a productive inclusion component to the safety net system on poverty, targeting accuracy, coverage of the poor, generosity, fiscal savings, and labor market impacts. Several outcomes will be influenced by the country's overall economy performance, over and above the changes in the distribution of social assistance transfers and productive inclusion.

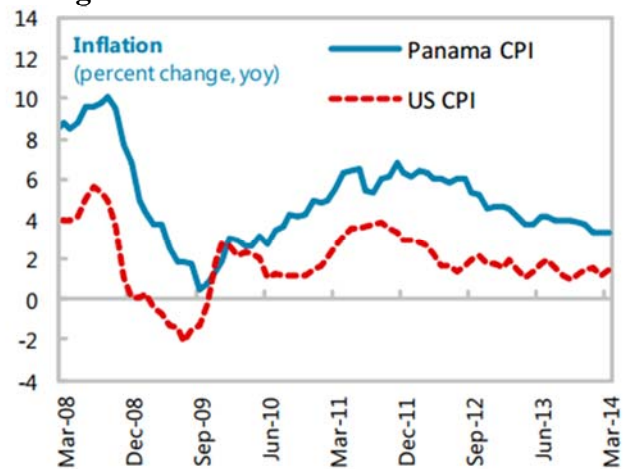
2. **The implementation period of the proposed Project coincides with a forecast of strong economic growth.** Real GDP growth averaged 7.2 percent between 2001 and 2013, more than double the Latin America and Caribbean region. Moreover, growth prospects for Panama are promising with projections for 2014-2019 between 6 percent and 6.5 percent based on additional traffic through the expanded Canal and expected high levels of public and private investment as the country expands its regional and global logistics position. Wages are expected to increase, especially in light of recent increases in minimum wages (2013) and public teachers' remuneration (2014).

Figure 5.1: Wages and Unemployment



Source: International Monetary Fund.

Figure 5.2: Inflation



3. **The targeting performance of *Red de Oportunidades (RO)* is on par with the best programs in the region in 2013 and will improve with the proposed Project.** The RO Program has been successful in applying a targeting mechanism to identify beneficiaries, which was utilized at the early stages of registration into the program. In August 2013, according to data from the National Household Survey, the program covered 41.4 percent of the extreme poor population of the country and 15.2 percent of the moderate poor. Moreover, 81.2 percent of the beneficiaries of the program live under Panama's poverty line (56.8 percent are extreme poor and 24.4 are moderate poor), while 73.1 percent of them lie on the poorest quintile of the income distribution.



The data shows that the program reaches 54 percent of households in indigenous areas, 17 percent of households in rural areas and 1 percent of households in urban areas.

**Table 5.1: Distribution of Benefits (Targeting Accuracy), 2013**

	Quintiles of per capita consumption, net of each SP transfer					
	Total	Q1	Q2	Q3	Q4	Q5
All social assistance	100.0	43.4	24.9	17.4	10.3	4.0
School Feeding	100.0	40.5	28.5	17.9	10.1	3.0
<i>Beca Universal</i>	100.0	34.2	25.8	21.6	13.5	4.8
<i>Red de Oportunidades</i>	100.0	73.1	19.4	5.5	1.4	0.5
<i>Bono familiar para alimentos</i>	100.0	85.9	9.3	4.6	0.0	0.1
<i>Suplementos alimenticios</i>	100.0	79.0	14.5	1.7	3.3	1.6
<i>Insumos agropecuarios</i>	100.0	36.3	29.2	13.2	14.0	7.3
<i>100 a los 70</i>	100.0	46.2	22.6	15.7	10.7	4.8

Source: World Bank ASPIRE based on Panama's *Encuesta Permanente de Hogares* 2013.

4. **The targeting accuracy and coverage of the overall social assistance system has room for improvement.** Some social programs in Panama, such as *120/65*, have inefficient targeting. This is a consequence of programs that not only use different targeting criteria, but also different mechanisms to select participants in the program. In fact, only 60 percent of the beneficiaries of *120/65*, a program aimed at the poor and vulnerable elderly, reach the poorest two quintiles, and as a result, almost 40 percent of the benefits are captured by the top three quintiles. The impact of non-contributory pension programs extends to the entire household, resulting in improvements in overall household well-being. Mexico's program, *70 y más*, showed that the majority of the (poor) elderly spend a significant portion of their income from the economic transfer to purchase food that is consumed by them and shared with the other members of the household.<sup>28</sup> Moreover the study showed that the transfer helps reduce the vulnerability of the elderly in general, and particularly, among women. Although the original intention of *120/65* was to alleviate the conditions of poverty and vulnerability among the elderly, in practice the program was implemented as a quasi-universal benefit due to poor targeting instruments. The only criteria for program exclusion is receiving another type of pension or retirement benefit. By 2020, the implementation of a single registry and PMT to evaluate beneficiaries' eligibility is expected to improve targeting accuracy for the *120/65*. As a result, coverage of the *overall* social assistance system will increase from 60 percent of the extreme poor in 2015 to at least 80 percent as the Project is implemented.

5. **Increasing *120 a los 65's* coverage and improving its targeting is expected to result in significant poverty reduction of the elderly population and their respective households.** According to the 2013 Household Survey (*Encuesta Permanente de Hogares*), 20 percent of

<sup>28</sup> Salinas Rodríguez et al 2014.

people aged 65 and older live under Panama’s poverty line. Based on Bronfman and Reyes,<sup>29</sup> Table 5.2 shows a simulation to estimate the impact of improving targeting of *120 a los 65* on poverty levels in the general population and among the elderly. First, the 2013 survey asks whether the individual receives *100 a los 70* (at that point in time, the benefit amount provided by the program was US\$100 per month and the age of eligibility was 70 instead of 65 years of age). The first step in our simulation was to increase the amount of the benefit to US\$120 and apply it to those individuals between 65 and 70 years of age. This latter coverage extension was done using the same program coverage by district observed for those 70 and older, assuming that geographic location of beneficiaries is a major determinant of program participation. This simulation increases the total number of beneficiaries of the program observed in the survey from 85,500 to 125,000 beneficiaries, in line with the actual increase expected in the program to cover the additional eligible population.

**Table 5.2 Observed and simulated distribution of beneficiaries for the non-contributory pension**

	Total	Q1	Q2	Q3	Q4	Q5
<i>100 a los 70</i> (observed)	85,571	28,731	26,621	19,209	7,105	3,905
<i>120 a los 65</i> (simulated)	125,239	38,992	34,897	26,597	14,261	10,492

6. **The increase in benefit amount and the extension of coverage of the program both already have an impact on poverty.** Therefore to estimate the effect of improved targeting of the program (which this Project will contribute to), we first need to state the simulated levels of total poverty and poverty among the elderly when a benefit such as the *120/65* is implemented. The following chart shows the observed poverty levels in the population and among those 65 and older with the program as it existed in 2013 and the simulated levels with the program as it exists today (benefit of US\$120 and eligibility age at 65). The increase in coverage and amount of the benefit has a significant impact on the level of poverty among the population 65 and older, reducing it by approximately 5 percentage points.

**Table 5.3 Observed and simulated poverty headcounts**

	Poverty headcount	
	Total	Among 65 and older
<i>100 a los 70</i> (observed)	25.50%	20.15%
<i>120 a los 65</i> (simulated)	24.64%	15.06%

7. **Improving targeting of *120 a los 65* is estimated to have a great impact on poverty among the elderly, potentially reducing it to levels close to 11 percent.** The effect of improving targeting accuracy for *120 a los 65* is simulated using two scenarios: (i) Moderate case, reducing

<sup>29</sup> Bronfman, J. and G. Reyes. 2015. *Panama 100 a los 70*, en Rofman, Apella, and Vezza (eds.) *Beyond Contributory Pensions: Fourteen Experiences with Coverage Expansion in Latin America*. World Bank.

by half the 120/65 beneficiaries in the richest two quintiles and an equivalent increase of beneficiaries in the first two quintiles; and (ii) Extreme case, where all individuals age 65 and older in the first two quintiles that do not participate in the program and do not receive any other pension are given the benefit, while an equivalent amount of beneficiaries from quintiles 3, 4 and 5 are taken out of the program. This simulation provides an upper bound on the effect on poverty that improved targeting may have. The distribution of beneficiaries changes as shown in Table 5.4. These impacts are beyond what is expected to have already been achieved by increasing the amount of the benefit and covering the population between 65 and 70 years of age. Poverty levels may be further reduced to levels below 24 percent for the overall population and to levels close to 11 percent for the population 65 and older. It is worth noticing that this poverty reduction may be achieved without additional cost for the program, except for the operational cost of implementing a recertification process.

**Table 5.4 Simulated distribution of beneficiaries for the non-contributory pension**

	Total	Q1	Q2	Q3	Q4	Q5
Base case	125,239	38,992	34,897	26,597	14,261	10,492
Improved targeting (Moderate)	125,691	46,130	41,417	18,696	8,730	10,718
Improved targeting (Extreme)	125,059	60,925	49,390	14,744	0	0

**Table 5.5 Estimated Impact on poverty of improved targeting for 120 a los 65**

	Poverty headcount	
	Total	Among 65 and older
Base scenario	24.64%	15.06%
Simulated improved targeting (Moderate)	24.41%	13.52%
Simulated improved targeting (Extreme)	23.93%	11.16%

8. **Red de Oportunidades has been successful at increasing school attendance and child health outcomes but needs to strengthen its capacity to achieve greater results.** The *Red de Oportunidades (RO)* program has been Panama's main strategy for reducing extreme poverty. The results of the program's impact evaluation indicate that the program has a positive impact on school enrolment of children five years or older as well as school attendance days of this group in urban, rural and indigenous areas. Moreover, the program showed positive impact in reducing for both acute diarrheal disease and acute respiratory infections in children under five, and in prenatal care of pregnant women in rural and indigenous areas. The data indicates that pregnant women participating in the program are more likely to attend prenatal care than those that are not beneficiaries.

9. **RO has positive impacts beyond the reduction in poverty.** Although the RO program has played an important role in poverty reduction in rural areas, without which income inequality

would have been greater, the impact evaluation carried out by the World Bank shows that there is room for improvement in monitoring and verification of co-responsibilities in both education and health if the program wants to achieve greater impact. In terms of education, incentives to remain in high school should be taken into consideration especially in areas with low enrollment rates and where girls in particular may have higher dropouts. In health, the program noted little impacts, mainly because the responsibilities are insufficient to generate changes in behavior patterns related to promotion and health prevention. The impact of RO in the *comarcas* seems limited by a lack of differential ethnic services for the various ethnic groups. In fact, locally tailored education and health services, such as multicultural bilingual education in indigenous areas or ensuring that health workers are equipped to work in different cultural contexts, is extremely important to ensure positive results. And, in terms of women's empowerment, the program had a positive effect in the urban area, but not in rural or indigenous areas.

**10. The benefits of the productive inclusion Component 3 is due to gains in labor market outcomes.** The benefits through training for MIDES Participants and MITRADEL Intermediation is expected to result in higher employment, formality and wages.<sup>30</sup> The economic effects of the productive inclusion component of the project can be estimated as the increase in the stream of lifetime earnings generated by the participation of beneficiaries in the intervention. The present value of earnings generated by participants can be calculated as follows:

$$VP = \sum_{i=1}^T \frac{p_i w_i N}{(1+r)^i}$$

where  $p_i$  is the proportion of participants that work in period  $i$ ,  $w_i$  is the average wage of participants in period  $i$ ,  $N$  is the total number of participants in the target population and  $r$  is the discount rate.

**11. The Project is expected to have two effects: increase the probability of working (effect on employability) and increase the expected earnings of those who work.** If this is the case, the expected effect of the program on the present value of earnings of participants can be estimated as:

$$\Delta VP = \sum_{i=1}^T N \frac{(\Delta p_i w_i + p_i \Delta w_i)}{(1+r)^i}$$

**12. International evidence on the effects of training programs for disadvantaged youth shows that participants increase their probability of being employed by 12 percent, and labor incomes increase by around 16 percent.** Evaluations from Latin America's *Jovenes* programs targeted to vulnerable youth suggest that programs that combine vocational and life skills training with an internship in private firms generate much larger net gains than those in developed

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<sup>30</sup> Betcherman, Gordon, Amit Dar, and Karina Olivas. Impacts of Active Labor Market Programs: New Evidence from Evaluations with Particular Attention to Developing and Transition Countries. Washington, D.C.: Social Protection, World Bank, 2004.

Card, D., Kluve, J., & Weber, A. (2010). "Active Labour Market Policy Evaluations: A Meta-Analysis". The Economic Journal, 120(548), F452-F477.

countries.<sup>31</sup> Calculating that the average salary of an employed RO beneficiary between 17 and 24 years old is US\$340 a month (*Encuesta Permanente de Hogares* 2013), those participants who undergo training and retain or find a new job are expected to make on average US\$394.5 a month, about US\$54.5 more a month than before they participated in training. At the same time, an estimated 20 percent of RO beneficiaries between 17 and 24 years of age work. The 12 percent increase in probability of being employed would increase this percentage to 22.4 percent of individuals.

**13. Using reasonable parameters and assumptions on the effects of the program on earnings and employability yields significant positive economic returns for participants.** If 20,000 thousand young RO beneficiaries participate in the INADEH training programs, an estimated 4,000 of them correspond to individuals who would have worked in the absence of the program and for whom the intervention has an impact on the intensive margin (16 percent expected increase in monthly wages). The effect on the extensive margin would add an additional 480 beneficiaries to the pool of employed individuals. The estimated present value at the extensive margin is calculated as a permanent effect of an increase of 16 percent on wages for 20 years (half the expected active life of the individual), while the extensive margin is calculated as the additional income generated by the 480 new workers over five years (this assumes that the program has an effect on generating new workers within the young age group, but it does not have a permanent effect on the probability of employment at older ages). Using a five percent discount rate, these calculations generate an estimated return of US\$41 million for the training sub-component. Moreover, 7,000 RO beneficiaries are expected to participate in PAIL and *ProJoven*. If 80 percent of these participants stay on or obtain another job and make at least minimum wage, the intermediation sub-component has an estimated return of US\$30.24 million. Overall, the Project has an estimated return of US\$71.24 million from its training and intermediation component, which given the investment of US\$33 million results in a Net Present Value of US\$38.2 million.

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<sup>31</sup> Attanasio, Orazio, Adriana Kugler, and Costas Meghir. 2011. "Subsidizing Vocational Training for Disadvantaged Youth in Colombia: Evidence from a Randomized Trial." *American Economic Journal: Applied Economics*. 3, no. 3: 188-220.

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