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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

AND MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF PANAMA

FOR THE PERIOD FY15-FY21

March 2, 2015

**Central America Country Unit
Latin America and the Caribbean Region
The International Finance Corporation
Multilateral Investment Guarantee Agency**

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ABBREVIATIONS AND ACRONYMS

CAF	Development Bank of Latin America
CLR	Completion and Learning Review
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CPSPR	Country Partnership Strategy Progress Report
DPL	Development Policy Lending
DRM	Disaster Risk Management
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MEF	Ministry of Economy and Finance
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprises
RAS	Reimbursable Advisory Services
SCD	Systematic Country Diagnostic
SDP	Strategic Development Plan
SME	Small and Medium Enterprises
TA	Technical Assistance
US	United States
WBG	World Bank Group
WSS	Water and Sanitation Services

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TABLE OF CONTENTS

I. INTRODUCTION.....	1
II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA.....	2
Growth, Poverty and Shared Prosperity.....	2
Recent Economic Developments	7
Key Challenges and Constraints to the Twin Goals	9
III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK	13
A. Selectivity Filters	13
B. Proposed WBG Partnership Framework	15
Pillar 1: Supporting Continued High Growth	18
<i>Objective 1: Support enhanced logistics and connectivity</i>	19
<i>Objective 2: Increase reliability of energy supply</i>	21
<i>Objective 3: Improve budget management transparency</i>	23
Pillar 2: Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups.....	24
<i>Objective 4: Complement social assistance with productive inclusion</i>	26
<i>Objective 5: Improve access to water and sanitation services</i>	30
Pillar 3: Bolstering Resilience and Sustainability.....	31
<i>Objective 6: Strengthen resilience to natural disasters</i>	32
<i>Objective 7: Support integrated water resources management in priority areas</i>	33
C. Implementing the FY15-21 CPF	35
IV. MANAGING RISKS TO THE CPF PROGRAM.....	37
 <u>Boxes</u>	
Box 1: The Panama Canal.....	3
Box 2: Poverty Reduction and Shared Prosperity Trends in Panama.....	4
Box 3: The <i>Comarcas</i> in Panama	6
Box 4: Panama’s Social Protection Programs	7
Box 5: WBG On-going Portfolio and Technical Assistance, as of February 10, 2015	17
Box 6: Indigenous Peoples’ National Development Plan.....	25
Box 7: Opportunities for Further World Bank-IFC-MIGA Support to Tackle Panama’s Development Challenges	35
 <u>Figures</u>	
Figure 1: Per capital income	4
Figure 2: Poverty in LAC & Panama.....	4
Figure 3: Shared Prosperity Across Panama.....	4
Figure 4: Gini Coefficient in Panama & LAC	4
Figure 5: Middle Class in Panama & LAC.....	4
Figure 6: Datt-Ravallion Decomposition of Poverty Changes	4
Figure 7: Developing the CPF: Filtering Process to Define Objectives	13
Figure 8: Government’s 2014-2019 Strategic Development Plan.....	14
Figure 9: SCD Priority Areas.....	14
Figure 10: WBG CPF Areas of Engagement.....	18

Tables

Table 1: Key Economic Indicators in Panama 2008-2018 8
Table 2: Risk in Panama 37

Annexes

Annex 1 CPF Results Monitoring Matrix
Annex 2 Monitoring and Evaluation of the CPF Results Framework
Annex 3 Selected Indicators of Bank Portfolio Performance and Management
Annex 4 Operations Portfolio (IBRD and Grants)
Annex 5 IFC Committed and Disbursed Outstanding Investment Portfolio
Annex 6 Features of Panama’s 2014-2019 Strategic Development Plan
Annex 7 Panama Country Partnership Strategy Completion and Learning Review FY11-14

I. INTRODUCTION

1. **Panama's economic growth has been at the top of the Latin American and Caribbean (LAC) region in recent years.** Real GDP growth averaged 7.2 percent between 2001 and 2013, more than double the LAC average, and the country was an outlier in terms of post-crisis recovery with higher growth after the crisis than before. This exceptional growth performance stems from a number of factors including the transfer of the Panama Canal in 1999, and high rates of public and private investment, including foreign direct investment (FDI).

2. **The country's rapid growth has been largely pro-poor and translated into significant poverty reduction.** Between 2007 and 2012, poverty (using the national poverty line) declined from 39.9 percent of the population to 26.2 percent, and extreme poverty from 15.6 percent to 11.3 percent. Thus, of a population of about 3.6 million people, the number of Panamanians living below the national extreme poverty line decreased by slightly more than 150,000 people and those living below the moderate poverty line, by close to half a million between 2007 and 2012. During the same period, income growth of households in the bottom 40 percent of the population increased 8.2 percent compared to the average per capita income, which only rose by 6.6 percent.

3. **Despite these remarkable gains on the poverty and shared prosperity fronts, challenges remain.** Poverty in Panama is a rural and indigenous territories phenomenon. While in urban areas extreme poverty is below 4 percent, in rural areas it is about 27 percent. Moreover, in the Indigenous Peoples' territories, the *comarcas*, poverty is above 70 percent and extreme poverty above 40 percent. Despite strong and fairly inclusive growth at the national level, differing rates of poverty reduction have led to the poor becoming more concentrated in specific geographic areas.

4. **Looking ahead, the country's main challenges are to maintain the current growth performance and ensure that its benefits are extended to all.** Growth prospects for Panama are promising in the near-term with projections for 2014-2019 between 6 and 6.5 percent based on additional traffic through the expanded Canal and expected high levels of public and private investment. However, over the longer-term, a number of factors could slow growth if left unaddressed, including: infrastructure, specifically the inability of the energy sector to keep pace with growth; education and a shortage of skilled labor; and weak public sector institutions. As for ensuring that growth becomes even more inclusive, existing policies and social programs can become more effective in reaching rural and Indigenous Peoples, Afro-descendants and other poor segments, while at the same time promoting productive inclusion and the employability of the poorest groups so that all Panamanians are able to benefit from and contribute to an equitable growth process. Finally, maintaining growth requires the careful management of fiscal and environmental risks, including climate change effects.

5. **The new Administration is well placed to tackle these challenges, with its commitment to maintaining an open and diversified economy and redressing social imbalances.** The new Government took office on July 1, 2014, with President Juan Carlos Varela running on an anti-corruption platform of restoring credibility to the country's democracy and institutions and improving the efficiency of Government. The Varela Administration has also committed to upgrading quality of life through better access to services and expanding economic opportunities for the poor. To this end, it has allocated US\$2.3 billion of the 2015 budget to social programs, or 12 percent, and has already delivered on some of its election pledges related to food security and

social subsidies within its first 100 days in power.

6. **The World Bank Group’s (WBG) new Country Partnership Framework (CPF) seeks to support Panama’s continued high growth, while ensuring inclusion and opportunities for marginalized groups, and bolstering resilience and sustainability.** These themes are highlighted as priorities in the Government’s 2014-2019 Strategic Development Plan (SDP) and in the WBG’s Systematic Country Diagnostic (SCD). The CPF seeks to maximize over a six-year period, the comparative advantages of the WBG, through packages of innovative public and private financing options based on cutting edge global knowledge and experience.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Growth, Poverty and Shared Prosperity

7. **Over the past decade, Panama has been one of the fastest growing economies in the world.** Its exceptional growth performance stems from a number of factors. The SCD, carried out in the second half of 2014, highlighted the various factors driving the country’s strong growth. The transfer of the Canal to Panama in 1999 allowed the country not only to benefit from the growth of world trade, but also to leverage its geographical position to transform itself into a well-connected logistics and trade hub and a financial center. To do this, Panama launched a public infrastructure program comprising more than 100 projects, resulting in an increase in the share of public investment in GDP from 3.1 percent in 2001 to 9.5 percent in 2013. In parallel, Panama has been successful in attracting private investment, including FDI, into the services sector (including construction, the Canal and the Colon Free Zone, and financial services). As a result, Panama’s real growth since 2001 has been more than double the average for LAC and it has solidified its position as the most competitive economy in Central America, and second only to Chile in the region.¹

8. **Panama’s growth has been, for the most part, inclusive and resulted in significant poverty reduction.** Using a US\$4 a day poverty line, moderate poverty declined from 33.5 percent of the population in 2007 to 20.9 percent in 2012². In comparison, poverty declined in the LAC region from 32.2 percent to 25 percent over the same period, respectively. Similarly, extreme poverty (using a US\$2.5 poverty line) declined from 19.2 percent to 11.8 percent between 2007 and 2012, compared to a decline in the region from 17 percent to 12 percent. Extreme poverty, as measured by the international US\$1.25 poverty line (used by the WBG to measure progress towards the twin goals) would be 4 percent. These declines were accompanied by a significant increase in the middle class. When measured as the share of the population with incomes between US\$10 and US\$50 a day, the Panamanian middle class increased by about 10 percentage points from 29.7 percent in 2007 to 39.7 percent in 2012 and is now the largest group in the country. Panama also performed well on shared prosperity. As noted above, average per capita income grew by 6.6 percent between 2007 and 2012, whereas the average incomes of the bottom 40 percent of the population rose 8.2 percent. These statistics indicate that not only has growth had a clear bias towards the bottom 40 percent, but also that the increase in their incomes has been significant: at

¹ World Economic Forum report, 2014.

² The poverty discussion focuses on 2007-2012 for reasons of data comparability pre-2007.

this rate, the incomes of the poor would double every nine years. Within the LAC context, only Bolivia saw greater income growth among the bottom 40 percent of the population.

Box 1: The Panama Canal

The US built the Panama Canal from 1904 to 1914 and managed it until its transfer to Panama. In 1977, Panama and the US signed the Torrijos-Carter Treaties laying the foundation for the return of the Canal to the Panamanian Government, which became effective on December 31, 1999. Since then, the Canal has been managed by an autonomous Government agency, the Panama Canal Authority, widely recognized for its institutional capacity and efficient management.

The Canal has allowed the country to benefit from rapidly increasing world trade. Transshipment of goods with origin and destination to China has surged and the increases in revenues from the Canal between 2006 and 2013 are significant. During this period, the value of trade that passed through the Canal increased by 16 percent, from US\$374 billion to US\$434 billion. The increase in trading volumes and passages led to an increase in collected tolls from US\$580 million to US\$1.847 billion, and in non-tax revenue to the Government from 1.7 to 2.4 percent of GDP.

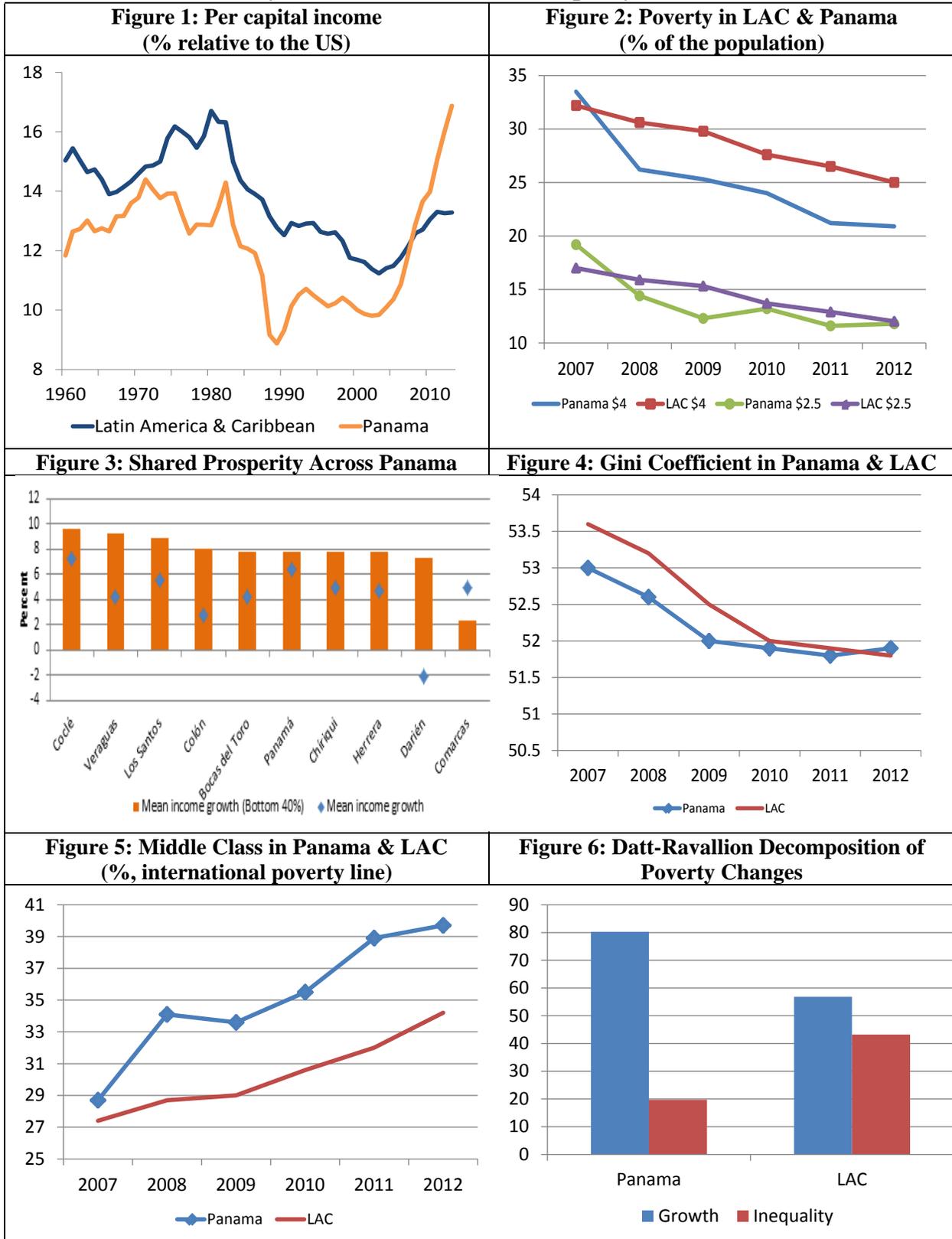
The resilience of Canal revenues is due both to the variety of goods going through the Canal as well as a proactive fee policy by the Canal Authority. The main types of cargo passing through the Canal are grains, oil and containers carrying different types of manufactured goods and minerals. To remain competitive, the Canal Authority regularly adjusts its fees, which are based on volume and weight of the cargo. As a result, revenues have continuously increased even in years when total cargo was declining. The variety of goods as well as the adjustments in fees has thus decoupled revenues from the price movements of any one good. Moreover, the Canal Authority regularly assesses alternative shipping routes as potential competition for the Panama Canal and takes these into account in its pricing and risk management models.

The Canal has affected the Panamanian economy both directly and indirectly. Canal operations have generated public revenues, employment and services. The expansion works, the largest infrastructure project in the country, also contributed to the recent spur of growth. The Canal also vested Panama with a strong locational advantage that the country has leveraged into a strategy of transforming it into a regional hub for a variety of complementary economic activity, including transshipment and commerce, air travel and financial services. Greater connectivity with the rest of the world is, in turn, facilitating a rapid expansion of tourism.

Climate change and more extreme weather including longer drought years could affect the operations of the Panama Canal. As early as last year, the Canal Authority was at the point of limiting traffic on the Canal because the continuous supply of water needed to operate the Canal was severely reduced as a result of the drought. Conservation of upstream watersheds in the Panama Canal Basin and Lake Gatun and improved management of water resources are critical to ensure the functioning of this critical infrastructure.

9. **Growth has also been accompanied by declines in income inequality, benefiting vulnerable groups.** A number of vulnerable groups significantly benefited from growth, including the poor, female-headed households, and the unskilled. In particular, the percentage of female-headed households that escaped poverty between 2007 and 2012 (14 percent) was higher than the percentage of male-headed households escaping poverty (12.3 percent). Today, the difference in the poverty rates between female and male headed households is less than 1 percent (2.6 percent in 2007). And while the bulk of net new jobs required completed secondary education or higher, 11.5 percent of new jobs were for unskilled labor with primary or incomplete secondary education.

Box 2: Poverty Reduction and Shared Prosperity Trends in Panama



10. **There has also been substantial progress on non-monetary indicators of welfare and access to services.** As documented in the SCD, life expectancy has risen steadily. The country has met the Millennium Development Goal of reducing child mortality and malnutrition rates have declined. Progress has also been made on measures of welfare related to service access. Enrollment in education has increased at all levels since 1990, with the biggest gains seen at the pre-school and tertiary levels. The average years of schooling of the population have increased by 1.6 years since 1990 and 0.1 years since 2005. Access to running water in a dwelling increased from 84 percent in 2000 to 94 percent in 2010, electricity access rose seven percentage points (a smaller number given the higher starting point) and access to sanitation, while still limited, rose from 60 to 72 percent between 2005 and 2010.

11. **The poverty decline stemmed mainly from increases in labor income.** The Panama SCD indicates that economic growth has been responsible for about 80 percent of the observed declines in poverty with inequality reduction being responsible for the remainder. At the practical level, labor income was the key driver of both poverty and extreme poverty reduction in urban areas, through the increase in jobs and employment. Indeed, in 2013, the employed labor force in Panama was 66 percent higher than in 2001, an increase that far exceeds those of peer countries. For example, the corresponding increase among the structural peer countries was 17 percent while in Central America as a whole it was 44 percent. Notably, in LAC, female labor income was a primary driver of a decline in extreme poverty between 2000 and 2010³. During this same period, Panama experienced the highest increase in female labor force participation in LAC, notably in the poorest groups. Among the lowest quintile of income distribution, female labor force participation increased by 76 percent, compared to 20 percent in the highest quintile.

12. **Yet, social spending, which increased in real terms, has also benefitted the poor.** Even though growth has carried more weight as an engine of poverty reduction at the national level, the reduction of poverty and extreme poverty in rural areas has been driven primarily by government transfers. Indeed in these areas, in the absence of government transfers, extreme poverty would have increased. This implies that while existing social programs are in fact having a positive impact on poverty reduction, they are not sufficient to ensure that the poor are connected to the growth process.

13. **Despite these recent positive trends in poverty and shared prosperity in Panama, certain segments of the population continue to live in vulnerable conditions.** Even though growth at the aggregate level has been largely pro-poor and inequality has declined, not everyone has shared equally in Panama's prosperity. The bias of recent growth towards the bottom 40 percent of the population is also reflected in the evolution of the Gini index, which declined between 2007 and 2012 by 1 percentage point. Yet the national Gini index of 52 demonstrates that significant economic differences persist in the country. This is evident when regional poverty rates are compared. The poorest areas in the country are the *comarcas*, and in the poorest *comarca* with the largest population, *Ngabe Buglé*, poverty rates reach 93 percent and extreme poverty is 83 percent. And contrary to the evolution of income inequality at the national level, the regional differences have become more marked in the past few years as growth in the *comarcas* was lower than the national average. To compound this problem, the bottom 40 percent in the *comarcas* fared worse than the average individual there: income growth of the bottom 40 percent was only 2.4

³ Poverty and Labor Brief, 2012.

percent between 2007 and 2012, significantly lower than the average income growth in the *comarcas* of 5 percent.

Box 3: The *Comarcas* in Panama

Panama is home to seven Indigenous ethnic peoples with distinct cultural identities and governance structures. The majority of Indigenous Peoples in Panama live in five semi-autonomous regions called “*comarcas*” and in collectively owned territories and communities that are within close proximity of the *comarcas*. Many Indigenous communities are awaiting territorial recognition and community titling, while others have migrated to urban areas in search of economic opportunities. The 2010 census indicates that 196,059 Indigenous Peoples live in *comarcas*, while 221,500 live in other areas. The Indigenous Peoples are represented by their own traditional governance structures (ten Congresses and two Councils). The Indigenous Congresses and Councils represent the communities and coordinate closely with their traditional leaders and elders. While the *comarcas* are extremely low income areas, they are sizeable, making up 22.2 percent of the country’s area or 16,634 km² and comprise some of Panama’s richest natural and water resources, biodiversity and cultural diversity. They are also areas of very high potential in terms of tourism, sustainable agriculture, and water resources.

14. There are big gaps between the extremely poor and the rest of the population across many dimensions, including access to basic services, such as water, sanitation and electricity.

The heads of extremely poor households in Panama have 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. These households also have much higher dependency ratios: for every worker in an extremely poor household, there are 2.2 dependents compared to the national average of 1.3 dependents per household. Access to basic services remains low in rural areas. While 92.9 percent of non-indigenous Panamanians have access to water, although not on a continuous basis, and 65 percent to sanitation services, coverage for Indigenous Peoples drops to 60 percent and 20 percent, respectively. Given the disparities in access to services, not surprisingly, outcomes also differ across the population. In 2013, life expectancy in the *comarcas* was estimated to be between 7 and 9 years lower than in the rest of the country. Maternal mortality ratios in the regions where the majority of Indigenous Peoples reside (*Guna Yala, Ngabe Buglé*) stand at 297 and 189 deaths per 100,000, well above the national average of 82. The burden of diarrheal illness in children falls disproportionately on rural and, especially, indigenous households and is estimated to cause 130 premature deaths and 1 million cases of diarrhea in children under five each year. Finally, children in *comarcas* are more likely to drop out of school than either their rural or urban counterparts: at age 18, only 39 percent of children in the *comarcas* are in school compared to 47 percent in rural areas and 69 percent in urban centers.

15. Although growth has generated jobs in recent years, youth and social protection beneficiaries face particular labor market difficulties.

The youth unemployment rate of 8.1 percent in 2012 was nearly three times the national average at 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. Participation declined especially among males (45.7 percent in 2014) and those in urban areas (43.7 percent). Youth unemployment in 2014 had risen to 10.3 percent, especially among those graduates from secondary education (14.8 percent), reflecting slower economic growth but also a mismatch between skills demanded in the market and those produced

in the education system.⁴ Beneficiaries of social protection programs, such as *Red de Oportunidades*⁵, despite educational attainment gains after participation in the program, also tend to be unable to find employment due to limited training and skills. Key causes of unemployment include high drop-out rates from secondary education (over 40 percent in 2011) and poor educational quality (stemming in part from outdated curricula).⁶

Box 4: Panama's Social Protection Programs

Panama has phased in a series of programs in recent years of which the conditional cash transfer program, *Red de Oportunidades*, was the first and is the largest. It consists of four components: (i) transfers to beneficiaries contingent on enrollment of children in school and use of preventative health care services; (ii) provision of health and education services required by beneficiaries; (iii) support to families in accessing such services; and (iv) infrastructure improvement. The cash transfer is designed to mitigate poverty today and, by increasing human capital, reduce poverty in the future. The *100 a los 70* non-contributory pension program provides a pension to all elderly persons who lack another pension. In 2014, this was modified to provide US\$120 to all persons 65 and older. The *Beca Universal*, or universal education benefit, provides cash transfers to families to encourage primary and secondary school attendance. The benefit is given contingent on a student attending school for a given number of days and maintaining a minimum grade level. The program started as an effort to lower secondary school drop-out rates, but has since been expanded to primary school. Finally, the program *Ángel Guardián* began operating in 2013 to provide social assistance to an estimated 55,000 people with severe disabilities in poverty or vulnerable conditions.

Recent Economic Developments

16. **Panama's growth performance has benefited from a stable macroeconomic environment.** Macroeconomic stability in Panama is based on full dollarization, fiscal policy that follows a fiscal rule, and a healthy banking sector. Dollarization dates back to a monetary convention signed with the US following Panama's independence from Colombia in 1903 and coinciding with the start of construction of the Panama Canal. Given the lack of independent monetary policy, fiscal policy plays a crucial role in stabilizing the economy. To this end, Panama adopted a Fiscal and Social Responsibility Law in 2008 that mandates fiscal deficit ceilings to help maintain fiscal prudence, currently 2 percent for 2015.

17. **High growth, combined with prudent fiscal policy, has resulted in declining ratios of public debt to GDP during the last decade, and Panama's risk of public external debt distress is low.** Panama has had a track record of prudent fiscal policy, reducing its debt to GDP ratio from 66 percent in 2005 to 39 percent in 2013. A Debt Sustainability Analysis was undertaken by the IMF in June 2014 highlighting that under a number of alternative scenarios, public debt dynamics are sustainable even in the presence of significant shocks. The debt to GDP ratio is expected to peak at 39.1 percent in 2014 but continue its gradual decline to 31.3 percent by 2018. Reasons for the widening of the fiscal deficit in 2014 included the electoral cycle and additional spending on road infrastructure, metro rail subsidies, energy subsidies and bills approved by the previous administration before leaving office end June 2014. The overestimation of tax revenues during the

⁴ "Situación Laboral de los jóvenes." Labor Market Study. March 2014. Ministry of Economy and Finance.

⁵ A social protection program that provides conditional cash transfers to poor and extreme poor families with co-responsibilities in health and education.

⁶ World Bank (2014) Social Sector Expenditure and Institutional Review.

budgeting process further exacerbated the slippage. External public debt and interest payments are also projected to decrease in line with the reduction in the overall stock of public debt. To encourage the development of the domestic capital market, the Government has progressively increased local debt issuance, contributing to Panama achieving investment grade in 2010. The Fiscal and Social Responsibility Law features a special provision allowing the deficit to exceed the mandated ceiling if the Canal's contribution is lower than expected. Thus, even if fiscal consolidation is slower than expected, the overall trend in the reduction of the debt to GDP ratio will continue, albeit at a slower rate.

Table 1: Key Economic Indicators in Panama 2008-2018

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP (%)	7.5	10.9	10.8	8.4	6.2	6.2	6.4	6.5	6.5
CPI Inflation (eop) (%)	4.9	6.3	4.6	3.7	2.4	2.5	2.7	2.9	2.9
Savings and investment									
Gross national savings	13.3	10.6	17.0	17.2	18.0	17.5	18.8	18.5	18.1
Gross fixed investment	23.9	25.6	27.1	28.5	28.2	27.7	27.4	26.9	26.1
Fiscal accounts									
Central government									
Total revenues (including grants)	17.3	16.7	17.1	16.2	14.6	14.1	14.3	14.6	14.8
Current revenue	16.8	16.6	17.1	15.9	14.5	14.1	14.3	14.6	14.8
Tax revenues	10.7	10.7	11.7	11.4	10.2	10.5	10.5	10.5	10.4
Nontax revenues	6.1	6.0	5.4	4.6	4.4	3.6	3.7	4.2	4.4
<i>o/w Panama Canal fees and dividends</i>	2.8	3.1	2.7	2.3	2.2	2.1	3.1	3.7	4.7
Capital revenue	0.5	0.0	0.0	0.3	0.1	0.0	0.0	0.0	0.0
Total expenditure	19.7	20.1	19.8	20.4	18.8	18.3	17.8	16.8	16.4
Capital expenditure	6.9	7.6	7.8	9.1	7.1	6.3	6.1	5.3	4.8
Primary Balance	0.1	-1.1	-0.8	-2.3	-2.4	-2.1	-1.3	0.0	0.6
Overall Balance	-2.4	-3.3	-2.7	-4.2	-4.2	-4.2	-3.5	-2.2	-1.5
Nonfinancial Public sector									
Overall Balance (excluding ACP)	-1.7	-2.0	-1.4	-2.8	-3.6	-1.9	-1.2	-1.0	-0.5
Overall Balance (including ACP)	-3.3	-4.1	-3.1	-4.7	-4.9	-3.6	-3.0	-2.1	-0.9
External sector									
Current Account Balance	-10.7	-15.0	-10.0	-11.3	-10.2	-10.2	-8.6	-8.4	-8
Trade Balance (of goods)	-17.5	-22.5	-18.7	-19.1	-18.6	-18.1	-17.5	-17.0	-16.5
Net exports from Colón Free Zone	1.7	0.8	1.4	3.2	2.0	1.6	1.5	1.5	1.5
Services Balance	12.3	11.8	13.6	11.8	12.3	12.3	13.3	13.4	13.3
Net factor income	-8.8	-5.9	-6.8	-7.3	-5.9	-6.0	-5.8	-6.1	-5.7
Net current transfers	0.5	0.6	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Foreign direct investment	8.4	8.8	8.3	10.3	8.6	8.4	8.2	7.9	7.0
Total Public Debt*	41.4	41.2	40.3	39.0	39.1	38.6	36.4	34.0	31.3
GDP (in millions of current US\$)	28,814.10	33,270.50	37,956	42,648.1	47,459	52,565	57,941	63,867	70,399

Source: Ministry of Finance Update as of January 12, 2015, INEC, IMF and World Bank staff calculations. Unit is % of GDP unless otherwise specified.

Note: Nominal GDP numbers correspond to a base year of 2007 and are based on latest Government projections. ACP = Panama Canal Authority. * Total Debt of Non-Financial Public Sector including ACP and net of non-governmental assets formerly helped by the Fiduciary Fund.

18. **The financial sector in Panama is widely regarded as healthy and sound.** In particular, the financial sector weathered the 2009 global economic and financial crisis very well, proving its resilience. Most banks in Panama are well capitalized, profitable and liquid with non-performing

loans at very low levels. Compared with other LAC countries such as Chile, Costa Rica and Mexico, Panama has the most profitable banks. Moreover, since 2009, the financial sector has been implementing a number of reforms based on the 2011 IMF and World Bank Financial Sector Assessment Program report, with a focus on strengthening financial safety nets and enhancing financial supervision and compliance with international standards (money laundering grey list, and Global Forum on international tax information sharing peer review process phase one). The Panamanian Superintendency of Banks is very proactive in taking actions related to international deleveraging and defaults that could impact Panama.

19. **Inflation is likely to remain below 3 percent for the next three years due to a reduction in oil and food prices.** As a fully dollarized economy, interest rates and Panama's money supply react mainly to developments in the banking system. Inflation has decreased as food inflation eased, decelerating from 4.6 percent in 2012 to 3.7 percent in 2013 and to 2.4 percent in 2014. As of end 2014, the food component of inflation (representing 32.3 percent of the consumer price basket) contributed 1.9 percent to headline inflation, led by higher prices for meat, bread and grains, and milk, while prices for fruits, vegetables and sugar decelerated. Nonetheless, food price inflation was mitigated by low inflation rates in transportation, housing services and diverse goods.

20. **The country's current account deficit has widened in recent years to 11.3 percent of GDP, but is expected to level out.** Panama's high investment rates (29 percent of GDP in 2013) and the excess of investment over savings (17 percent of GDP in 2013) are reflected in the current account balance. The external deficit, which is largely financed by FDI, is projected to level out at an average of 9.1 percent between 2014 and 2018. Also contributing to the current account deficit is the decline in Panama's exports, particularly within the Colon Free Zone, at a time when imports, mostly of investment goods and raw materials, surged. The export decline is due in part to foreign exchange constraints and economic developments in key markets, such as Venezuela.

Key Challenges and Constraints to the Twin Goals

21. **Panama is well positioned to continue making progress towards the twin goals thanks to both growth prospects and the renewed attention of the Government to inclusion.** In the short- to medium-term, Panama's growth is likely to remain one of the highest in LAC at between 6 and 6.5 percent. Public investments should also remain high, with the planned construction of the second Metro line and the additional traffic generated by the expanded Canal and there is no indication of a downturn in private investment. Prospects for high growth in the coming years are also supported by emerging opportunities for private sector-led growth in key sectors, such as transport and logistics associated to the Canal expansion, mining, financial services, and tourism. Moreover, the continued stable macroeconomic environment and recent moves by the Government to ensure that the banking sector meets international standards will also continue to make Panama an attractive country for FDI.

22. **Yet sustaining growth over the medium- to long-term will require addressing some structural constraints that may become binding as the country continues developing.** The SCD has identified a number of priority structural areas that, if left unaddressed, could hamper growth in the coming years, including: (i) infrastructure; (ii) education and skills; and (iii) the effectiveness of public institutions.

23. **The infrastructure stock has improved in recent years, but certain components continue to lag.** Overall infrastructure has improved, boosted by the Government's ambitious public investment projects, such as the Panama City-Colon highway, the first Metro line in Panama City, and upgrades to airports. As a result, Panama is ranked one of the most competitive countries in LAC on infrastructure. But certain infrastructure components appear to have lagged behind. This is particularly the case in the energy sector, which has not been able to keep pace with the growing demand of the economy – let alone expanding to underserved areas – resulting in energy shortages during the dry season and forcing the Government to put emergency response measures in place, impacting electricity prices. This not only jeopardizes the sustainability of energy supply, but, together with the energy subsidies, also leads to high fiscal costs.

24. **While Panama has made some gains in education in recent years, the transformation and modernization of the economy has exposed weaknesses in both the coverage and quality of secondary and tertiary education.** The demand for highly educated workers is strong with firms in Panama highlighting quality secondary and vocational education as a binding constraint for the business environment. Yet the country faces significant drop-out rates at the secondary level. The expected growth in demand for highly skilled workers may not benefit Panamanians if those with the required skills are not available. Therefore, the inclusiveness of economic growth depends on the composition of the demand for labor and on the improvement in human capital of the labor force over the next decade.

25. **There is also an obvious mismatch between the increasing sophistication of Panama's economy and the effectiveness of its public institutions.** Challenges are most marked in relation to transparency, efficiency, and the adequacy of the regulatory framework. Enforcement of regulation can be a key impediment, especially in new potential growth areas, including mining and high-demand areas, such as energy generation and transmission. Government practices seem to lack transparency overall and Panamanians perceive their Government to be more corrupt in recent years than in earlier periods, according to Transparency International's Corruption Perception Index. In terms of institutional quality, the World Economic Forum's Global Competitiveness Ranking shows that Panama considerably lagging behind its aspirational peers, ranking 71 out of 144 countries, while Hong Kong SAR, China and Singapore rank 8th and 3rd respectively.⁷ A primary challenge for public institutions is to translate strategic vision into implementable policies and stand ready to manage existing and emerging risks. To move forward on politically sensitive energy or mining projects, the new Government will need to be committed to ensuring robust and legitimate consultation and participation processes, as well as opportunities for benefit sharing with affected communities.

26. **On the inclusiveness front, growth has not managed to fill the income and opportunity gaps of all marginalized groups, including the Indigenous Peoples.** The concentration and stark levels of poverty in some sizeable geographic areas, especially among Indigenous Peoples, and

⁷ The Institutions ranking is one of the 12 components of the Global Competitiveness Index prepared by the World Economic Forum and updated every year. The ranking is the average of 21 subcomponents such as property rights, intellectual property protection, diversion of public funds, public trust in politicians, irregular payments and bribes, judicial independence, favoritism in public decisions, wastefulness of government spending, and burden of government regulation, among others.

differences in shared prosperity regional trends suggest the need for a renewed focus and different strategies to effectively address current vulnerabilities. Whereas previous strategies focused mainly on social subsidies to alleviate the acute and immediate income needs of the poor, a long-term solution will require investments in basic infrastructure and the provision of high-quality and culturally appropriate social services, while at the same time stimulating income-generating opportunities within Panama's rural areas. The Varela Administration is well aware of this issue and is working towards transforming the social assistance program from a pure cash transfer program to one that promotes employability and productive inclusion. The Government has also outlined the need for strategic and integrated territorial planning in their National Development Plan, with Indigenous territories as priority areas for basic infrastructure and social service provision. This will obviously need to be complemented by interventions designed to foster sustainable rural livelihoods in targeted areas.

27. Gender disparities may create barriers for taking full advantage of growth, as they affect women's and men's endowments, economic opportunities and agency. While the Government of Panama has ratified international treaties, passed domestic legislation and established programs to promote and protect women's rights and gender equality, social norms and attitudes regarding gender roles and responsibilities hamper their full implementation. With respect to endowments, indicators related to women's health have deteriorated, with wide differences by income level, geography and ethnicity. Three categories are particularly vulnerable: poor women, women residing in rural and indigenous areas, and women with low levels of education. Women who fall into these categories present higher rates of maternal mortality, lower contraceptive use, and lower percentage of births attended by skilled health personnel. While primary education completion rates are close to parity across genders, boys are lagging behind in secondary and tertiary education and are more likely to repeat grades in primary school. In 2009, girls outperformed boys in reading scores by nearly one grade in the Program for International Assessment. But, despite higher educational performance, women still face lower wages and less access to financial institutions. The participation of women in the labor force is also lower than men, half for 15-24 years olds, and their work is concentrated in less productive sectors. Lastly, women continue to be politically under-represented: while the number of women occupying ministerial level positions has increased significantly, the percentages of women holding elected positions at local and national levels has decreased. Using a gender lens in policy design will help address these disparities, thus contributing to achieving the twin goals. *Red de Oportunidades* has made a step forward in this area and the impact evaluation results show that the proportion of females making decisions independently in beneficiary families is higher than in a comparable group of females in non-beneficiary households.⁸

28. Whether Panama can sustain recent gains also depends on the extent to which attention is paid to critical economic, social, and environmental issues. These issues include ensuring compliance with international financial standards, addressing social inequalities and risk as well as improving water resource management under varying climate conditions.

⁸ The proportion of decisions made by the mother in beneficiary households is 36.4 percent compared to 30.3 percent in non-beneficiary households in the same indigenous areas. *Evaluación de Impacto del Programa de Protección Social –Red de Oportunidades. Informe final - análisis cuantitativo.*

29. **Compliance with international financial standards is critical to maintaining high capital inflows.** Given the country's reliance on foreign financing for its investment program, sustained high growth requires continued progress on compliance with international finance standards. Panama appeared on the blacklist of the Financial Action Task Force in 2000 as a "high-risk and non-cooperative jurisdiction" in the fight against money laundering.⁹ In response, in 2000 the authorities adopted legislation to expand criminal offenses for money laundering, allowing the country to progress to the grey list. In addition, Panama's practices on tax information sharing caught the attention of the Organization for Economic Co-operation and Development Global Forum, resulting in initiation of a peer review process on the full and effective exchange of tax information in 2009. Significant progress has been made, including negotiation of 19 Double International Taxation Agreements; approval of a law to introduce transfer pricing rules, permanent establishment and tax residency in the Fiscal Code; creation of an international tax unit; and approval of laws on 'Know Your Client' procedures and immobilization of bearer shares. Panama's maritime registry also appeared on the black list of the Paris Memorandum of Understanding.¹⁰ Since 2008, Panama has undertaken sufficient reforms to its maritime registry that it has progressed to the white list. Given the Government's commitment to addressing the remaining deficiencies and its considerable attention and work in recent months, Panama is expected to be removed from all grey lists, thus helping to strengthen its status as an international financial and business center.

30. **Sustainability also depends on the country's ability to mitigate the impact of climate change and better manage its water and natural resources.** Water, forest and biodiversity resources are critical to Panama's current growth model. Adequate freshwater resources are key to the functioning of the Panama Canal, hydropower generation, agriculture production (irrigation and drainage) in the poor and water scarce basins (i.e. *Arco Seco*), and the drinking and industrial water supply. However, while the Panama Canal Basin has a strong water resources management model, a similar model is lacking elsewhere in the country. It is thus a priority to improve water resources management in terms of quantity, quality and (spatial and temporal) variability in the rest of the country. This requires strengthening the legal and institutional framework, building critical hydraulic infrastructure and adopting key management tools in priority basins, such as basin/watershed management planning, monitoring and early warning systems for floods and droughts, and other climate change adaptation mechanisms included in the 2010-2030 National Plan for Integrated Water Resources Management.

31. **Adequate regulation is needed to mitigate the negative impacts of large infrastructure and extractive projects, rapid urbanization and risk from natural disasters.** Strong environmental regulation and enforcement, secure land tenure, and recognition and incentives for the Indigenous and other rural communities who have traditionally lived, depended, and protected the natural resources is also needed to avoid long term irreversible negative impacts. In particular, the mining sector could become a driver of growth in the near future, with a potential contribution to GDP of up to 10 percent over the coming decade. This raises significant potential environmental

⁹ The Financial Action Task Force is an inter-governmental body established in 1989 with 36 member countries. The objectives of the Task Force are to set standards and promote effective implementation of measures to combat money laundering, terrorist financing and other related threats to the integrity of the international financial system.

¹⁰ This international body, made up of 27 maritime administrations from Europe and North America, seeks to eliminate the operation of sub-standard ships through a harmonized system of port State control.

and social risks due to the lack of an adequate governing framework that regulates safe and sustainable mining permits. Finally, the country’s vulnerability to natural disasters is exacerbated by increasing climate variability, including more frequent hydro-meteorological events.¹¹ In addition to affecting Panama Canal operations, climate variability and poor water resources management practices impact hydropower production in the dry season as well as tourism and rural livelihoods.

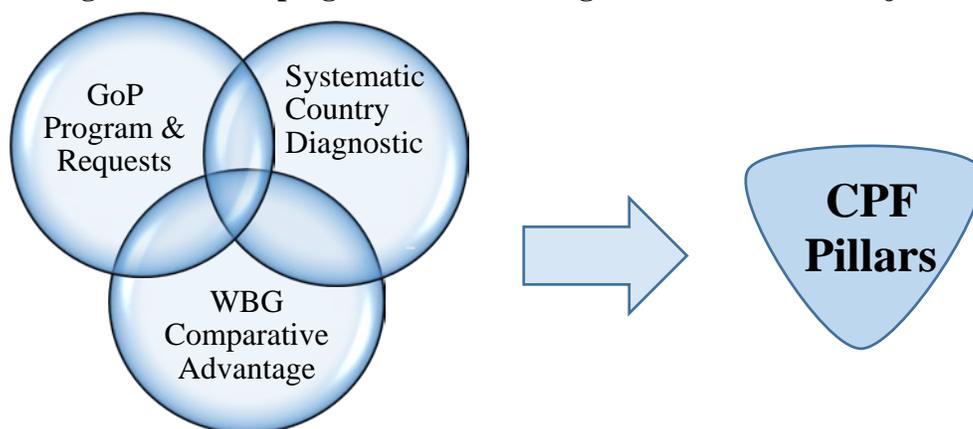
III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

32. **The WBG engagement supports Government’s efforts to maintain high growth and ensure that the benefits reach all.** A series of selectivity filters were used to defined the WBG program, both at the strategic or pillar level and at the objective and outcome level.

A. Selectivity Filters

33. **Three selectivity filters were applied, as follows:** (i) alignment with the Government’s own program and requests for WBG support to date; (ii) focus on priority areas identified by the SCD; and (iii) comparative advantage and experience of the WBG globally and in-country.

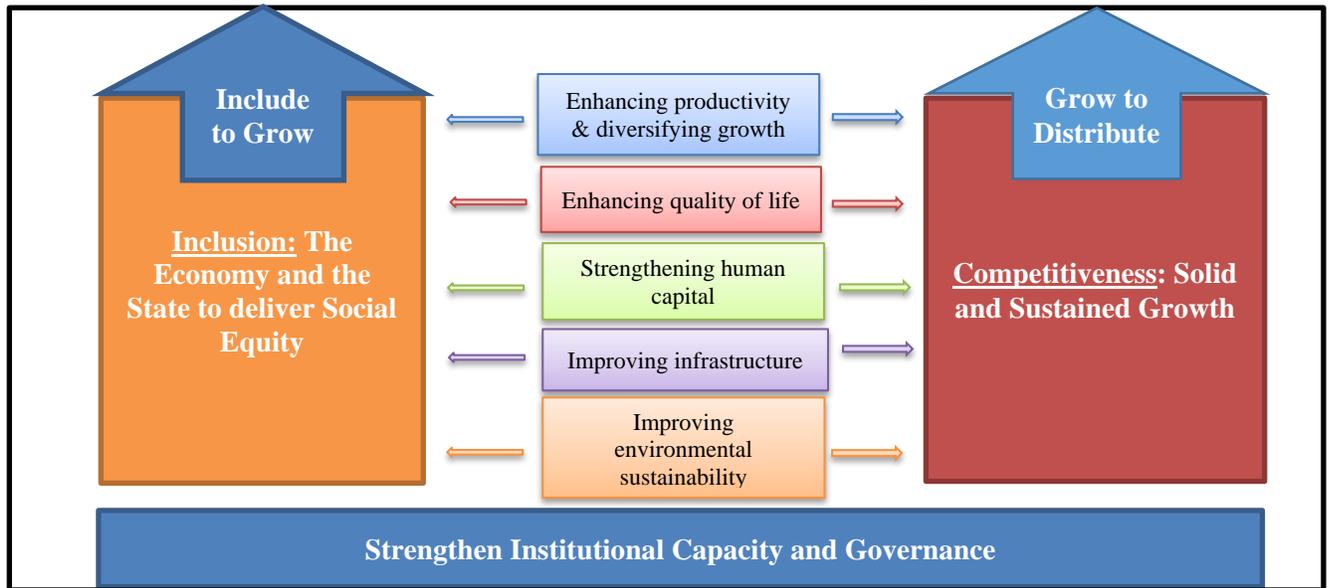
Figure 7: Developing the CPF: Filtering Process to Define Objectives



34. **Selectivity Filter 1: Alignment with Government Program.** The Government program is based on its own diagnostic of the country’s key development challenges. During its first six months in office, the Government developed its 2014-2019 SDP. The SDP rests on the two pillars of inclusion and competitiveness and includes five themes: (i) enhancing productivity and diversifying growth; (ii) enhancing quality of life; (iii) strengthening human capital; (iv) improving infrastructure; and (v) improving environmental sustainability, including land management. The Government Plan includes a cross-cutting axis designed to strengthen institutional capacity and governance. See Annex 6 for more details.

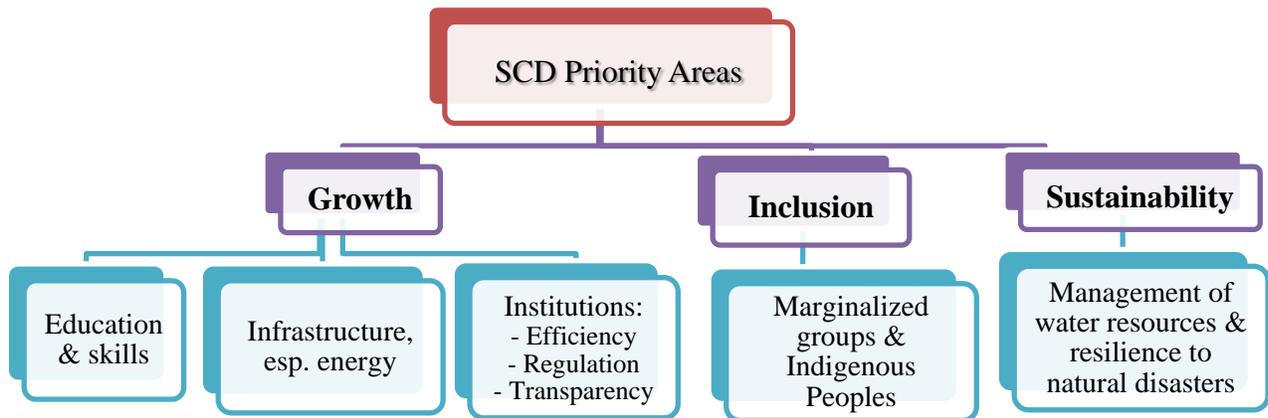
¹¹ Intergovernmental Panel on Climate Change 5th Assessment Report (2014)

Figure 8: Government’s 2014-2019 Strategic Development Plan



35. **Selectivity Filter 2: Focus on SCD Priority Areas.** The SCD identifies five priority areas linked to growth, inclusion, and sustainability in Panama. These areas are the following: (i) education and skills; (ii) infrastructure improvements, especially energy; (iii) institutions; (iv) marginalized groups and indigenous peoples; and (v) management of water resources in terms of quantity, quality and (spatial and temporal) variability as well as natural disasters.

Figure 9: SCD Priority Areas



36. **The SCD also highlights several knowledge gaps.** These gaps fall into two categories: (i) data gaps (related among others to poverty statistics across all ethnic groups, resources and quality of public service delivery at the local level, and hydrological/climate information); and (ii) analytical gaps (related to the need for qualitative and quantitative work on the causes of school drop-out rates in Panama, a computable general equilibrium for different growth scenarios, and water resources management assessments). This knowledge agenda is included in each of the pillars as relevant.

37. **Selectivity Filter 3: WBG Comparative Advantages.** Experience shows that the WBG seems to have an edge in the production of integrated solutions that bring together global knowledge, technical assistance (TA), financial solution packages, and policy dialogue in the delivery of concrete results. This filter, however, seeks to identify the context specific WBG comparative advantage drawing on its global experience. In recent years, the WBG has deepened its engagement in a number of sectors in Panama, including social protection, water and sanitation and disaster risk management. For example, given WBG experience designing and implementing social assistance and safety programs around the world, it has brought best practices to support the Government in fine-tuning Panama's various social protection programs. Likewise, in addition to MIGA providing a guarantee for Line 1 of the Panama Metro, the WBG is playing a lead role in the development of urban transport in large cities (e.g. Lima and Bogota). The technical knowledge that it is gaining from this work is also highly relevant for Panama City. Moreover, even in areas where the WBG has not been active in the past, such as service delivery focused on Indigenous Peoples, the WBG is well positioned to mobilize lessons learned from its interventions in other countries (e.g. Brazil, Bolivia, Paraguay and Peru) and facilitate cross-country learning. Given this specific type of expertise and experience, the WBG will become more involved in the Indigenous Peoples agenda in Panama moving forward. The scaling up of IFC activities in Panama as well as its engagements in a broad range of activities (finance, logistics and transport, electricity, business environment, services, telecommunications, and training) also gives it an advantage as a premier supporter of private sector investment and development.

38. **The proposed CPF was developed in dialogue with the Panamanian authorities and validated through a series of joint stakeholder consultations.** The CPF was developed based on the work done with Government and other actors for the elaboration of the SCD and in dialogue with the authorities through a series of visits over a six-month period. A number of joint consultations were held with different stakeholders in Panama for the preparation of the CPF, the SCD and the First Programmatic Shared Prosperity Development Policy Loan. During round table sessions, the Government, private sector, academia, think tanks, Indigenous Peoples, Afro-Panamanian groups, civil society and non-governmental organizations discussed the country's development priorities and opportunities for World Bank Group future engagement and validated the identified focus areas and objectives.

B. Proposed WBG Partnership Framework

39. **The Government's two-pronged objectives of inclusion and competitiveness provide a well-defined framework for the proposed FY15-21 WBG CPF objectives, which are broadly consistent with the SCD priority areas and well aligned with the WBG's twin goals.** The WBG program has been focused in one way or another on SCD priorities, as IBRD has been active in on social protection, water and sanitation, rural livelihoods, disaster risk management and the public sector. IFC's portfolio complements IBRD's, as it is focused on energy, the financial sector, infrastructure, manufacturing and services. Over time, and based on Government's needs and requests, the WBG program will move towards providing increasing support to marginalized groups, with a focus on Indigenous People, through each of the sectoral programs. Likewise, in the long run, the education agenda will be critical to tackle. The CPF agenda also includes preparatory work that lays the foundation for broadening partnership in the future in critical areas,

such as skills, Indigenous Peoples, water resources management and environment, as well as potential new sectors for growth. All of these areas were identified as knowledge gaps in the SCD.

40. **Not all SCD priority areas will be addressed by this WBG CPF.** A number of priorities were identified either by the SCD or the Government that, although critical for the country to rise to the next level of development, are not being addressed in the CPF. For example, these include education (in the context of growth), housing and health (in the context of inclusion) and land management and environment (in the context of risk and sustainability), among others. These areas are not included in the program due to various considerations, such as (i) a clear transformational agenda is still under development by the Government (environment/education); (ii) the Government has not signaled interest in WBG engagement given that the agenda is being discussed with other development partners (education/health/housing/land management); (iii) the WBG is in the process of building a partnership through dialogue and knowledge (education); and (iv) although the WBG is open to participation, such participation can only be defined as opportunities materialize, as is the case with IFC investments and MIGA guarantees. Thus, not all priority areas of the SCD could be supported. Notwithstanding this, given the six-year implementation timeframe of the CPF, the WBG may engage in some of these areas should the elements that currently determine their non-inclusion in the program change.

41. **At the same time, other areas highlighted in the SCD as bottlenecks or challenges, but not at the same order of priority, are being addressed by the CPF.** One such area is that of urban connectivity, which emerged under infrastructure in the SCD analysis of growth constraints, yet was not at the same order of priority as energy which was highlighted as the main infrastructure constraint. However, the Government has requested TA in this area on an expedited basis, given the WBG's considerable global knowledge and experience that other development partners in the country may not have. Likewise, given its experience during the construction of Metro Line 1, MIGA is exploring a possible guarantee for Metro Line 2. This agenda also has important complementarity on the inclusion side, as it can facilitate access to job markets and opportunities for poorer segments of the population. Financial inclusion, including access to finance, is another area being addressed by the CPF given that it plays an important role in ensuring productive inclusion of the most marginalized groups.

42. **The new CPF takes into account the existing portfolio and analytical work currently underway as much of the impact will be derived from these instruments.** There is a certain degree of continuity between the previous CPS and the new CPF given that the WBG is either already working towards the proposed CPF objectives, or can readily engage in supporting them. A broad array of analytical work has been completed in recent years, which together with the SCD and the 2014 Gender Assessment,¹² provide the analytical underpinnings for the choice of programs and activities featured in the CPF.

43. **Lessons learned from the implementation of the previous Country Partnership Strategy and previous Independent Evaluation Group evaluations highlighted four key points.** First, IBRD, IFC, and MIGA support under the CPS was highly complementary. Looking ahead, opportunities for joint engagement should be proactively identified, with IFC and MIGA at the center stage of WBG support for private sector investment and employment generation.

¹² World Bank Gender Assessment and Policy Note, August 2014

Second, the WBG's comparative advantage can be further bolstered by underlining its access to global knowledge and solutions and ability to close the knowledge gaps identified by the SCD. Third, the multisectoral DPL was harnessed as an effective instrument for policy reform and enhanced the impact of parallel sectoral investment lending, acting as an entry point into new areas. Finally, prompt and effective delivery is critical to maintain flexibility and momentum throughout the delivery of the program and scale up relations with the Government of Panama. Further detail on lessons can be found in the Completion and Learning Review in Annex 7.

Box 5: WBG On-going Portfolio and Technical Assistance, as of February 10, 2015

IBRD's active portfolio includes three lending operations for a net committed amount of US\$161 million, of which US\$137 million remain undisbursed. The portfolio spans a number of sectors, including water and sanitation, rural livelihoods, disaster risk management and public sector. This engagement has built on synergies with IFC, specifically on promoting competitiveness through Doing Business Reform advisory services and TA to improve the transparency of the country's tax system, and leverages the expertise of the World Bank Treasury to support public debt management.

IFC's activities focus on supporting development of Panama's financial markets and infrastructure as well as investments oriented to mitigating climate change and helping low-income groups. IFC's investments in Panama (on an original commitment basis) grew from nine projects totaling US\$166 million over FY02-FY06 to 28 projects for US\$1.2 billion gross investment during FY07-FY14, including support to the Panama Canal expansion in the amount of US\$300 million. IFC's committed portfolio as of December 31, 2014 stands at US\$643.29 million, of which US\$606.71 million is outstanding. In the *financial sector*, IFC seeks to support emerging regional players, energy efficiency facilities, small and medium enterprises (SMEs) and large domestic banks. IFC provided US\$40 million to Multibank to support SMEs and climate smart businesses. In the *infrastructure sector*, IFC recently provided a US\$300 million financing package for the construction of Phases 2 and 3 of *Parque Eolico Penonome*, a 215 MW wind power project, the largest in Central America. Finally, in *manufacturing and services*, IFC has supported private health and education development: a recent project includes a US\$25 million loan to support Laureate International Universities' Panamanian operations, a network of more than 55 accredited campus-based and online universities.

MIGA has US\$626.1 million in Gross Exposure in two projects in the transport sector to support the Panama Metro Line 1 and is seeking to expand business.

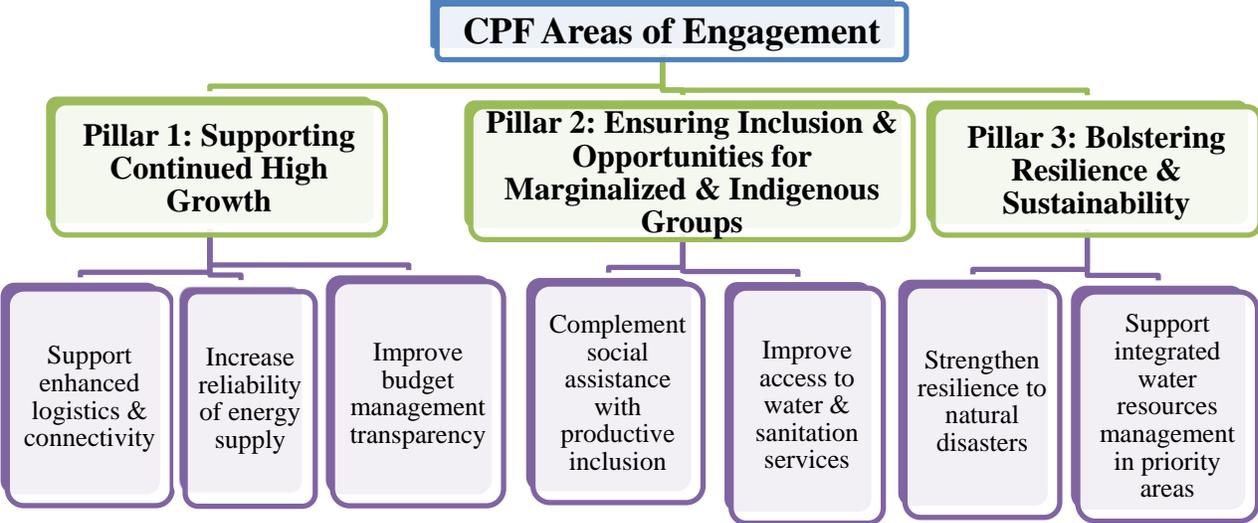
44. The CPF will support three mutually reinforcing pillars, with seven objectives in all:

1. Supporting Continued High Growth
2. Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups
3. Bolstering Resilience and Sustainability

45. The proposed areas of engagement address the twin goals through supporting a strong and sustainable growth model as a main driver of poverty reduction, while enhancing shared prosperity for those groups who have benefited the least. The recent high growth rates in Panama are estimated to have accounted for 80 percent of poverty reduction, compared to about 57 percent for the LAC region. Ensuring that this growth model is sustained through addressing key bottlenecks and enhancing sustainability measures to protect the country from shocks, as outlined under Pillars 1 and 3, is key to continuing to reduce the total numbers of poor and extreme poor. At the same time, ensuring greater inclusion of those groups, as outlined under Pillar 2, will

not only lead to more economic opportunities and improved social outcomes for the poorest segments of Panama’s population, but will also contribute to a more financially sustainable development strategy for the country as poor families are able to graduate from subsidy schemes to participate as active members of the economy.

Figure 10: WBG CPF Areas of Engagement



46. **The WBG program under this CPF is well defined for the first few years of implementation, but has been left open in outer years to allow for flexibility in responding to emerging priorities of Government and incorporating lessons from the first period.** The first two years of the CPF have been largely programmed; however, the Performance and Learning Review, expected in FY18, will provide the opportunity to adjust the CPF as needed, better take stock of IFC’s and MIGA’s achievements, given their market-based and demand-driven business models, and further program the following two years. This has been done in response to experience under the previous CPS that the WBG needs to maintain flexibility in the implementation of its program to remain relevant in the dialogue with Government. This will enable the WBG to identify new areas of potential collaboration with Government and/or stimulate demand for WBG products in SCD areas not currently covered, such as education. Moreover, further knowledge gaps may be identified in the first part of the CPF period to which the WBG could contribute at a later stage.

Pillar 1: Supporting Continued High Growth

47. **Panama seeks to sustain its successful model of rapid growth and significant poverty reduction through high levels of investment and increased economic productivity.** To deepen its position as a regional and international logistics hub and build on its port and airport network, Panama continues to invest in large public infrastructure and logistics projects, such as upgrades to highways, enlargement and upgrade of roads in Panama City, infrastructure upgrades in six airports, the Panama Canal expansion, extension of the Metro in Panama City and creation of a metro bus system, among others. Sustainable urban development not only contributes to higher levels of growth but also increases inclusivity and environmental sustainability. The country is

also expected to continue to private investment, including FDI, given its stable macroeconomic environment and growing service industry, especially around the Canal.

48. **The Government seeks to continue its current strategic approach to sustaining growth while creating opportunities for diversification into new sectors of potential growth, such as mining, tourism and financial services.** Mining may grow increasingly important for the economy while tourism is expected to grow at 6.3 percent annually over the next decade, and has already contributed around 14 percent of GDP in 2013. Finally, Panama has the most dynamic banking sector in the Central American region, which will continue to support GDP growth.

49. **But continued private sector growth is not a given, and the country faces a number of priority structural constraints to growth, on both the private and public sector sides.** While public investment programs are likely to remain significant even after the expansion of the Canal is completed, limited fiscal space will require fostering new growth opportunities in the private sector. Political, environmental and social factors add to the complexity and uncertainty of the mining sector while continued progress on ensuring full compliance with international finance standards is critical for the banking sector in both Panama and the region as a whole, as foreign financing is an important source for Government's investment program. Therefore, helping establish new potential growth industries, while simultaneously building on the success that Panama has had in strategically positioning itself as a regional logistics and service hub, will be critical. The SCD identified a number of structural constraints to growth, including infrastructure and energy, education and skills, and public sector capacity and institutions, with respect to regulatory frameworks, transparency and efficiency. Easing emerging constraints to enhance the productivity of existing industries and create the adequate space for new ones to be fostered is necessary for the current growth performance to be sustained.

50. **Against this background, this Pillar supports objectives that aim at fostering investments in promising sectors and addressing bottlenecks to growth.** Specifically, the objectives seek to support Government's efforts at maintaining high levels of growth that ultimately translate into greater poverty reduction and shared prosperity through fostering private investments into existing and new growth sectors and addressing two major bottlenecks to growth, namely the energy sector and public sector capacity. The Pillar's objectives are to: (i) support enhanced logistics and connectivity; (ii) increase reliability of energy supply; and (iii) improve budget management transparency. The constraint related to public sector capacity and institutions is also being addressed under other Pillars and objectives as relevant. This includes addressing institutional challenges in a number of sectors of proposed engagement, such as energy, water, urban management and social assistance programs. To meet the objectives of this Pillar, the WBG will draw on the strengths of the World Bank, IFC and MIGA to implement an innovative package of complementary instruments, based on cutting-edge global knowledge.

Objective 1: Support enhanced logistics and connectivity

51. **Sustained high growth requires deepening Panama's position as a highly competitive logistics hub and fostering continued high levels of investment that will in turn generate employment and income opportunities.** Panama has ample opportunities to strengthen its position as an international and regional logistics hub. The transport and logistics sector is already

one of the most important and dynamic sectors in the economy and is expected to remain a major contributor to growth. Continued contribution of the Panama Canal to the economy depends on its expansion and ability to handle larger container ships that are more efficient in fuel cost than the Panamax fleet. The higher volume of cargo passing through the expanded Canal by itself is also expected to increase demand for additional transport, infrastructure and logistics facilities and services to support the increased Canal operations. Panama places logistics and trade as core components on its national planning agenda with the maritime industry representing 20 percent of GDP.

52. Given the potential of Panama City to continue being an engine of growth for the country, it is imperative to continue modernizing the city and updating its transport, connectivity and urban infrastructure. The metropolitan area is home to more than 40 percent of the country's population and over half of its GDP. Yet its fast urbanization and role as a regional hub is not being matched by adequate planning and management capacity to respond to the growing demand for high level services and accessibility linked to its economic activities. Census data from 2010 show that the bulk of the newly created jobs have been in the Province of Panama, thus attracting more people from the rest of the country seeking opportunities. This rapidly growing urban population (at a rate of 2.4 percent per year, the fifth highest in the region) increases the pressure for adequate urban planning. This planning is particularly important for the poor who incur significant transport costs accessing jobs and income opportunities. The Government has implemented a number of large scale infrastructure projects to address these challenges, including Metro Line 1 (the contract for the construction of Line 2 will be awarded shortly), the Metrobus service concession and important road projects, such as the Panama-Colon highway. However, targeted institutional, policy and regulatory changes are required to support enhanced planning and management of the urban transport system and harness the full benefits from these projects. Metro Line 1 commenced operations in April 2014, and is improving access within the metropolitan area, with further expected effects of reduced congestion, travel time, gas emissions, and pedestrian accident rates. Complementary investment in urban planning, upgrading and transit-oriented development would further facilitate more sustainable mobility patterns and enhance the social returns of mass transit investments. Explicit consideration of gender-specific transportation needs would improve the effectiveness of existing and planned interventions.

53. The CPF seeks to contribute to fostering high levels of investment and increasing connectivity and accessibility through better transport and urban planning and stronger local institutions. IFC's investment operations, together with MIGA guarantees, will continue to play a central role in support of private sector investment. This, in turn, will help to continue to attract high volumes of FDI through strong sponsors in larger-scale investment projects as well as strengthening financing support to Panama's domestic private sector. The WBG will also provide support to improving urban design, infrastructure and public transit service provision as well as building the institutional capacity of Panama City, so as to complement the investment in the mass transit and integrated transport system and redress the increasing congestion that acts as an impediment to efficient logistics and sustainable mobility patterns of the population. The CPF program will also support institutional strengthening for strategic planning, policy formulation and regulatory action for land use and multimodal transport in the metropolitan area of Panama City. The WBG has been engaged in this area in Colombia (supporting the National Urban Transport Program for more than ten years and the Bogota metro project as well as providing TA for creating

Metropolitan Transit Authorities), Brazil (accompanying the urban transport investment programs – metros, commuter rail, buses – and reforms), and Peru (financing Lima Metro Line 2 with TA support to facilitate full integration and piloting an urban redevelopment project around a metro station), and thus can bring this experience to benefit Panama.

54. **To deliver its program, the WBG will rely on TA, IFC investments and possible MIGA guarantees.** IFC will continue to pursue a rapid expansion of its investment portfolio to support the growth of Panama's private sector. It will also continue to implement a US\$300 million loan for the Canal's expansion to help finance the US\$5.25 billion project. During the construction phase, to be completed in 2016, the project is expected to create about 7,000 direct and 35,000-40,000 indirect jobs. This expansion will increase the Canal's annual capacity from 330 to 600 million tons and will allow for the passage of Post-Panamax vessels. Over the CPF period, IFC aims to generate new commitments in the range of US\$450 million, with a particular focus on infrastructure, especially transport logistics and energy, as well as financial sector support to Panama's emerging regional players, domestic banks and SMEs, trade finance through commercial financial institutions and targeted health and education investments. With respect to connectivity, TA is currently being provided for urban development and transport planning, policy formulation, and regulatory reforms (including short-term assistance on strategic measures to improve urban mobility and institutional reforms). An important complement is the design of a strategy and investment plan for a multimodal integrated transit system in the metropolitan area, in addition to urban development and high quality urban design for public space infrastructure investments along the Metro system corridors and the multimodal integration stations. Support for the adoption of an investment prioritization tool will be piloted in the urban mobility sector to help the Government establish clear and transparent criteria and structure for investment allocation within and across sectors. The IFC is involved in urban issues through the green city initiative and will consider investments in infrastructure. MIGA contributed to urban mobility through two guarantees totaling US\$623 million issued to commercial banks in 2012 and 2013 for the construction of Metro Line 1 (a US\$1.88 billion project). MIGA is considering similar support for Metro Line 2.

55. **The IDB and CAF also support urban connectivity.** IDB is supporting the development of a partial plan (land use zoning) around the Metro Line 1 corridor, as well as the *Plan Integral de Movilidad Urbana Sostenible* for the metropolitan area of Panama City. Under the Emerging and Sustainable Cities Initiative, IDB will also provide TA to support the formulation and implementation of an Action Plan including projects that contribute to improving environmental, urban and fiscal sustainability. CAF is financing studies for Metro Line 2.

56. **The expected outcome of this objective is twofold.** First, Panama's position as a highly competitive logistics hub is strengthened, as measured by the increase in cargo volume through the Panama Canal. Second, accessibility to social and economic opportunities in the Panama metropolitan area is increased.

Objective 2: Increase reliability of energy supply

57. **The energy sector in Panama has been unable to keep pace with the economy.** The rapid economic development that Panama has experienced over the past decades has placed tremendous pressure on the energy sector to expand and make cost-effective, reliable power

available to a growing and increasingly energy-intensive consumer base. The national power supply is largely made up of hydropower (60 percent) and fossil-fuel power plants (40 percent). Moreover, high energy subsidies represent a risk to the Government's fiscal sustainability, with a major cost to the Government (US\$838 million for 2004 to 2012). These subsidies are also highly regressive since they are poorly targeted. Electricity could become a severe constraint to economic activity, especially during the summer months when Panama has been experiencing blackouts. This is a result of changing weather patterns that affect hydro generation, inadequate planning, inexistent demand management, and lack of effective electricity supply and transmission. The pressure on the system has led to rising costs of generation, as the network must increasingly rely on expensive emergency power stations. As electricity tariffs have remained relatively low, these rising costs are borne by the national budget through substantial subsidies that benefit mostly the non-poor. A number of generation investments are not yet fully productive because of lack of complementary investments in transmission.

58. The Government has recognized the urgent need for reforms in the energy sector to create the conditions for increased power generation, strengthened transmission and interconnection networks, and reduced energy consumption through energy efficiency measures. The Government is developing a strategy to ease the recurrent shortages during the dry period and reduce dependence on highly expensive, short-term supply solutions that have been used to meet potential shortfalls. Moreover, it is revisiting electricity tariffs to send the correct economic signals to consumers and reduce the impact of subsidies on the budget. Over the medium- to long-term, strategic investments in transmission and interconnection can activate generation assets now in place, and investment in natural gas, wind or solar generation can contribute to the diversification of supply. Attracting experienced investors with operating and financial capabilities to undertake projects will be best accomplished with a solid regulatory and institutional framework and transparency in the awarding of contracts and licenses, a stumbling block to progress in the past.

59. In addition to making available investments and credit lines to promote electricity generation, the CPF program will also support the development and implementation of a strategy to address energy efficiency and existing institutional challenges. This includes supporting the development of further transmission capacity in the future, where the WBG stands ready to support the Government of Panama when needed. To deliver its program, the WBG will provide budget support, TA, IFC investments, and possible MIGA guarantees. A new DPL series will accompany needed policy changes in the energy sector and TA or a potential Reimbursable Advisory Services (RAS) product would be provided to develop (i) a program for comprehensive policy reform and institutional strengthening; and (ii) a national energy efficiency initiative. IFC has recently invested US\$300 million in a wind farm project that will generate 200 MW and further IFC or World Bank investments in transmission, interconnection or alternative generation are possible to contribute to the diversification of supply. IFC is also working on the development of a Green Building Code to promote minimum mandatory sustainable building standards in commercial and residential buildings for more efficient energy. The WBG is also supporting the Government through the DPL and TA to improve participatory processes around the implementation of the Indigenous Peoples National Development Plan, which are essential in the event of any potential future engagement on complex issues, such as energy and mining.

60. **IDB is also involved in the energy sector.** IDB is providing financing and TA for the Sustainable Rural Electrification program and the *Pando-Monte Lirio* Hydroelectric Power Plan program, complementing well the planned and proposed WBG engagements.

61. **The expected outcome of this objective is that the reliability of energy supply is increased,** as measured by a reduction in the number of days without mandatory load shedding and number of people provided with new or improved access to electricity.

Objective 3: Improve budget management transparency

62. **The weak capacity of public sector institutions, with respect to regulatory frameworks, efficiency and transparency, appears as a key structural constraint to growth.** Panama requires modern regulatory frameworks to promote adequate oversight, enforce consistent social and environmental safeguards and standards across sectors, and strengthen financial sector regulation.

63. **As a small open economy with an exchange rate anchored on the US Dollar, Panama needs efficient fiscal management, critical for continued stability.** While in general Panama has sound fiscal policies, it lags in terms of the institutional framework for efficient fiscal management. The Government has difficulty in projecting accurately funds needed for expenditure and internal audit processes are ineffective, according to the recent Public Expenditure Financial Accountability report. Freeing up resources through improvements in efficiency of fiscal management is critical to further improving inclusion and service delivery.

64. **There is also a critical need to improve the transparency and efficiency of public expenditure, including public investment, which requires better planning and budget management.** Obsolete budgetary institutions and systems weaken the ability of the Government to track the impact of public expenditures and prevent accurate reporting and decision-making. The result is that the rapidly increasing budgetary resources during the last decade have not had an impact commensurate with the efforts. To strengthen budget execution, treasury management, accountability and control, Government is putting in place a new a new integrated model of financial management – the Technological Solutions of the Operational Management Model or ISTMO – which aims at providing a modern platform that integrates accounting, budgetary and logistics functions. This system is expected to continue to introduce better management practices in the use of public resources throughout the budget cycle, which would contribute to enhanced efficiency and effectiveness of public programs, as well as greater transparency and accountability in the use of public resources through the provision of good quality reports and more comprehensive financial statements. To further increase transparency of Government transactions, the Government has taken measures to introduce a Single Treasury Account, which will eventually be used to channel funds to Central Government and decentralized public entities.

65. **To deliver its program, the WBG will rely on budget support and investment lending.** The DPL and the on-going Public Sector Efficiency Technical Assistance Loan will support improving efficiency and transparency of budget management. TA is currently being provided on public investment selection and project design (leveraging East Asia’s experience with support from WBG Singapore Hub), thereby strengthening public planning. The WBG also stands ready to support the Government in strengthening Panama’s institutional and regulatory framework in

potential new growth industries, should the Government so request. The country's institutional and regulatory framework in potential new growth industries is either weak or lacking. The magnitude of the country's mineral deposits, for example, is so significant that this industry will undoubtedly play a key role in Panama's future. But the environmental and social challenges associated with the exploitation of these deposits are significant and require a substantial improvement in the regulatory capabilities based on international experience and best practices. The WBG, therefore, stands ready to support work on both strengthening regulatory frameworks and their enforcement, as well as strengthen capacity to engage in consultation and dialogue with relevant stakeholders in selected priority sectors with important growth potential, such as mining and energy. Other areas of collaboration that could open up during the CPF period include assistance on the introduction of a multi-year fiscal policy framework and the interaction of the Sovereign Wealth Fund and the country's fiscal rule.

66. **IDB is also a key partner of the Government in supporting the modernization of the Government.** In the public sector, IDB is supporting the Government efforts to improve fiscal management through the adoption of modern public financial management processes.

67. **Given that WBG support to public sector enhancement under the previous CPS was not successful, the CPF is taking a more modest approach, seeking incremental change on transparency of budgetary processes.** If this engagement proves more successful than in the past, the WBG can engage in a more ambitious agenda. Thus, the overall expected outcome of this objective is that transparency of budgetary processes improves, as measured by having financial statements for budget execution automatically generated for Central Government entities.

Pillar 2: Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups

68. **Greater inclusion is a priority of the Government, with emphasis on efficiency and effectiveness of social programs, creation of opportunities for the most vulnerable, and access and quality of service delivery.** The renewed focus on inclusion aims to improve the delivery of social assistance to respond to the immediate and acute needs of many, while building the necessary health, education, basic infrastructure, and economic conditions for people to create their own prosperity and dignity over the long-term.

69. **Social protection programs played an important role in poverty reduction in rural areas, without which income inequality would have been greater.** Over the last eight years, the Government has phased in a variety of programs targeting different vulnerable groups. Both the coverage and the benefits of social assistance have expanded, reaching greater numbers of beneficiaries. However, challenges remain with respect to efficiency and effectiveness of these programs and there is the need to continue improving targeting, reducing leakage, and adapting the design of these programs to the geographical and cultural contexts within which they are delivered. Moreover, the Government recognizes that ensuring productive inclusion and enhancing the capacity of the population to participate and contribute to economic activity is critical to effectively reaching the extreme poor and the most marginalized groups, beyond simply providing financial assistance.

Box 6: Indigenous Peoples' National Development Plan

In March 2012, a dialogue was initiated between the representatives of the *Ngabe Buglé comarca* and the Government, with the mediation of the Catholic Church in response to several conflicts. One of the most significant results was the adoption of an agreement on the formation of a National Commission, made up of representatives from each of the twelve (12) Indigenous Councils and Congresses, the Government, and the National Assembly, and the design of an Indigenous Peoples' National Development Plan. The Plan's activities are organized under three pillars, namely territorial and governance policy and legal framework; economic development; and social development. The three innovative features of the Plan are: (i) its national geographic scope thus providing a clearer roadmap for the Government and international donors on the national Indigenous Peoples' agenda; (ii) proposal of an integrated and multi-sectoral vision with enhanced coordination between sectors for sustainable results and synergies; and (iii) a proposed role for Indigenous authorities and communities as critical owners of the development process, rather than participants in standard public programs, designed by people with very different cultural mindsets, geographical contexts and lifestyles.

The Plan still requires the definition of short-, medium- and long-term actions, institutional arrangements, costs and financing, and capacity building for key stakeholders. To this end, the Government is preparing a capacity building and institutional strengthening program for key stakeholders that would accompany investments, including civil servants of relevant line ministries and Indigenous authorities. This will include workshops to share experiences worldwide on how to measure development of Indigenous Peoples according to their own standards.

The National Development Plan was approved by the Commission in 2014 and transformed into a draft law to ensure implementation across Administrations. The proposed law was submitted to the Cabinet mid-December 2014 and is expected to be approved by Congress in 2015. A proposed law is also being submitted to formalize the National Indigenous Peoples Council as a legal entity charged with the coordination of the Plan's implementation.

70. Beyond social protection, sustainable income-generating opportunities can be fostered by an integrated landscapes approach to produce long-term well-being, health and poverty reduction.¹³ Given the country's rich cultural and natural assets, often located in areas occupied by some of the country's poorest population, Panama is in an advantageous position to explore innovative income-generating opportunities for its more remote and culturally diverse populations. These opportunities could range from supporting the productive use of social subsidies, payments for environmental services, eco-tourism, sustainable high value agriculture, and robust benefit sharing arrangements in the energy and mining sectors.

71. Micro, small and medium enterprises (MSMEs) tend to be primary income-generating opportunities for the poor, but insufficient access to finance is a key constraint. Labor income and self-employment are the largest contributors to poverty alleviation. However, financing is extremely difficult to obtain with the vast majority of MSMEs having to rely on self-financing, without access to commercial credit. The need for additional microfinance products and basic financial services is substantial and critical to providing a platform for economic

¹³ A landscapes approach is characterized by long-term collaboration among different groups of stakeholders to achieve their multiple objectives and expectations within the landscape for local livelihoods, health, and well-being. This includes agricultural production and ecosystem functions and services, such as water flow regulation, protection of biodiversity, carbon sequestration, landscape beauty, identity, and recreational value.

development among the poorest. As such, expansion of financial services is a key element of fostering income-generating opportunities for Panama's poor and marginalized.

72. **Given that certain areas and groups continue to lag behind in access to basic infrastructure and quality of services, the sustainable delivery of basic services is another key challenge in Panama's inclusion agenda.** Innovative approaches will need to be employed around service delivery mechanisms, engaging communities and their authorities more effectively and strengthening the capacities of institutions responsible for service delivery. To ensure more effective service delivery, a specific focus on these areas and these groups needs to be taken in line with the Indigenous Peoples' National Development Plan.

73. **Thus, this Pillar supports two objectives,** to (i) complement social assistance with productive inclusion; and (ii) improve access to water and sanitation services. The WBG is also building its country knowledge on education, notably on monitoring education programs, secondary school drop-out rates and the skills mismatch with the labor market, and is developing a client-oriented policy agenda on the causes of secondary school drop-outs and on multiple technical and vocational training design and implementation issues to be ready to provide additional support in this area if requested over this CPF period.

Objective 4: Complement social assistance with productive inclusion

74. **The new Government seeks to strengthen and expand existing social assistance programs and include productive components so that beneficiaries may, over time, graduate and connect to the growth process.** This calls for action on several fronts. First, it will require *enhancing the efficiency and effectiveness of existing programs* in order to (a) maximize their impact, and (b) expand coverage among potential beneficiaries into areas of underserved populations and marginalized groups. And second, it will also require complementing cash transfers with *productive components* that create opportunities for program beneficiaries to benefit from and contribute to the growth process. These productive components will facilitate access to income-generating opportunities for program participants by improving (c) their employability through training; and (d) access to markets and to credit.

Efficiency and effectiveness of social assistance programs

75. **Despite the positive impact of social assistance programs on rural poverty reduction, the country faces challenges in improving efficiency and effectiveness of these programs.** Efficiency of the various social assistance programs can be increased by improving targeting and reducing leakage. Steps have been taken to enhance the pro-poor targeting of these programs, especially *Red de Oportunidades*, including use of a proxy means test to more accurately reflect poverty conditions and a management information system to address inclusion errors (non-eligible households receiving benefits) and gradually verify eligibility conditions. However, more can be done to reach the poorest of the poor, given that eighteen percent of the population in the bottom quintile receives no social assistance at all. Moreover, an estimated 1.5 percent of *Red de Oportunidades* beneficiaries are in the second highest income quintile, demonstrating that there is significant space to improve efficiency of the program by recertifying beneficiaries and reduce targeting errors. Eliminating overlap of social programs is also important to ensure their efficiency

and effectiveness. Today it is not possible to track the full package of benefits that accrue to a single household although it may benefit from several programs. For example, some households benefit from both the *Red de Oportunidades* and the *Beca Universal*, the transfer program conditioned on school academic performance. Therefore, the Government seeks to integrate the beneficiary roster of the social assistance programs to improve both targeting and monitoring and control of these programs. It will also undertake an evaluation of the implementation of *Beca Universal* to enable it to draw lessons and modify the program as needed. Finally, Government will begin to pay out *Red de Oportunidades* benefits through the banking system to further reduce leakages and facilitate financial inclusion of the poor.

76. Ensuring the offerings of social assistance programs are culturally adapted and tailored to specific beneficiary groups should maximize uptake and outcomes of the programs. Reaching the excluded will require adapting approaches in rural areas or difficult urban environments or for particular marginalized groups, such as Indigenous Peoples or unemployed youth. *Red de Oportunidades* has increased successful delivery of transfer payments amongst indigenous program beneficiaries both in *comarcas* and the indigenous communities outside of the *comarcas*. As the program moves forward, it will further tailor its offerings according to the distinct characteristics of its beneficiary population, namely in three main subgroups: (i) urban population in cities (*mestizos*, *afrodescendientes*, and others); (ii) rural areas (indigenous and non-indigenous rural poor); and (iii) *comarcas*. This approach focuses on both health and education service providers developing higher quality services that are carefully adapted according to cultural practices. In education, this would include offering multicultural bilingual education options. In health, the program will offer culturally appropriate medical practices and medical practitioners who have been trained in cultural sensitivity and local languages, such as culturally appropriate birthing practices or hospital design and care. Moreover, the program's gender dimensions will be strengthened across the three subgroups, by working beyond women's roles as caretakers and mothers to emphasize their roles as citizens, entrepreneurs and professionals. This is important to address gender gaps in welfare indicators particularly among Indigenous Peoples. Improved efforts to engage beneficiaries and Indigenous/local authorities in the design and delivery of these programs are crucial for ownership, uptake, and sustainable outcomes. If this could be achieved, this would represent a major reversal to the failure of previous policies to build on intercultural assets and ensure ownership of indigenous beneficiaries in the design and delivery of public investments and services.

Introducing productive components

77. There is also a growing concern that the current approach to inclusion and social protection lacks a productive component to provide the necessary skills to access jobs or foster other income-generating opportunities. The current social protection system is incomplete in that it does not provide active labor market policies. In addition, the link between providers of technical vocational education and training and the private sector is weak. Barriers to acquiring skills may also be very different for men and women. For example, adolescent pregnancy is frequently a trigger for dropping out of school, but access to daycare is likely to increase female (drop-out, with child) participation in skills development programs. The Government is committed to creating conditions that will facilitate accessing employment and income opportunities. Renewed emphasis is being placed on agriculture and rural development and priority given to

strengthening post-secondary technical education. The Government seeks to facilitate the transition of beneficiaries to the market by focusing, for instance, on providing high school dropouts with certified skills or on improving economic opportunities in agriculture. To this end, the Government has launched a youth apprenticeship program, Panama *ProJoven*, aimed at facilitating the transition of secondary graduates into three-month apprenticeships in private sector firms. More broadly, the evaluation of the *Beca Universal* should contribute to institutional changes to encourage youth to remain in school and/or acquire skills that bolster their position in the labor markets.

78. The Government is also seeking to foster economic opportunities for the poor by coupling social assistance with territorial planning to address chronic barriers to productive inclusion. Agriculture has been growing below the rest of the economy, investment is limited, and the links to the domestic and external markets are weak. To improve medium and long-term outcomes for the poor, innovative approaches to income generation that allow for cultural and environmental sustainability need to be explored. The Government's SDP highlights small scale agriculture and tourism as potential areas for development, with the former critical for food security and rural livelihoods. Using a territorial planning approach, support would be provided to small and medium size farmers in the form of an integrated package of interventions, combining productive opportunities with key investments to improve access to markets, vocational education and financial services. Recognition and compensation for the traditional natural resource stewardship carried out by Indigenous Peoples in key watersheds may also present an opportunity for income generation while ensuring the protection of Panama's key water and forestry resources.

79. Facilitating financial inclusion, including through providing access to financial services and markets, is also a critical stepping stone for creating economic opportunities for the poor. Limited access to credit and to markets constrains the ability of smaller firms to grow and create jobs. Panama's MSMEs account for 80 percent of total employment, but only 20 percent of those companies have access to bank loans. Among micro-entrepreneurs, in particular, only about 7 percent rely on financing from external financial institutions. Overcoming this access-to-finance challenge and providing MSMEs with the opportunity to grow and expand is crucial for fostering new jobs, higher wages, and increased access to markets. Strengthening income opportunities for the poor, be it through self-employment in micro-enterprises or employment in MSMEs, requires that small firms can access markets and finance the expansion of their business operations. The development of inclusive and efficient financial markets will help poor households improve their livelihoods and small businesses grow by enabling them to save, invest and cope with economic uncertainties. This will also help create employment and income opportunities for women and the youth, in turn, enhancing household consumption. Furthermore, the introduction of basic financial services through mobile banking and other technology-based financial inclusion instruments can serve as a cornerstone for improved wealth management at the household level. The Government has launched a number of initiatives to promote the use of the financial sector to deliver transfer program payments (such as *Red de Oportunidades* and *Beca Universal*) and the creation of savings accounts as well as develop a comprehensive financial inclusion strategy for the poor as one of the core tools to enhance productive inclusion of the most vulnerable.

80. The WBG proposes to accompany the Government in these various efforts through budget support, investment lending and TA. The Social Sector Expenditure and Institutional

Review and a new Social Protection Project will focus on improving efficiency and effectiveness of social assistance programs and building the path to productive participation, taking into account the lessons from similar interventions in Latin America and globally. A TA on skills is helping to identify the most critical issues in the education sector, and identify the major bottlenecks in the provision of vocational education and training programs, and labor intermediation programs. A new rural productivity project will build on the lessons of a recently completed pilot operation in selected indigenous communities that combined environment and agriculture objectives to ensure increased incomes for beneficiaries. The new DPL series will support the reform of various social assistance programs, improvement of youth skills for participation in the labor market as well as institution building for a more effective participation of Indigenous Peoples in public policies and planning. The WBG will also continue its TA in support of the implementation of the Indigenous Peoples' National Development Plan. IFC currently provides credit lines to domestic banks to support an SME lending portfolio of about US\$590 million, benefitting close to 8,000 SMEs and expected to reach 10,000 by end FY18. It's MSME lending investments reach over 25,000 firms worth about US\$640 million. During the CPF period, IFC seeks to expand financial services through MSME financing instruments to the poorest segments of the private sector to create additional economic opportunities. It will also explore opportunities to further strengthen access to credit and the growth potential of smaller domestic companies, including through specialized lending initiatives targeting female and indigenous entrepreneurs and in certain key sectors, such as climate and energy efficiency financing. In addition, IFC would seek to explore new technology approaches on micro-banking and payment systems with commercial service providers to expand financial service provision into rural areas and the *comarcas*.

81. **IDB is a key development partner in this area.** IDB is providing TA on developing a more coherent and effective social protection system, strengthening Government's social safety nets, and improving employment promotion and workforce development. On Indigenous Peoples, IDB is supporting an educational program to improve learning outcomes in the *comarcas*, enhance the retention of students who complete their compulsory basic education, and expand access opportunities to secondary education for students who complete basic education.

82. **Improved efficiency and effectiveness of the social assistance programs is the expected outcome of this objective along with the successful introduction of a complementary productive component to allow beneficiaries to access income generating opportunities.** Social programs are expected to be better targeted covering the poorest of the poor and more effective in impact and provide skills and access to jobs or income-generating opportunities that are both culturally and environmentally sustainable. Indicators include the increase in the percentage of the bottom quintile accessing social assistance, the percentage of beneficiaries in the integrated social assistance registry receiving training and accessing to market opportunities, and number of people, microenterprises and SMEs reached with financial services.

83. **The proposed interventions will also support the third pillar on social development of the Indigenous Peoples National Development Plan's.** The social development pillar calls for implementation of intercultural bilingual education; improvements in infrastructure and integral health service delivery; improvements in preventative medicine; improvements and expansion of access to clean water and sanitation; increase in the number of health personnel and coordination

with traditional authorities; and institutional strengthening of the traditional authorities and the use of traditional medicine.

Objective 5: Improve access to water and sanitation services

84. **Access to basic services, including health, education, and water and sanitation, is critical for improving human development outcomes of the population and especially the poor.** This CPF is focusing on water and sanitation given its high priority for the Government and the WBG's strong track record in the area. Other development partners, such as IDB, are active in the health and education sectors. With respect to health, inequality of access and quality of health care for the rural, indigenous population is a main concern. Individuals from rural poor and indigenous households experience lower health outcomes compared to other parts of the country. The disparity in health outcomes is due largely to inequitable health access for the poor, with the majority of medical care centralized in the wealthier urban areas. The inequitable access to health services is further accentuated by the concentration of the health workforce in the urban areas as opposed to the rural, indigenous areas.

85. **Considerable gaps remain in the sustainable delivery of reliable water and sanitation services (WSS) across the country, with the gaps greater among urban poor, rural areas and comarcas.** Most of the country still does not have access to continuous and drinking water, especially in rural, indigenous and low-income urban areas. In the city of Colon, with a large Afro-descendant population, 400,000 people receive water only 7 hours per day. Rural coverage of sanitation services stands at 70 percent compared to 87 percent for urban areas, while in the *comarcas*, access to water supply and sanitation services is the lowest in the country. The reliability of the service is hampered by considerable water losses through leakages in the network. At the core of the present situation is a weak institutional set-up that has led to an inefficient use of resources, weak planning capacity and financial unsustainability. The Government has launched an ambitious water and sanitation program – *Plan de Sanidad Basica* – to expand access to reliable and sustainable WSS services in urban and rural areas with the goal that 100 percent of households has access to water and zero households rely on latrines. It is also committed to strengthening its institutions in the WSS sector, especially the National Water Supply and Sanitation Administration and the Ministry of Health.

86. **The WBG program under this Pillar will include investment lending and TA.** The work on the Metropolitan Water and Sanitation Improvement Project (Metropolitan Water and Sanitation Improvement Project - Metro Agua) and new WSS Projects in both rural and urban areas (Second phase of Metro Agua) will deliver improved access and more capable institutions able to ensure reliability and financial sustainability of service provision and to face a broader set of issues, such as pollution and the green agenda. The impact of these projects will be strengthened by WBG delivered knowledge products and advisory services that responds to client demands to strengthen sector transparency and equity, and guide policy and investment, such as: i) monitoring country progress in water supply and sanitation, assessing goals in WSS and the investments required and sector performance in delivering WSS goals; ii) support to improving decision-making and planning to foster rural WSS service sustainability, through the rural WSS information system; and iii) reinforcing the regional agenda for sanitation to raise the profile of sanitation as a development priority. The program will incorporate a social and gender focus, building on the

experience gained in ongoing WSS programs in Panama, including providing customized WSS services and solutions to urban poor and indigenous populations, enhancing the voice of women in water boards and decision-making mechanisms, and strengthening family health outcomes through hygiene and hand-washing campaigns targeting women and children.

87. **CAF and IDB are also involved in this area.** Panama has benefitted from the financial and technical support of the WBG, IDB and CAF to rehabilitate and expand WSS systems in urban areas. The interventions of each development partner have been and will likely continue to be focused in distinct geographic areas to complement each other and avoid overlap of activities.

88. **The expected outcome of this objective is that water and sanitation service coverage increases in targeted lower income urban areas and rural areas.** The WBG will accompany the Government in reaching its 0-100 goal, working both in rural and urban areas and with a focus on institutional strengthening. Indicators include increase in additional people with access to reliable water supply or to improved sanitation services in targeted lower income urban areas and rural areas (disaggregated by gender) and increase in number of communities with sustainable rural WSS services. Such an expansion of coverage is also likely to reduce some of the gender disparities, as the burden of acquiring water generally falls on women.

Pillar 3: Bolstering Resilience and Sustainability

89. **Challenges to the sustainability of Panama's stellar growth performance emerge from various sources.** Stresses on water and natural resources coupled with climate change risks are emerging as a potential threat. Changing weather patterns may have a potential impact on the availability of water, which impacts various sectors, including energy. Rainfall shortages, for example, reduce the availability of hydropower and force the use of expensive emergency power stations that depend on petroleum products. The result is higher cost electricity to the entire population. These risks may be partially mitigated through diversification of power generation sources to include a variety of renewable energy, clean fossil fuels, and energy efficiency measures. It is also important to mitigate the impact of the volatility of oil prices and droughts by using financial risk management products. Rapid growth pressures natural and water resources with the lack of enforcement of adequate environmental regulations and standards. Weak understanding of the risks the country faces handicaps an effective mitigation strategy.

90. **Panama requires the capacity to adapt fiscal and policy management quickly and flexibly to respond to natural disasters.** To respond to shocks prudent fiscal management and a comprehensive strategy for the management of risk and uncertainty are pre-requisites. Much progress has been made on fiscal management, with the adoption of the Fiscal and Social Responsibility Law. However, over the long-term, an important objective is the continuation of mainstreaming of risk management into public policy and the protection of the most critical infrastructure and services. This implies the active management of possible contingent liabilities that the Government might face.

91. **A multisectoral lens is critical to address the interlinked impacts of economic growth on natural resources coupled with anticipated long term climatic risks.** Rapid urbanization and deepening economic development, coupled with potential longer term impacts of climate

change are calling for the Government to develop clear roadmaps to address both emerging and immediate concerns while building sufficient resilience for the future. Environmental and water resources management regulations are in place but enforcement is weak as economic growth pressures water and natural resources. Improving the management of water resources is a major priority for the economy that touches on multiple sectors given its potential impact on Canal operations, the supply of electricity, the security of drinking water, especially in rural areas, and quality of the ecosystems for tourism, agriculture and human settlements. In addition to addressing these risks through building greater resilience, Panama may complement these efforts with weather related derivatives that provide compensation in the event of specified weather events. Panama can also improve its financial protection against natural disaster risk by making use of its recently approved Disaster Risk Financing and Insurance Strategic Framework. This law allows the country to deepen its financial coverage against different kind of catastrophic events.

92. **This Pillar thus has two objectives**, to (i) strengthen resilience to natural disasters; and (ii) support integrated water resources management in priority areas.

Objective 6: Strengthen resilience to natural disasters

93. **Panama is highly exposed to natural disasters.** Floods and landslides are becoming recurrent events, driven in part by climate change that is altering weather patterns and affecting the availability of water with severe consequences for the economy. Seismic events, although thought of as a rarer event, pose a more significant risk. Earthquakes have occurred recently and have affected urban centers such as David, the second largest city in the country. However, although the density and average height of urban construction is increasing, new buildings do not meet seismic criteria in compliance with international construction standards. Rapid urbanization and weak local institutions both contribute to congestion, environmental deterioration, and, if unaddressed, will result in increasing exposure to natural hazards in urban and rural areas.

94. **The Government has taken measures to cover the fiscal risk due to the impact of natural disasters and Panama has continued to put into place an institutional and financial framework to prepare for natural disasters.** A specialized unit within the Ministry of Economy and Finance oversees the country's readiness, including management of the Sovereign Wealth Fund, which provides funds to address, among others, the impact of natural disasters. The Government intends to continue building the readiness of the country, including the creation and expansion of contingency lines of credit and insurance that will provide a broad and seamless coverage at minimum costs, and implementation of the Disaster Risk Financing and Insurance Strategic Framework, which includes a roadmap for the development of other complementary financial protection instruments, such as weather related derivatives. To strengthen management of the country's contingent liabilities and deepen its financial coverage against risk, the Government will map out and measure its exposure and decide how to manage and whether to hedge the different risks to which it might be exposed, by carrying out an assessment of existing instruments and the type of events covered. Additional work is expected to internalize and make mandatory the incorporation of disaster risk criteria in planning processes. For instance, the development of methodological guidelines and norms to integrate disaster risk analysis into the protocols of its National Public Investment System would contribute more resilient and sustainable public investments.

95. **WBG efforts will focus on mainstreaming the management of risk and disasters.** This includes, first, ensuring that country is financially fully covered across the broad range of eventualities, including events of low probability, but potential high impact. Second, it covers the full operationalization of already approved legislation (Institutional Framework for the Management of Risks) and strengthening of newly created institutions (Investment, Concessions and Risk Department). Mainstreaming would also involve integrating risk criteria in the protocols and proceedings of the National Public Investment System and new local land use plans. Disaster risk identification and evaluation (models and simulations) would inform policy decisions. Lastly, another important element of resilience is to improve the understanding of the linkages between water resources management and environment, forestry, energy generation, and urban development as well as the risks facing water resources from human pressures and climate change. In addition, the WBG could support scoping the extent of existing contingent liabilities and developing of rules to keep them under control.

96. **To achieve this, the WBG program will include budget support, investment lending and TA.** The DPL series is supporting this work in tandem with a DPL with a Catastrophe Deferred Drawdown Option that provides a contingent line of credit. The WBG Treasury has also engaged vigorously on financial innovation with the authorities in Panama. Treasury's support for the implementation of the sovereign wealth fund as well as a Debt Management Strategy (yet to be published) within the context of the DPL, are best practices internationally. Treasury is also actively analyzing different risk management options for the country's IBRD portfolio and Panama was the first IBRD country benefitting from the additional flexibility for IBRD Loans approved by the Board. The WBG is also supporting the mapping of the risk profile of the country and providing advice on reducing fiscal vulnerability through (i) enhancing the country's risk financing and insurance strategy; (ii) integrating disaster risk reduction criteria into the development of local land use plans; and (iii) improving the availability of disaster risk information for improved disaster risk management.

97. **Other development partners involved in these areas are CAF, IDB and the Swiss Cooperation Agency.** With respect to disaster risk management, regular contact with the National Platform for Disaster Risk Management has enabled the WBG to ensure its interventions are fully articulated and complemented with the other donors in support to the implementation of the National Comprehensive Disaster Risk Management Policy and its Disaster Risk Management Plan. The Platform is a multi-sectoral and multi-stakeholder mechanism, put in place by Executive Decree, that guides and monitors implementation of the Policy. The IDB also provides a parametric line of credit to the DPL with a Catastrophe Deferred Drawdown Option, called "*Facilidad de Crédito Contingente para Emergencias por Desastres Naturales.*"

98. **The expected outcome for this objective is an increased ability of the Government to manage fiscal risks stemming from natural disasters.** Capacity to manage fiscal risk and respond to natural disasters would be strengthened through the development and active implementation of a risk management strategy.

Objective 7: Support integrated water resources management in priority areas

99. **Economic growth has been and will continue to impact Panama's environment, water and natural resources.** As the urban environment expands at one of the fastest rates in LAC,

deficient management of wastewater is resulting in the deteriorating quality of water bodies, such as the Panama/Colon bays and around 34 percent of the country's water is classified as contaminated or slightly contaminated. Environment health costs are estimated at 1.3 percent of GDP per year. Moreover, mining expansion poses social and environmental challenges.

100. **Climate change increases these pressures as higher occurrence of extreme hydro-meteorological events can negatively impact key economic sectors.** The expectation is that climate change will lead to increases in precipitation as well as greater variability in weather patterns, leading increasing occurrence in flood and droughts. Increasing water scarcity and droughts events will put pressure on water use and difficult trade-offs will have to be made between alternative water uses, such as provision of drinking water (including for the booming tourism and service sectors), generation of electricity, agriculture and the operation of the Panama Canal, for which the continuous supply of water is critical. Hydro energy production has recently been affected, which contributed to the electricity shortages during the summer months. The expected increase in precipitation from climate change will increase the severity of floods if precautionary measures are not taken into account water resources, watershed and forests management.

101. **At present, the institutional and legal framework for water resources management is fragmented and weak.** The Panama Canal Authority manages the water resources in the basin feeding the Panama Canal in an exemplary manner, but this only covers 5 percent of the country's river basins. Institutional arrangements for the oversight of the remaining 95 percent are fragmented and the capacity of the various institutions is weak. The legal framework for water resources management would also need to be strengthened as recommended in the 2010-2030 National Plan for Integrated Water Resources Management.

102. **The WBG will support the Government as it develops a roadmap for strengthening water resources and environmental management.** The WBG will support analytical work on water resources management, with a focus on identified knowledge gaps in the SCD analysis, while bringing to bear the global experience and relevant Panama experience, as the Government develops the roadmap for institutional strengthening of water resource management. At the same time, by supporting efforts to develop and implement integrated water resources management plans in targeted priority river basins, such as the Panama Bay, the WBG would help address key risks from pollution and other human activities in an integrated manner to enhance the capacity of the metropolitan area to serve as a commercial, tourism and service hub for the region. Panama is also moving forward on its efforts to reduce emissions from deforestations and forest degradation (REDD+). Once the readiness process is completed, opportunities for capitalizing on identified actions for adaptation based mitigation, as well as building on established mechanisms for social and environmental management can be undertaken in the latter part of the CPF.

103. **To achieve this, the WBG program will include investment lending and TA.** Support to the Panama City and Bay Sanitation Program would couple infrastructure investments in sewerage collection in low income communities and disposal systems with possible support to integrated water resources management of the Bay river basin as a means of ensuring that pollution loads are reduced at the source. TA would cover areas such as: (i) water resources management assessments highlighted as a knowledge gap in the SCD and the formulation of a road map to improve water resource management in Panama; and (ii) sharing best practices in environmental

management of investment projects, and enhancing the regulatory framework for monitoring and enforcement. As recognized by the previous CPS, it will be critical to recognize public sector inefficiencies, and design capacity building into programs to improve implementation.

104. **Other development partners involved in these areas are CAF, the European Union, IDB, the Japanese International Cooperation Agency and the OPEC Fund for International Development.** CAF and IDB are providing support to Panama through investment lending, with the IDB financing the first phase of the Panama Bay program under the Panama City and Bay Sanitation Project and CAF supporting the first and second phase of the Panama Bay program under the *Proyecto de Saneamiento de la Ciudad y Bahía de Panamá*. The European Union and the OPEC Fund for International Development have worked together with CAF in the financing of sewerage collectors in the area. The Japanese International Cooperation Agency is supporting the sector through the Panama Metropolitan Area wastewater Management Improvement Project that seeks to ensure sustainable wastewater management in Panama Metropolitan Area by improving capacity for operation and management of the sewage treatment plant, industrial wastewater management and monitoring, and planning of sewerage facility management.

105. **The expected outcome for this objective will be improved water resources management capacity.** This will be measured by the increase in additional volume of treated wastewater according to environmental norms reaching the Panama Bay.

C. Implementing the FY15-21 CPF

106. **The implementation period of this CPF is six years.** This duration will allow for the framework to be aligned with the five year political cycle of the country and an additional year to respond to the needs of the in-coming Government while a new CPF is under development.

Box 7: Opportunities for Further World Bank-IFC-MIGA Support to Tackle Panama's Development Challenges

Leveraging the comparative advantages of the World Bank, IFC, and MIGA will facilitate the delivery of a complementary suite of services and greater partnership with the private sector. The World Bank and IFC are already collaborating strongly in the energy sector where the World Bank is supporting the modernization of the sector (through the elimination of distortions) as well as new legislation to diversify the generation matrix, and IFC is investing in sustainable generation capacity (wind). MIGA could provide guarantees for energy and other infrastructure investments. During the CPF period, all three institutions will continue exploring where their synergies can be further exploited to accelerate progress towards the twin goals. Indeed, to the extent that both potential private sector opportunities and Government demand allow for it, the World Bank, IFC and MIGA could further collaborate on (i) finding solutions to finance the expansion of the country's transmission grid (possibly through blend finance mechanisms); and (ii) developing economic opportunities for the rural and indigenous populations in sectors, such as agribusiness, tourism, and extractives (where international experiences on sound environmental and social practices can help remove microeconomic bottlenecks which currently prevent private sector investment).

107. **The CPF will feature a mix of instruments, drawing on the strengths of three of the institutions of the WBG, to provide Panama with a package of assistance to best address the country's development needs.** The indicative financing program for FY15 is US\$300 million

(made up of the first DPL in a series of three). Lending volumes in FY16-FY17 will depend on country demand, overall performance in the course of the CPF period as well as global economic developments, which affect IBRD's financial capacity and demand by other World Bank borrowers. The amounts of the remaining DPLs in the series are likely to be less; however, this depends on how fast the new Government is able to move on their reform agenda. Other possible instruments include the renewal of the current Catastrophe Deferred Drawdown Option, a number of investment loans, RASs and TA on the World Bank side. The CPF features IFC prominently, given it will continue its steady increase in support for private sector development through investments, loans, and advisory services aligned with the Government's priorities and programs, as well as activities that promote and strengthen regional integration. MIGA is also open to providing a guarantee for the Metro Line 2 and analyzing new guarantees for other sectors.

108. There has been overall progress in the use of country systems for the implementation of World Bank-financed projects, and there is scope for expansion. Project budget execution is fully integrated into the Government's budget and accounting system although the country's financial management system is only partially used, thus leading to the need for supplementary records and difficulties in preparing reliable financial information. Some of the challenges derive from the legal control framework in terms of public procurement and financial management. The required ex-ante approvals from the Comptroller's General Office for contracts signing and payments has occasionally led to project implementation delays and affected overall fiduciary performance¹⁴. Therefore, looking ahead, the WBG will continue working on strengthening country systems, in an effort to overcome some of the challenges encountered in project implementation. Key areas include: (i) strengthening the national financial management information system to facilitate timely and reliable accounting and budgeting records, control, and reporting of projects; (ii) harmonizing financial reporting and audit arrangements with IDB and at project level; (iii) promoting use of the Treasury Single Account; and (iv) promoting the implementation of e-disbursement procedures in order to allow smoother and more efficient disbursement process at project level. Efforts will continue to be made to strengthen the efficiency of both public and project financial management systems moving towards international good practices and facilitate the day-to-day operation of investment projects.

109. Donor coordination at the program level has been successful in the past; however, more can be done to improve coordination and partnerships at the broader strategic level. While coordination with other development partners on specific programs, with even parallel financing in some cases, was close in the past, at the broader strategic level, development partners have had both complementary and overlapping objectives at times. Government has taken the lead on coordination so as to maximize the results of the support of each development partner. Nonetheless, the WBG will need to take a more inclusive approach so as to broaden its dialogue at a strategic level.

110. There is strong complementarity among interventions under the three Pillars, as outlined in the SCD. The CPF is organized along three Pillars, but outcomes under several of the objectives are mutually reinforcing and complementary. For example, the proposed interventions in energy under Pillar 1 aim to address the energy deficit in the country and address shortages, leading to improved fiscal and environmental sustainability, while the water resources

¹⁴ Financial management performance is on average rated as Moderately Satisfactory.

management engagement under Pillar 3 will ensure water resources availability for hydropower generation. The support to the Indigenous Peoples’ development agenda under Pillar 2, including increased access to services and economic opportunities, would contribute to national growth and sustainable development. And sectors such as mining and tourism may be able to generate higher growth if Panama becomes a more inclusive society. Finally, the institutional strengthening in public sector management under Pillar 1 links closely to the sector institutional building efforts outlined in other Pillars.

IV. MANAGING RISKS TO THE CPF PROGRAM

111. **Risk in Panama is assessed as moderate with three potential risks that could have substantial impact on the implementation of the CPF.** These risks include uncertain political and governance traction especially on sensitive elements of the Government’s development agenda, weak institutional capacity, and fiduciary risk. Macroeconomic risk was assessed but found to be moderate.

Table 2: Risk in Panama

Risk Categories	Rating (H, S, M, L)
1. Political and governance	S
2. Macroeconomic	M
3. Sector strategies and policies	M
4. Technical design of project or program	L
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	S
7. Environment and social	M
8. Stakeholders	M
Overall	M

112. **With respect to political and governance risk, the Government faces challenges in implementing its development agenda, especially some of the more sensitive elements, due to lack of congressional majority leading to weakened political will.** President Varela allied with center-left *Partido Revolucionario Democrático* shortly before the presidential inauguration in an effort to build consensus and strength for his development agenda. Government is attempting to tackle some sensitive and difficult issues, such as expanding social programs and increasing opportunities for marginalized and Indigenous groups as well as strengthening the institutional framework for Indigenous Peoples’ inclusion. There are risks that the relevant laws may not be passed by the National Assembly, that the Indigenous Peoples’ National Development Plan may not be included in the five-year National Investment Plan, and that the implementation of the Plan get delayed or may not be funded. Any of events could impact delivery of the WBG program, for example, each tranche of the DPL series relies on approval of certain laws as prior actions. Likewise, the WBG’s engagement related to productive inclusion will be in part focused in indigenous territories, thus it is a critical pre-requisite that the National Development Plan be approved to demonstrate consensus on investment and activities to be carried out in these areas. To mitigate these risks, the Government is seeking to create broad support in the Executive Branch and the civil society through planning extensive consultations to promote the approval of the laws,

and exploring different financing mechanisms and emphasizing the need for long term financing. Weakened political will stemming from a breakdown of the governability pact could lead to such a situation. Thus this risk is deemed substantial.

113. Despite robust economic growth in the last decade, a deteriorating international context and the country's vulnerability to natural disasters could impact Panama's macroeconomic stability. Panama has experienced strong economic growth, higher than the regional average. This trend is expected to continue, although the economy is vulnerable to external shocks. Vulnerability to global market conditions remains a risk for Panama, including slow growth in world trade and weaker growth in the United States and in China, potentially reducing both service exports and FDI flows. An economic slowdown in trading partners could also increase the negative effect of Venezuelan policies on the Colon Free Zone exports while the dollarization of the economy is likely to magnify external shocks. There is also a risk that fiscal balances may deteriorate further, in turn limiting ability to respond to negative shocks. The lack of a Central Bank and of an independent monetary policy could further reduce the ability of the Government to implement counter-cyclical policy. These risks are somewhat eased by relatively stable FDI that finance the current account, an accumulation of savings in the sovereign wealth fund and the country's relatively easy access to financing given its investment grade credit rating. Panama also has increasing access to a number of contingency lines of credit and insurance to enable it to respond quickly and efficient to natural disasters and weather events. Given Government's commitment on the fiscal consolidation process, including savings from reducing the energy subsidies, the overall macroeconomic risk is deemed moderate. In the context of the WBG's development policy lending dialogue with the Government, the WBG will continue to monitor the evolution of the macroeconomic framework and advise the Government on necessary measures to respond to vulnerabilities. Moreover, the WBG engagement will continue to provide TA and financing to enable the country to respond to disaster, including the DPL with a Catastrophe Deferred Drawdown Option.

114. A key institutional risk relates to the weak capacity of public institutions. This risk is magnified in sectors in which the relevant institutions do not have experience with WBG procedures. In the past, this has created delays in the implementation of the WBG portfolio, such as in the water sector where procurement issues delayed project implementation by two years. To mitigate this risk, the WBG will work closely with implementing institutions and provide early and regular capacity building, particularly on procurement procedures. This approach will reduce time on the implementation and provide better results.

115. Finally, fiduciary risks are considered to be substantial. These relate mainly related to cumbersome ex-ante controls by the Comptroller's General Office for contract signing and payments, lower budget allocations than requested leading to implementing entities having to make additional budget requests throughout the year, and weak institutional capacity. These risks could all slow implementation of the WBG program. To mitigate these risks, the WBG will continue supporting the strengthening of public financial management systems to facilitate timely and reliable accounting and budgeting records, control, and reporting of projects, and will seek opportunities during project design to pursue further simplification of required procedures in addition to capacity building.

ANNEX 1. CPF RESULTS MONITORING MATRIX

<p>Pillar 1: Supporting Continued High Growth</p>
<p>Panama seeks to sustain its successful model of rapid growth and significant poverty reduction through high levels of investment and increased economic productivity. To deepen its position as a regional and international logistics hub and build on its port and airport network, Panama continues to invest in large public infrastructure and logistics projects. Sustainable urban development not only contributes to higher levels of growth but also increases inclusivity and environmental sustainability. The country is also expected to continue to attract private investment, including FDI, given its stable macroeconomic environment and growing service industry, especially around the Canal. The Government seeks to continue its current strategic approach to sustaining growth while creating opportunities for diversification into new sectors of potential growth, such as mining, tourism and financial services. But continued private sector growth is not a given, and the country faces a number of priority structural constraints to growth, on both the private and public sector sides. While public investment programs are likely to remain significant even after the expansion of the Canal is completed, limited fiscal space will require fostering new growth opportunities in the private sector. The SCD identified a number of structural constraints to growth, including infrastructure and energy, education and skills, and public sector capacity and institutions, with respect to regulatory frameworks, transparency and efficiency. Easing emerging constraints to enhance the productivity of existing industries and create the adequate space for new ones to be fostered is necessary for the current growth performance to be sustained. This Pillar supports objectives that support Government's efforts at maintaining high levels of growth that ultimately translate into greater poverty reduction and shared prosperity through fostering private investments into existing and new growth sectors and addressing two major bottlenecks to growth, namely the energy sector and public sector capacity. Thus, the Pillar's objectives are to: (i) support enhanced logistics and connectivity; and (ii) increase reliability of energy supply; and (iii) improve budget management transparency.</p>
<p>Objective 1: Support enhanced logistics and connectivity</p>
<p>Intervention Logic: Sustained high growth requires deepening Panama's position as a highly competitive logistics hub and fostering continued high levels of investment that will in turn generate employment and income opportunities. Panama has ample opportunities to strengthen its position as an international and regional logistics hub. The transport and logistics sector is already one of the most important and dynamic sectors in the economy and is expected to remain a major contributor to growth. Continued contribution of the Panama Canal to the economy depends on its expansion and ability to handle larger container ships that are more efficient in fuel cost per TEU/mile than the Panamax fleet. The higher volume of cargo passing through the expanded Canal by itself is also expected to increase demand for additional transport, infrastructure and logistics facilities and services to support the increased Canal operations. Given the potential of Panama City to continue being an engine of growth for the country, it is imperative to continue modernizing the city and updating its transport, connectivity and urban infrastructure. The metropolitan area is home to 30 percent of the country's population and over half of its GDP. Yet its fast urbanization and role as a regional hub is not being matched by adequate planning and management capacity to respond to the growing demand for high level services and accessibility linked to its economic activities. The CPF seeks to contribute to fostering high levels of investment and increasing connectivity and accessibility through better transport and urban planning and stronger local institutions. Under this objective, Panama's position as a highly competitive logistics hub is expected to be strengthened; and accessibility to social and economic opportunities in the Panama metropolitan area is expected to be increased.</p>

CPF Indicators	Supplementary Progress Indicators	WBG Program
1.1.1 Cargo volume through the Panama Canal <i>Baseline:</i> 330 million tons (2008) <i>Target:</i> 600 million tons (2016)		<i>New</i> <ul style="list-style-type: none"> •Possible IFC port sector investment •Possible MIGA Guarantee Metro Line 2 •Possible Municipal Capacity building and Urban Revitalization Lending with the Municipality of Panama
1.1.2 Percentage increase in opportunities within a 60 or 45-minute travel time by transit for the bottom 40 percent in the Panama city metropolitan area (disaggregated by gender) <i>Baseline:</i> To be calculated (2015) <i>Target:</i> Baseline + 10% (2017)	<p>Strategic measures to improve urban mobility under implementation <i>Baseline:</i> No <i>Target:</i> Yes by 2016</p> <p>Strategy formulated for urban revitalization in priority sub-districts <i>Baseline:</i> No <i>Target:</i> Yes by 2016</p> <p>Policy formulation and regulatory reforms for multimodal transport and land use under implementation <i>Baseline:</i> No <i>Target:</i> Yes by 2017</p>	<ul style="list-style-type: none"> •Possible RAS on Urban Transport Planning in Panama City •Knowledge work on creating simulation models for different growth scenarios •Knowledge work on quality and resources of regions, municipalities and metropolitan areas in Panama <i>On-going</i> <ul style="list-style-type: none"> •IFC US\$300 million Canal expansion loan (P26665) •MIGA Guarantee Metro Line 1 •TA on Urban Planning to the Municipality of Panama (P154224) •Panama Urban Mobility TA (P152848) •Central America Urbanization Review (P152713) •Spatial Analysis of Secondary Cities (P153977)
Objective 2: Increase reliability of energy supply		
<p>Intervention Logic: The energy sector suffers from capacity constraints with power being largely supplied through hydropower and fossil fuels and the sector unable to keep pace with the growing demands of the economy. Moreover, high energy subsidies results in a large fiscal cost to Government and are regressive. The WBG will support increased reliability of energy supply through increasing generation capacity (and through both transmission and interconnection capacity) and introducing demand management techniques (including related to pricing and subsidies). Emphasis will also be placed on diversifying the energy matrix through investments in renewables and the institutional strengthening of the sector (DPL, TA/RAS, IFC). IFC is working on the development of a Green Building Code to promote minimum mandatory sustainable building standards in commercial and residential buildings for more efficient energy.</p>		

CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>1.2.1 Number of days without mandatory load shedding reduced <i>Baseline:</i> 30 days per year <i>Target:</i> 0 days per year (2020)</p> <p>1.2.2 People provided with new or improved access to electricity (million) <i>Baseline:</i> 0 <i>Target:</i> 211,000 (2020)</p>	<p>National energy efficiency program introduced to reduce energy consumption <i>Baseline:</i> No <i>Target:</i> Yes (2016)</p> <p>Reduction in energy consumption in new buildings with permits approved under the Green building code Panama <i>Baseline:</i> 0 <i>Target:</i> 20 percent (2018)</p> <p>Additional capacity in the system (from IFC wind and hydro power projects) <i>Baseline:</i> 0 <i>Target:</i> 857 GWh (2018)</p> <p>National 15-year Energy Strategy approved, including measures to improve governance framework <i>Baseline:</i> No <i>Target:</i> Yes (2020)</p>	<p><i>New</i></p> <ul style="list-style-type: none"> •First Programmatic Shared Prosperity Development Policy Loan (P151804) •Technical Assistance (TA) in Energy Sector •Possible Energy Efficiency Reform Lending or Reimbursable Advisory Services (RAS) <p><i>On-going</i></p> <ul style="list-style-type: none"> •Parque Eolico Penonome Phase 2&3 (IFC) (P34810) •Pando and Montelirio hydro (IFC) (P 27975) •Advisory Regional Green Building LAC project (P600110) (IFC Advisory T&C) •Sustainable Energy in Panama TA (P153321)
Objective 3: Improve budget management transparency and capacity		
<p>Intervention Logic: The weak capacity of public sector institutions, with respect to regulatory frameworks, efficiency and transparency, appears as a key structural constraint to growth. Panama requires modern regulatory frameworks to promote adequate oversight, enforce consistent social and environmental safeguards and standards across sectors, and strengthen financial sector regulation. As a small open economy with an exchange rate anchored on the US Dollar, Panama needs efficient fiscal management, critical for continued stability. While in general Panama has sound fiscal policies, it lags in terms of the institutional framework for efficient fiscal management. There is also a critical need to improve the transparency and efficiency of public expenditure, including public investment, which requires better planning and budget management. Obsolete budgetary institutions and systems weaken the ability of the Government to track the impact of public expenditures and prevent accurate reporting and decision-making. The result is that the rapidly increasing budgetary resources during the last decade have not had an impact commensurate with the efforts.</p>		

CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>1.3.1 Increased transparency in budget management, as measured by financial statements for budget execution being automatically generated for all Central Government entities</p> <p><i>Baseline:</i> No</p> <p><i>Target:</i> Automatic generation (2018)</p>	<p>ITSMO rolled out at the central level and to all public sector entities</p> <p><i>Baseline:</i> No</p> <p><i>Target:</i> Yes at the central level (2016) Yes to all public sector entities (2017)</p>	<p><i>New</i></p> <ul style="list-style-type: none"> •First Programmatic Shared Prosperity Development Policy Loan (P151804) <p><i>On-going</i></p> <ul style="list-style-type: none"> •Public Sector Efficiency TA Loan (P121492) •Public Debt Management TA •Investment Prioritization TA
<p>Pillar 2: Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups</p>		
<p>Greater inclusion is a priority of this Government, with emphasis on efficiency and effectiveness of social programs, creation of opportunities for the most vulnerable, and access and quality of service delivery. Social protection programs played an important role in poverty reduction in rural areas, without which income inequality would have been greater. Over the last eight years, the Government has phased in a variety of programs targeting different vulnerable groups. Both the coverage and the benefits of social assistance have expanded, reaching greater numbers of beneficiaries. However, challenges remain with respect to efficiency and effectiveness of these programs, with the need to continue improving targeting, reducing leakage, and adapting the design of these programs to the geographical and cultural contexts within which they are delivered. Moreover, the Government recognizes that enhancing the capacity of the population to participate and contribute to economic activity is critical to effectively reaching the extreme poor and the most marginalized groups, beyond simply providing financial assistance. The Government's strategy also takes into account that reaching the excluded will require adapting approaches, for instance, in rural areas or difficult urban environments or for particular marginalized groups, such as Indigenous Peoples or unemployed youth. Beyond social protection, sustainable income-generating opportunities can be fostered by an integrated landscapes approach to produce long-term well-being, dignity and poverty reduction. MSMEs tend to be primary income-generating opportunities for the poor, but insufficient access to finance is a key constraint. Labor income and self-employment are the largest contributors to poverty alleviation. However, financing is extremely difficult to obtain with the vast majority of MSMEs having to rely on self-financing, without access to commercial credit. As such, expansion of financial services is a key element of fostering income-generating opportunities for Panama's poor and marginalized. Given that certain areas and groups continue to lag behind in terms of access and quality of services, innovative approaches will need to be employed around service delivery mechanisms, engaging communities more effectively and strengthening the capacities of institutions responsible for service delivery. Thus this Pillar supports two objectives, to (i) complement social assistance with productive inclusion; and (ii) improve access to water and sanitation services.</p>		
<p>Objective 4: Complement social assistance with productive inclusion</p>		
<p>Intervention Logic: The Government seeks to complement social assistance with productive inclusion by (i) strengthening coverage of social assistance programs; (ii) improving efficiency of those programs through better targeting and harmonization of benefits to eliminate duplication in programs; (iii) introducing a productive component through skills development and facilitation of linkages to jobs and/or income-generating opportunities in rural areas (DPL, Social Protection Program, Rural Productivity); and (iv) enhancing financial</p>		

inclusion. Given that indigenous people are over represented among the poor, these activities will particularly benefit them. The Government is also seeking to foster economic opportunities for the poor by coupling social assistance with territorial planning to address chronic barriers to productive inclusion. Providing access to financial services and markets is also a critical stepping stone for creating economic opportunities for the poor. At the micro enterprise level, this will result in self-employment opportunities and increased or smoother incomes, and allow for growth of SMEs (or to reduce failure) which will most likely result in new jobs, higher wages, and increased access to markets. Social programs are expected to be better targeted covering the poorest of the poor and more effective in impact and provide skills and access to jobs or income-generating opportunities that are both culturally and environmentally sustainable.

CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>2.4.1 Percentage of the bottom quintile benefitting from social assistance increased (disaggregated by gender) <i>Baseline:</i> 38 percent (2013) <i>Target:</i> 48 percent (2020)</p>	<p>Beneficiary rosters of social assistance programs recertified <i>Baseline:</i> No <i>Target:</i> Yes (2016)</p> <p>Targeting and eligibility for the 120/65 non-contributory pension program enhanced <i>Baseline:</i> No <i>Target:</i> Yes (2016)</p> <p>Culturally differentiated programs in health and education for beneficiaries of <i>Red de Oportunidades</i> are available <i>Baseline:</i> Standard programs <i>Target:</i> Differentiated programs (2017)</p> <p>Percentage of <i>Red de Oportunidades</i> transfers provided by the Government through the banking system <i>Baseline:</i> 0 <i>Target:</i> 60 percent of funds (2017)</p> <p><i>Red de Oportunidades</i> coverage in Indigenous areas expanded following recertification <i>Baseline:</i> No <i>Target:</i> Yes (2018)</p>	<p><i>New</i></p> <ul style="list-style-type: none"> •First Programmatic Shared Prosperity Development Policy Loan (P151804) •Sustainable Production Systems and Conservation of Biodiversity GEF (P145621) •Social Protection Project FY15/16 •Rural Productivity Project FY16 •Possible IFC investments in FIs (for SME lending) •Knowledge work on the constraints and opportunities of all ethnic groups FY18 <p><i>On-going</i></p> <ul style="list-style-type: none"> •Social Spending Efficiency and Institutional Review (P146907) •Skills and Productive Inclusion TA (P147634) •Poverty and Social Evaluation of <i>120 a los 65</i> social pension program •TA on Indigenous People’s Agenda •Sustainable Production Systems and Conservation of Biodiversity Project Trust Fund (TF022993) •School Dropouts: Causes and Consequences (P153075)

<p>2.4.2 Number of beneficiaries in the integrated social assistance registry receiving training and access to market opportunities (disaggregated by gender) <i>Baseline:</i> 4,000 (2014) <i>Target:</i> 25,000 (2020)</p>	<p>Number of youth enrolled in <i>Red de Oportunidades</i> who benefit from training or employment services (disaggregated by gender) <i>Baseline:</i> 730 (no disaggregation yet) <i>Target:</i> 5,000 (2017)</p> <p>Annual program* reports specify the number of complaints received and addressed <i>Baseline:</i> Annual program reports specify the number of complaints received (2014) <i>Target:</i> Bi-annual program reports include number / type of complaints received and number / type of replies (2018) *Programs include <i>Red de Oportunidades</i>, <i>120 a los 65</i>, and <i>Angel Guardian</i></p>	<ul style="list-style-type: none"> •Central America Social Protection Systems TA (P153468) •Central America Gender Mainstreaming (P146608)
<p>2.4.3 People, microenterprises and SMEs reached with financial services <i>Baseline:</i> 17,528 (micro) + 5,017 (SME) (2013) <i>Target:</i> 41,920 (micro) + 8,795 (SME) (2018)</p>	<p>Volume of micro and SME outstanding portfolio (US\$ million) <i>Baseline:</i> US\$55m (micro) + US\$266m (SME) (2013) <i>Target:</i> US\$114m (micro) + US\$456m (SME) (2018)</p>	
<p>Objective 5: Improve access to water and sanitation services</p>		
<p>Intervention Logic: Access to basic services, including health, education, and water and sanitation, is critical for improving human development outcomes of the population and especially the poor. This CPF is focusing on water and sanitation given its high priority for the Government and the WBG’s strong track record in the area. Considerable gaps remain in the sustainable delivery of reliable WSS across the country, with the gaps greater among urban poor and in rural areas. The reliability of the service is hampered by considerable water losses through leakages in the network. At the core of the present situation is a weak institutional set-up that has led to an inefficient use of resources, weak planning capacity and financial unsustainability. The Government has launched an ambitious water and sanitation program – <i>Plan de Sanidad Basica</i> – to expand access to reliable and sustainable WSS services in urban and rural areas with the goal that 100 percent of households has access to water and zero households rely on latrines. It is also committed to strengthening its institutions in the WSS sector. The WBG remains open to engagements in other basic service areas, as may be requested by the Government in the future.</p>		

CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>2.5.1 Additional people with access to reliable water supply or to improved sanitation services in targeted lower income urban areas and rural areas (disaggregated by gender)</p> <p><i>Baseline:</i> 0 <i>Target:</i> 120,000 (2020)</p>	<p>Strategy for the institutional and tariff reforms for IDAAN approved</p> <p><i>Baseline:</i> No <i>Target:</i> Yes (2017)</p> <p>Investments planned based on WSS Master Plans in targeted urban areas</p> <p><i>Baseline:</i> No <i>Target:</i> Yes (2017)</p>	<p><i>New</i></p> <ul style="list-style-type: none"> •First Programmatic Shared Prosperity Development Policy Loan (P151804) •Metro Agua II Project FY16 •Rural WSS Project FY TBD
<p>2.5.2 Increase in number of communities with sustainable rural WSS services</p> <p><i>Baseline:</i> 0 <i>Target:</i> 60 (2020)</p>	<p>Rural WSS National Strategic Plan completed</p> <p><i>Baseline:</i> No <i>Target:</i> Yes (2017)</p> <p>Standardized information system for improving the monitoring of water management in rural areas implemented in more than 50 percent of targeted communities</p> <p><i>Baseline:</i> 0 <i>Target:</i> 5000 (2018)</p>	<p><i>On-going</i></p> <ul style="list-style-type: none"> •PA Metro Water and Sanitation Improvement Project (P119694) •Water, Sanitation and Hygiene Poverty Diagnostic Panama (P150563) •Water and Sanitation Program (TF070962) •Central America Gender Mainstreaming (P146608) •Status of Disaster Risk Management in the WSS sector in FOCARD-APS member countries (P132057) •Monitoring Country Progress in Water Supply and Sanitation in Central America (P132281) •Support FOCARD-APS establishing a Regional Agenda for Sanitation (P132284) •Monitoring Country Progress in Water Supply and Sanitation in Latin America - Phase II (P149602) •Improving RWSS National Strategies (P153734)

Pillar 3: Bolstering Resilience and Sustainability

Challenges to the sustainability of Panama's stellar growth performance emerge from various sources. Stresses on water and natural resources coupled with climate change risks are emerging as a potential threat. Changing weather patterns may have a potential impact on the availability of water, which impacts various sectors, including energy. Rainfall shortages for example reduce the availability of hydropower and force the use of expensive emergency power stations that depend on petroleum products. The result is higher cost electricity to the entire population. These risks may be mitigated through diversification of power generation sources to include a variety of renewable energy, clean fossil fuels, energy efficiency measures and the use of financial instruments to mitigate the impact of short term volatility from commodity prices and rainfall. Rapid growth pressures natural and water resources with the lack of enforcement of adequate environmental and water resources management regulations and standards. Weak understanding of the risks the country faces handicaps an effective mitigation strategy. Panama requires the capacity to adapt fiscal and policy management quickly and flexibly to respond to natural disasters. To respond to shocks prudent fiscal management and a comprehensive strategy for the management of risk and uncertainty are pre-requisites. Much progress has been made on fiscal management, with the adoption of the Fiscal and Social Responsibility Law. However, over the long-term, an important objective is the continuation of mainstreaming of risk management into public policy and the protection of the most critical infrastructure and services. This implies the active management of the possible contingent liabilities that the Government might be facing in its balance sheet. Improving the management of water resources is a major priority for the economy given its potential impact on Canal operations, the supply of electricity, the security of drinking water, especially in rural areas, and quality of the ecosystems for tourism, agriculture and human settlements. This Pillar has two objectives, to (i) strengthen resilience to natural disasters; and (ii) support integrated water resources management in priority areas.

Objective 6: Strengthen resilience to natural disasters

Intervention Logic: Panama is highly exposed to natural disasters. Floods and landslides are becoming recurrent events, driven in part by climate change that is altering weather patterns and affecting the availability of water with severe consequences for the economy. Seismic events, although thought of as a rarer event, pose a more significant risk. However, although the density and average height of urban construction is increasing, new buildings do not meet seismic criteria in compliance with international construction standards. The Government has taken measures to cover the fiscal risk due to the impact of natural disasters and Panama has continued to put into place an institutional and financial framework to prepare for natural disasters. The Government intends to continue building the readiness of the country, including the creation and expansion of contingency lines of credit and insurance that will provide a broad and seamless coverage at minimum costs, and implementation of the Disaster Risk Financing and Insurance Strategic Framework, which includes a roadmap for the development of other complementary financial protection instruments, such as weather related derivatives. Additional work is expected to internalize and make mandatory the incorporation of disaster risk criteria in planning processes. WBG efforts will focus on mainstreaming the management of risk and disasters.

CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>3.6.1 Increased ability of Government to manage risks, as measured by the active implementation of a risk management strategy</p> <p><i>Baseline:</i> No <i>Target:</i> Yes (2020)</p>	<p>Five-year Operational Plan on Fiscal Policy related to management of Disasters approved</p> <p><i>Baseline:</i> No <i>Target:</i> Yes (2016)</p> <p>Mapping of contingent liabilities completed</p> <p><i>Baseline:</i> No <i>Target:</i> Yes (2018)</p>	<p><i>New</i></p> <ul style="list-style-type: none"> •First Programmatic Shared Prosperity Development Policy Loan (P151804) <p><i>On-going</i></p> <ul style="list-style-type: none"> •Disaster Risk Management Development Policy Loan with a CAT-DDO (P122738) •Support to Panama Disaster Risk Management Program (TF070611)
Objective 7: Support integrated water resources management in priority areas		
<p>Intervention Logic: The management of water resources is emerging as central concern to the sustainability of the growth process of Panama. The WBG will work with the Government to clean up Panama Bay as a first step to address contamination to the country. The WBG will also focus on closing the knowledge gap with respect to water resources management challenges as part on an ongoing dialogue, with options to strengthen the regulatory and institutional framework to manage water resources and the environment, including through piloting river basin management plans in selected priority areas outside the Canal watershed.</p>		
CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>3.7.1 Additional volume of treated wastewater according to environmental norms entering the Panama Bay</p> <p><i>Baseline:</i> 0 <i>Target:</i> 300 l/s (2020)</p>	<p>Contracts awarded for Panama Bay sewerage collection system in low income areas</p> <p><i>Baseline:</i> None <i>Target:</i> All (2017)</p> <p>Water resource management assessment and roadmap completed</p> <p><i>Baseline:</i> No <i>Target:</i> Yes (2017)</p> <p>Pilot water resource management plan under implementation</p> <p><i>Baseline:</i> None <i>Target:</i> 1 (2018)</p>	<p><i>New</i></p> <ul style="list-style-type: none"> •Panama Bay Sewerage Collection System in Low Income Areas Project FY16/17 •Water Resources Management TA • Pilot water resources management plans in selected river basins <p><i>On-going</i></p> <ul style="list-style-type: none"> •PA Metro Water and Sanitation Improvement Project (P119694) •Water, Sanitation and Hygiene Poverty Diagnostic Panama (P150563) •Water and Sanitation Program (TF070962)

ANNEX 2: MONITORING AND EVALUATION OF THE CPF RESULTS FRAMEWORK

INDICATORS	OPERATIONAL DEFINITIONS AND SOURCES OF DATA
1.1.1 Cargo volume through the Panama Canal	<p>Volume in tons of cargo that passes through the Panama Canal on an annual basis. <i>Baseline:</i> 330 million tons (2008) <i>Target:</i> 600 million tons (2016) <i>Source of data</i> is the Panama Canal Authority and data will be collected on an annual basis.</p>
1.1.2 Percentage increase in opportunities within a 60 or 45-minute travel time by transit for the bottom 40 percent in the Panama city metropolitan area	<p>Opportunities are defined as jobs, education and health facilities, entertainment, markets and public open space. Accessibility is calculated using a Bank open source tool developed for urban mobility assessment, which uses other available open data and open source tools, such as Open Trip Planner Analyst, OpenStreetMap, transit routes and service plans in the General Transit Feed Specification scheme. The tool combines travel times in different travel modes and for each origin-destination pair with the location of the economic and social opportunities to calculate the accessibility for a given travel time threshold. Disaggregated by gender. <i>Baseline:</i> to be calculated as part of ongoing TA using data from the <i>Plan Integral de Movilidad Urbana Sostenible</i>, including detailed assessment of current transit service provision and the geographic location of economic and social opportunities <i>Target:</i> Baseline + 10% (2017) Changes in the indicator will only happen if there are major changes in transit service levels (routes, capacity, frequency, etc.) or spatial pattern of urban development and land use. <i>Source of data</i> is the transit management body for the integrated transport system for updates on the geographic location of economic and social opportunities.</p>
1.2.1 Number of days without mandatory load shedding reduced	<p>Total number of days per year without mandatory load shedding. Load shedding is defined as the deliberate shutdown of electric power in a part or parts of a power-distribution system, generally to prevent the failure of the entire system when the demand strains the capacity of the system. In the case of Panama, in 2014, to prevent the failure of the entire power system during a time when supplies were constrained (by rainfall shortages, power plant failures, and transmission system bottlenecks) and demand was high (especially due to high temperatures resulting in increased demand for air conditioning), the Government imposed mandatory load shedding requirements that included: (i) Cut off of air conditioning units for four hours each day; (ii) Mandatory closure of supermarkets, bars and restaurants between 10:00 pm and 6:00 am; and (iii) Closure of schools and reduction in the hours for government offices. <i>Baseline:</i> 30 days per year (2014) <i>Target:</i> 0 days per year (2020) <i>Source of data</i> is the annual report of the National Energy Regulator.</p>

<p>1.2.2 People provided with new or improved access to electricity</p>	<p>Number of people, in millions, that have received a new connection or improved service thanks to increased power generation or new or upgraded distribution/transmission lines as a result of WBG-supported operations. World Bank contribution includes the number of people who have received a new grid or off-grid electricity connection and the number of people that have benefitted from increased generation capacity, a proportion of whose output is reasonably estimated to be powering residential customers. IFC contribution includes the estimated number of full service-equivalent residential customers that have access to power with power generated by the project and the number of residential customers benefiting from power distribution.</p> <p><i>Baseline:</i> 0 <i>Target:</i> 211,000 (2020) <i>Source of data</i> is from IFC's investments in <i>Penonome</i> and <i>Montelirio</i>. Data will be collected on a yearly basis.</p>
<p>1.3.1 Increased transparency in budget management, as measured by financial statements for budget execution being automatically generated for all Central Government entities</p>	<p>Financial statements for budget execution automatically generated for all Central Government entities.</p> <p><i>Baseline:</i> No <i>Target:</i> Automatic generation (2018) <i>Source of data</i> is the Ministry of Finance and Economy. Data will be collected on an annual basis.</p>
<p>2.4.1 Percentage of the bottom quintile benefitting from social assistance increased</p>	<p>Number of people in the bottom quintile benefitting from social assistance divided by total number of people in the bottom quintile. Disaggregated by gender.</p> <p><i>Baseline:</i> 38 percent (Household survey data, 2013) <i>Target:</i> 48 percent (2020) <i>Source of data</i> is the National Household Survey for the number of people in the bottom quintile. Data on the number of social assistance beneficiaries is from the integrated social assistance registry. Social assistance programs include <i>Red de Oportunidades</i>, <i>Plan de Seguridad Alimentaria y Nutricional</i> (which delivers food vouchers to extreme poor families in areas without schools or health centers) and <i>120 a los 65</i>.</p>
<p>2.4.2 Number of beneficiaries in the integrated social assistance registry receiving training and access to market opportunities</p>	<p>Number of beneficiaries in the integrated social assistance registry receiving training plus number of beneficiaries in the integrated social assistance registry receiving access to market opportunities. Disaggregated by gender. Training includes training delivered by the Small and Micro Enterprise Authority, the National Training Institute, the Ministry of Agriculture and other agencies, and facilitated by the Ministry of Social Affairs. Market opportunities include rural productivity packages, agricultural extension activities, labor intermediation, and occupational training programs.</p> <p><i>Baseline:</i> 4,000 (year) <i>Target:</i> 25,000 (2010) <i>Source of data</i> is the integrated social assistance registry. Data will be collected on an annual basis.</p>

<p>2.4.3 People, microenterprises and SMEs reached with financial services</p>	<p>Number of people, microenterprises, and SMEs reached with financial services supported by WBG-financed operations. Efforts to harmonize definitions across World Bank and IFC will be deepened, to allow the disaggregation of reporting of individuals/micro enterprises and SMEs reached.</p> <p>For the World Bank, financial services refer primarily to loans outstanding to individuals, microenterprises, and SMEs. Efforts will be made in the future to also cover additional financial services supported by the World Bank, such as access to deposit accounts.</p> <p>IFC counts a broad range of financial services with data disaggregated between individuals/micro enterprises and SMEs, including:</p> <ul style="list-style-type: none"> • <i>Individuals/Micro Finance</i>: This category includes deposit accounts, the number of outstanding micro, housing, and retail loans as well as clients reached with insurance and pensions. IFC counts the year-end number of outstanding loans, clients insured, and deposit accounts. Microfinance loan is defined as a commercial loan with amount at origination up to US\$10,000. Retail loans include consumer credit cards, store cards, motor (auto) finance, personal loans (installment loans), consumer lines of credit, and retail loans (retail installment loans). • <i>SME Finance</i>: SME finance includes SME loans, leasing, as well as enterprise insurance. SME loan is defined as a commercial loan with amount at origination between US\$10,000 to US\$1,000,000 (or to US\$2,000,000 in more advanced economies). Enterprise insurance includes the number of non-life commercial lines and agribusiness. <p><i>Baseline</i>: 17,528 (micro) + 5,017 (SME) (2013) <i>Target</i>: 41,920 (micro) + 8,795 (SME) (2018) <i>Source of data</i> is from IFC investments. Data will be collected on an annual basis.</p>
<p>2.5.1 Additional people with access to reliable water supply or to improved sanitation services in targeted lower income urban areas and rural areas</p>	<p>Number of additional people that have access to reliable water supply or improved sanitation services within targeted lower income areas. Disaggregated by gender.</p> <p>Reliable water is defined as piped potable water with adequate pressure and continuity of at least 16 hours per day, 7 days per week. The Project will accept the following sanitation solutions as improved: (i) connection to a public sewer; and (ii) connection to an on-site treatment system.</p> <p><i>Baseline</i>: 0 (2015) <i>Target</i>: 120,000 (2020) <i>Source of data</i> and periodicity of data collection</p>
<p>2.5.2 Increase in number of communities with sustainable rural WSS services</p>	<p>Number of communities with sustainable rural WSS services. Sustainable is defined as community, system and service provider type A in the information system (SIASAR). This is rural WSS information system to collect and publish up-to-date information on a public web interface, with a mobile application operational in certain communities. Rural Communities in Panama are defined as population with less than 1,500 people.</p> <p><i>Baseline</i>: 0 (2015) <i>Target</i>: 60 (2020) <i>Source of data</i> is the data collection system (www.siasar.com). Data will be provided on a yearly basis.</p>

<p>3.6.1 Increased ability of Government to manage risks, as measured by the active implementation of a risk management strategy</p>	<p>To develop a risk management strategy, the Government will first need to undertake a mapping of risk to gain an understanding of the country’s exposure to risk. Following the mapping exercise, the Government will need to decide on an acceptable risk management strategy based on its assessment of a number of variables, including the market and availability of different contingent financing mechanisms, prices, events covered, and Panama’s appetite for risk. The strategy will outline the various contingent financing instruments and mechanisms that it may use in the event of a natural disaster. For high frequency but low severity events, retention instruments to be used are budget reallocations and the general contingency budget line that does not require an exemption. For less frequent but more severe events, contingent credit lines and resources from an emergency fund that require a waiver could be used. For very rare but very severe events, the Government could access other retention and transfer resources, such as the Panama Saving Fund and catastrophe insurance. In order to strengthen and complement these instruments, the Government plans to analyze catastrophe insurance, strengthen the co-insurance scheme, create an emergency fund, and establish standards for concessions insurance.</p> <p><i>Baseline:</i> No strategy <i>Target:</i> Risk management strategy development and actively implemented (2020) <i>Source of data</i> is the Ministry of Finance and Economy. Data will be collected on an annual basis.</p>
<p>3.7.1 Additional volume of treated wastewater according to environmental norms entering the Panama Bay</p>	<p>Additional volume, in liters/second, of treated wastewater according to environmental norms entering the Panama Bay. Indicator seeks to determine the proportion of wastewater that is treated, in order to reduce pollutants before being discharged to the environment, by level of treatment according to acceptable standards. Panamanian environmental norms are 35 mg/L of BOD5 and 35 mg/L of total suspended solids.</p> <p><i>Baseline:</i> 0 (2015) <i>Target:</i> 300 l/s (2020) <i>Source of data</i> is the Panama Bay Authority and data will be collected on an annual basis.</p>

ANNEX 3. SELECTED INDICATORS* OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT

As of 1/8/2015

Indicator	2012	2013
<i>Portfolio Assessment</i>		
Number of Projects Under Implementation ^a	8	9
Average Implementation Period (years) ^b	3.7	4.2
Percent of Problem Projects by Number ^{a, c}	25.0	11.1
Percent of Problem Projects by Amount ^{a, c}	9.9	9.9
Percent of Projects at Risk by Number ^{a, d}	37.5	11.1
Percent of Projects at Risk by Amount ^{a, d}	20.5	9.9
Disbursement Ratio (%) ^e	15.3	20.1
<i>Portfolio Management</i>		
CPPR during the year (yes/no)		
Supervision Resources (total US\$)		
Average Supervision (US\$/project)		
Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	43	1
Proj Eval by OED by Amt (US\$ millions)	1,214.8	0.0
% of OED Projects Rated U or HU by Number	35.0	0.0
% of OED Projects Rated U or HU by Amt	20.2	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year. Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX 4. OPERATIONS PORTFOLIO (IBRD AND GRANTS)
As of 1/9/2015
(in US\$ millions)

IBRD/IDA *

Total Disbursed (Active)	261.17
of which has been repaid	9.12
Total Disbursed (Closed)	712.10
of which has been repaid	486.06
Total Disbursed (Active + Closed)	973.28
of which has been repaid	495.18
Total Undisbursed (Active)	138.36
Total Undisbursed (Closed)	4.10
Total Undisbursed (Active + Closed)	142.47

<u>Active Projects</u>	Project Name	<u>Last PSR</u>			<u>Original Amount in US\$ Millions</u>					<u>Difference Between Expected and Actual Disbursements^{a/}</u>	
		Supervision Rating		Fiscal Year	IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P122738	PA CAT DDO	S	S	2012	66				66		
P121492	PA Enhanced Public Sector Efficiency TAL	MU	MU	2011	55				38.39585		
P119694	PA Metro Water and Sanitation Improvement	MS	MS	2010	40				33.41837	31.33504	
P064918	PA Rural Productivity (former 2nd Rur Po)	S	S	2007	39.4				0.547849	0.547849	
P146942	PA Third Programmatic Development Policy	S	S	2014	200						
Overall Result					400.4				138.3621	184.7213	-

a/ Intended disbursements to date minus actual disbursements to date as projected at appraisal

ANNEX 5. IFC COMMITTED AND DISBURSED OUTSTANDING INVESTMENT PORTFOLIO
As of 12/31/2014
(in US\$ millions)

<u>FY Commitment</u>	<u>Company</u>	<u>Committed</u>					<u>Disbursed Outstanding</u>				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Loan/ Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Loan/ Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>
2012	Bac intl Banco	17.86	0	0	0	0	17.86	0	0	0	0
2011	general s.	35	0	0	0	0	35	0	0	0	0
2010/14	Del istmo re Banco	0	12.88	10	0	0	0	12.88	10	0	0
2013/14/15	LAFISE Pa	0	0	0	5	0	0	0	0	5	0
2013	Delta banco Digicel	4.67	0	0	0	0	4.67	0	0	0	0
2009	(panama)	24.67	0	0	0	0	24.67	0	0	0	0
2010	Electron Laureate	22.55	0	13.35	15.22	0	22.55	0	13.35	11.94	0
2013	panama	25	0	0	0	0	12.5	0	0	0	0
2009/10/ 11/12/13/14	Multibank St. Georges	40	0	0	15	0	30	0	0	15	0
2015	Bank	0	0	0	.34	0	0	0	0	.34	0
2003/04	UEP II	80	0	16	3	0	73.51	0	14.7	0	0
2009	Pca/acp	300	0	0	0	0	300	0	0	0	0
Total Portfolio:		549.75	12.88	39.35	38.56	0	520.75	12.88	38.05	32.28	0

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

ANNEX 6: FEATURES OF PANAMA'S 2014-2019 STRATEGIC DEVELOPMENT PLAN

On the economic growth strategy and the need for diversification, the Government will further develop logistics, tourism and the agri-business industry. This growth strategy seeks to support areas beyond the traditional growth engines, investing in those parts of the country with great economic potential. The expansion of these sectors, through improving the regulatory frameworks, strengthening institutional capacity and investing in necessary infrastructure, would produce clear economic and social returns. Other potential sectors of growth for the Panamanian economy include mining and energy. Investment in mining would contribute to GDP and create jobs, while in energy, generation would be increased responding to growing demand, the transmission network would be expanded, including into rural areas, and importantly, subsidies would be reduced, decreasing the fiscal burden.

On the inclusion dimension, the Plan recognizes the need to improve people's quality of life through increasing access to services and strengthening human capital. With respect to quality of life, the Plan focuses on water and sanitation, urban mobility, housing and health. Access to water and sanitation is a critical priority and thus the Government has launched the "Program 100/0" which aims to provide 100 percent of households with potable water and eradicate latrines throughout the country. The Plan also aims to improve the quality of education by giving equal opportunities to all and strengthening vocational training to generate the skills needed in the country's economic sectors. The Government has also committed to deepening the impact of the country's two flagship poverty reduction transfer programs, "*Red de Oportunidades*" and "*100 a los 70*" and improving the efficiency, effectiveness and targeting of all public spending.

The Plan also identifies land and environment management challenges that need to be addressed to enhance sustainability. These challenges include the lack of a legal and institutional framework for land and environment management, limited water resource management, and increase of Panama's vulnerability to climate change. The Plan advocates establishing a Ministry of Environment and a Secretariat of Land Management, adopting a land development and management law, strengthening environment management and developing an integrated watershed management plan and a strategy for adaptation to climate change.

A cross-cutting axis focuses on strengthening the institutional capacity and governance of the public sector. The Government Plan aims to strengthen institutional capacities to improve planning and management, upgrade financial management and public procurement systems, and modernize the public sector to improve transparency.

**ANNEX 7. PANAMA COUNTRY PARTNERSHIP STRATEGY
COMPLETION AND LEARNING REVIEW FY11-14**

Date of CPS: August 24, 2010 (Report No. 54256-PA)

Date of CPS Progress Report: February 13, 2012 (Report No. 74313-PA)

Completion and Learning Review prepared by: Mary Rose Parrish (LCC2C) and Meilyn Gem (LCSPA) with inputs from Frank Sader (IFC), Angela Maria Fonseca (IFC), Alex Cantor (IFC), and the Panama Country Team.

ABBREVIATIONS AND ACRONYMS

ANAM	National Environment Authority
CLR	Completion and Learning Review
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CPSPR	Country Partnership Strategy Progress Report
DPL	Development Policy Lending
GEF	Global Environmental Facility
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IDAAN	National Water Supply and Sanitation Administration
IFC	International Finance Corporation
ISTMO	Integrated Financial Management Information System
ITBMS	<i>Impuesto a las Transferencias de Bienes Corporales Muebles y la Prestacion de Servicios</i>
M&E	Monitoring and Evaluation
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprises
RAS	Reimbursable Advisory Services
RdO	<i>Red de Oportunidades</i>
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprises
TA	Technical Assistance
WBG	World Bank Group
WSS	Water and Sanitation Services

I. Introduction

1. **This Completion and Learning Review (CLR) is a self-evaluation by the World Bank Group (WBG) of the joint IBRD-IFC Panama Country Partnership Strategy (CPS) for FY11-14.** The CLR: (i) evaluates CPS program performance in achieving WBG expected outcomes; (ii) assesses WBG performance in the design and implementation of the program and discusses its alignment with the WBG's twin goals of eradicating extreme poverty and increasing shared prosperity; and (iii) draws lessons for the new Country Partnership Framework. The CLR uses the updated CPS Progress Report (CPSPR) Results Framework to assess the CPS program as well as other inputs where the Results Framework did not fully reflect the contributions of the WBG program.

2. **Overall progress toward achieving CPS outcomes was Moderately Satisfactory.** The overall objective of the CPS was to support the Government and private sector efforts to improve Panama's productive capacity and reduce poverty. The CPS was closely aligned with Government objectives and provided support under three pillars: (i) economic growth that supports competitive advantages; (ii) greater opportunities for all; and (iii) enhanced public sector transparency, effectiveness, and efficiency. Out of 17 outcomes, ten were achieved or mostly achieved, two were partially achieved and five were not achieved. Progress under the pillars was uneven, with the greater number of outcomes achieved under the first and second pillars resulting in Satisfactory and Moderately Satisfactory ratings, respectively. The third pillar is rated Moderately Unsatisfactory given modest progress in achieving outcomes.

3. **WBG performance in designing and implementing the strategy was Good.** The design of the CPS was relevant in the Panamanian context, reflecting the strategic selection of areas of engagement to support Government programs to increase shared prosperity and target the poorest populations in rural and indigenous areas. The CPS was flexible and responsive to the country's priorities, delivering higher than planned financing of US\$521 million and 39 knowledge products and convening services. The IFC engagement was critical to the success of the WBG program with its highly pertinent program that has considerably grown during the CPS period, and alongside MIGA, complimented the IBRD program. However, the Results Framework proved inadequate for effective monitoring of results and the CPSPR was not sufficiently modified to reflect the shift in WBG strategy, and in particular, IFC contribution to the overall implementation of the CPS.

II. Progress Towards Country Development Outcomes

4. **The CPS period was marked by Panama's continued strong economic growth and significant poverty reduction.** Government's five-year plan was focused on sustainable economic growth, human capital generation and social inclusion. As a result of high rates of growth, Panama reduced poverty (using the national poverty line) from 39.9 percent of the population to 26.2 percent, and extreme poverty from 15.6 percent to 11.3 percent between 2007 and 2012.¹⁵ The

¹⁵ *Panama: Locking in Success: Panama Systematic Country Diagnostic* (January 19, 2015) There are minimal discrepancies due to small methodological differences with Panama's *Informe de Análisis Económico y Social* in 2007 and 2012 which has 36.5 percent and 26.5 percent as the respective poverty rates.

sustained growth, averaging 8.96 percent of GDP per year¹⁶, was driven by private consumption and large public investments in infrastructure, such as the expansion of the Panama Canal and Panama City's Metro Line 1. Prudent fiscal policy and a stable macroeconomic environment contributed to the high growth, with Government adopting a Social and Fiscal Responsibility Law in 2008 to mandate deficit ceilings. Significant reforms were also achieved in various sectors, particularly in tax policy and administration, as well as the business environment.

5. The Government has taken strides towards social inclusion through improving service delivery. In an effort to achieve universal coverage and higher quality of water and sanitation services (WSS), the Government financed works in the sector and sought to tackle institutional challenges. As such, water sector reforms were consolidated in a draft law pending approval, and Panama is on track to meet the majority of Millennium Development Goals for water and sanitation access. The Government also continued to expand its health sector program, in particular, Health Protection for Vulnerable Populations. Further, recognizing challenges in education achievements, the Government invested in teacher training, implemented a classroom ICT training program, and further supported early childhood development with a 2013 bill, Integral Road for Early Childhood Care, to formalize coordination arrangements between institutions to deliver an integrated model that includes health, education, and social assistance. However, the agenda remains unfinished, with poverty rates and social indicators varying dramatically across the country, and a persistent gap between urban and rural and Indigenous Peoples' territories.¹⁷

6. The administration deepened the impact of the country's social assistance and labor programs. In 2006, *Red de Oportunidades (RdO)*, a cash transfer program, was introduced to support families in poverty; in 2009, *100 a los 70* was established, a non-contributory pension program providing cash transfers to people 70 years old or over; in 2010, *Beca Universal* was put in place to provide a cash transfer to children for school achievements; and in 2012, *Angel Guardian* was created to provide social assistance to people with severe disabilities in poverty or vulnerable conditions. Social assistance programs were considerably strengthened during this CPS period, through the introduction of policy reforms to improve coverage and targeting.

7. Dialogue between Government and Indigenous Peoples was considerably strengthened during the CPS period. This resulted in the preparation of a National Integrated Development Plan of the Indigenous Peoples of Panama, expected to be approved into law in 2015. The Plan, covering a 15-year horizon, presents the goals and priorities of the Indigenous Peoples, with a focus on improving the economic and social conditions in the indigenous territories. There is considerable political commitment to the Plan demonstrated by the creation of a vice-ministry of Indigenous Affairs with the intention of transforming it into a Ministry.

¹⁶ Source: *Panama Bi-Annual Economic Update, Fall 2014* (Panamanian and WB staff estimates) This is the projected average for 2010 to 2014 as of October 2014, based on *Instituto Nacional de Estadística y Censo* data (1996 base year).

¹⁷ The GINI coefficient fell from 0.57 to 0.52 between 2002 and 2012 yet remains one of the highest in Central America. The source of this figure is *Panama: Locking in Success: Panama Systematic Country Diagnostic* and there are minor discrepancies with the Government study *Distribución del Ingreso en Los Hogares* which was based on the *Encuesta de Propósitos Múltiples* and ranks the GINI as 0.50 in 2012.

III. Program Performance

Pillar 1 – Economic Growth that Supports Competitive Advantages

8. **To promote economic growth that supports competitive advantages, the WBG supported Government objectives to:** (i) maintain macroeconomic sustainability and enhance productive capacity outside traditional urban areas; (ii) create a sustainable environment for building tourism and conserving globally important biodiversity, forests, and marine-coastal ecosystems; and (iii) manage the risk of natural disasters and adaptation to climate change. All outcomes were achieved or mostly achieved using a diverse set of instruments, including a DPL series, IBRD lending, IFC investments, and knowledge services. The pillar is rated Satisfactory. Although the CPS Results Framework only identified a few outcomes to measure achievements under this pillar, the WBG delivered additional results that are discussed below.

(i) *Maintain macroeconomic sustainability and enhance productive capacity outside traditional urban areas*

9. **Increased mobilization of revenues helped bolster macroeconomic stability.** The Government had been addressing challenges such as a narrow tax base, significant tax exemptions and inefficient tax administration through a series of reforms in 2009 and 2010. Tax reforms were approved to increase taxes on consumption, lower income tax rates, widen the tax base, and reduce exemptions as well as improve tax administration and information sharing. These reforms, implemented during the CPS period, helped mobilize additional tax revenue, generating greater available resources for social spending. ITBMS (Sales tax) revenue increased by almost one percentage point of GDP between 2009 and 2013. The WBG supported the Government through the Fiscal Management and Efficiency of Expenditures DPL series (P123255, P127332, and P146942), focused on (i) widening the tax base and reducing exemptions (DPL I); (ii) creating a tax tribunal (DPL I); and (iii) monitoring and auditing large taxpayers (DPLs II and III). By November 2013, ten audits of large taxpayers were completed using advanced audit techniques.

10. **Panama deepened its integration with the global economy and asserted its position as a trade and logistics hub.** IFC investments and MIGA guarantees supported the core growth sectors of the economy, centered on the Panama Canal, urban transportation, trade, and financial services. IFC activities supported further development of infrastructure and financial markets (including support for emerging regional players and the Panama-based insurance and reinsurance market), energy efficiency, and trade financing. During the CPS period, the IFC continued to implement a US\$300 million loan for the Canal's expansion and supported the diversification of the energy matrix with a US\$60 million loan for the development of hydropower in Western Panama, still under construction. It also supported over US\$350 million in trade finance guarantees. MIGA contributed to urban mobility through two guarantees totaling US\$623 million issued to commercial banks in 2012 and 2013 for the construction of Metro Line 1 (a US\$1.88 billion project) in Panama City. The Metro is improving access within the metropolitan area and is expected to reduce congestion, travel time, gas emissions, and pedestrian accident rates. The Metro commenced operations in April 2014, transporting 155,000 people daily. These successful guarantees were MIGA's first coverage of a non-honoring sovereign financial obligation in Latin America.

11. **The WBG used its analytical expertise to engage with the Government on a robust knowledge program, particularly in the areas of competitiveness, trade and logistics.** To leverage the increase in economic activity due to the expansion of the Canal, Panama developed a strategy for land use in reverted areas. The WBG supported these efforts through the first Reimbursable Advisory Services (RAS) for the *Areas Revertidas* (P125238), helping the country develop tools to assess development options for reverted lands in the Canal Zone, leveraging the Canal economic activity, integrating development needs, and maximizing the positive spillover effects of investments. This innovative work was done using a highly participatory approach, and was subsequently used as a pre-feasibility study for future site development in these areas. The WBG also helped Panama's Maritime Authority carry out a diagnostic of investment priorities in the short- and medium-term to improve the country's competitiveness through a Maritime and Logistic Improvement TA (P125860). Based on consultations with public and private sector representatives, the WBG delivered a set of quick-win recommendations and developed a website¹⁸ with its analytical work for stakeholder use. In response to Government demand, the WBG carried out a second phase focused on an air cargo strategy.¹⁹

12. **The business regulatory environment improved through positive reforms recognized by the Doing Business report.**²⁰ Access to credit improved through a new law broadening the range of assets that can be used as collateral. Panama made paying taxes easier for companies by enhancing the electronic filing system for value added tax, simplifying tax return forms for corporate income tax, changing the payment frequency for corporate income taxes from monthly to quarterly and implementing a new online platform for filing the social security payroll. Transferring property was also made easier by connecting the land registry with the cadaster. These reforms were supported by a TA cooperation agreement between IBRD, IFC, and Panama.

13. **Access to finance for Micro Small and Medium Enterprises (MSMEs) increased.** To improve access of MSMEs to bank loans, IFC broadened access to long-term financing, increasing their capacity to grow. The IFC provided critical support through three major investments totaling US\$71 million to *Banco Delta*, BAC International, and Multibank. *Banco Delta* is Panama's largest microfinance institution and was IFC's first investment in the sector. In 2013, it disbursed almost 13,000 MSME loans for a total value of US\$52 million, increasing the bank's portfolio to over 22,000 loans. BAC International is providing long-term financing to increase the operational capacity of SMEs in the agribusiness sector and Multibank is promoting climate-smart projects, with focus on lowering greenhouse gas emissions and encouraging more efficient energy use.

14. **Increasing income and productive capacity for small-scale rural producers improved in targeted areas.** To help increase productivity of both agricultural and non-agricultural activities and thus rural incomes, the WBG piloted a matching grants scheme under the Rural Productivity Project (IBRD P064918; GEF P083045), mobilizing 152 productive alliances of small-scale producers and providing them with financing and TA to access markets. The Project targeted areas

¹⁸ *Estrategía Marítima Nacional*:

<http://www.g2desarrollo.com.ar/bancoMundial/estrategiaMaritimaNacional/index.php>

¹⁹ *Estrategía Logística Aérea*:

<http://www.g2desarrollo.com.ar/bancoMundial/estrategiaLogisticaAereaDePanama/?seccion=home>.

²⁰ Panama was ranked 52 out of 189 in Doing Business 2015, compared with 72 in Doing Business 2011.

with high levels of poverty, including indigenous areas. Producers saw a direct benefit through increased agricultural productivity of a 23 percent increase in sales. Around 4,600 producers (30 percent women) received investment and technical support through 130 sub-projects covering a range of activities, such as sugar, milk, rice, coffee, cacao, corn, hot pepper, fisheries, and more. Some business plans also explored higher value-added products, such as new varieties of watermelon, artificial reef fishing areas, and the use of modern fishing equipment such as echo sounders.

(ii) *Create a sustainable environment for building tourism and conserving globally important biodiversity, forests, and marine-coastal ecosystems*

15. **Panama continued efforts to promote environmental sustainability, moving to a holistic approach encompassing biodiversity and tourism, among others.** Panama expanded its Protected Areas system administered by the National Environment Authority (ANAM), to 104 Protected Areas currently under management, covering 3.6 million hectares (39 percent of the country). The WBG (also with GEF funding) supported the Government in identifying and implementing priority actions (such as promotion of regulations, raising awareness, and preparing operational management plans) in 14 Protected Areas, bringing 43,109 hectares of forest and other natural ecosystems of global biodiversity significance under effective conservation and sustainable management in the buffer zones of PAs and the biological corridor, and strengthening the National System of Information and Monitoring of Biological Diversity. Beneficiary buy-in was critical to the success, and the Project was highly regarded by Indigenous Peoples as it recognized the environmental services they provide through biodiversity, hydrological, and natural beauty conservation. Further, to support Panama's growing tourism sector, the WBG carried out a top-down assessment of the impact of tourism spending on growth and poverty at the province level, *The Tourism Sector in Panama: Regional Economic Impacts and the Potential to Benefit the Poor*.²¹

(iii) *Manage the risk of natural disasters and adaptation to climate change*

16. **Panama substantially improved its legal and institutional framework to further mainstream Disaster Risk Management (DRM).** In 2010, the Comprehensive DRM National Policy was enacted, introducing responsibilities for key sectors and setting the basis for an integrated policy approach.²² The National DRM Plan for 2011-2015 was successfully implemented, and a new plan for 2015-2020 was approved in April 2014. Disaster risk reduction priority actions were implemented by three key Ministries: (i) the Ministry of Economy and Finance (MEF) approved the creation of a new DRM budgetary code within the National Budget, allowing institutions to submit investment proposals and channel resources for *ex-ante* initiatives; (ii) the Ministry of Housing and Land Use Planning endorsed a proposal for a National Policy on Land Use Planning with explicit reference to DRM criteria; and (iii) ANAM introduced key elements of DRM in the National Policy on Integrated Water Resources Management and the Regulatory Body of the Water Law, and included an explicit component on DRM in the National Policy on Climate Change. This enhanced capacity of Panama to implement its DRM program was

²¹ Policy Research Working Paper, 6183. World Bank, August 2012.

²² The MEF Directorate of Investment, Concessions, and Risks (DICRE) was further strengthened, and the role and functions of the National Platform for DRM have also been upgraded and its membership expanded.

supported by the WBG's DPL with a Catastrophic Deferred Draw Down Option (CAT DDO; P122738), and the Central America Probabilistic Risk Assessment (P144982).

17. **The Government is better prepared to manage the fiscal impact of natural disasters.** The MEF played an active role in developing financing mechanisms by securing contingent lines from IBRD and the Inter-American Development Bank (IDB), and creating a sovereign wealth fund²³ for natural disasters and other emergencies on which the World Bank Treasury provided advisory services. With support from the WBG, Panama developed the first Disaster Risk Finance and Insurance Framework in Latin America²⁴ to take into account existing financial protection instruments and set up a road map for the design and adoption of other complementary instruments. It is serving as a best practice globally. Further, local technical capacity was built to assess risk through the Central America Probabilistic Risk Assessment Activities carried out included an assessment of seismic risk to housing, education, and health infrastructure for the City of David in 2012, and a preliminary flood risk assessment for the municipality of Boquete for housing, education, and health infrastructure. The strengthened capacity of executing agencies and local academia led to strong ownership. Local experts are now leading the current seismic risk assessment for the metropolitan area of Panama City for education and health infrastructure.

Pillar 2 – Greater Opportunities for All

18. **To promote greater opportunities for all, the WBG supported Government objectives to: (i) improve access to quality water and sanitation facilities; (ii) improve households' access to quality basic health and nutrition services; and (iii) strengthen social protection of the vulnerable.** Emphasis was placed on expanding access and quality of services for social inclusion, particularly water and sanitation for rural/urban/peri-urban areas, prenatal services for women and child vaccinations, and effectiveness and targeting of social protection programs. Of the five outcomes, three were achieved or mostly achieved, and two were not achieved. Overall, this pillar was rated Moderately Satisfactory.

(i) *Improve access to quality water and sanitation facilities*

19. **Access to water and sanitation services increased.** To address large gaps in access to reliable WSS in rural and indigenous areas, the WBG financed the Water Supply and Sanitation in Low Income Communities Project (PASAP; P082419). As a result, 32,082 people have improved access to water supply and 21,487 people have improved sanitation services, with 46 percent of beneficiaries living in indigenous areas (*Comarcas*). To increase sustainability and improve overall quality of WSS, the Project also supported: i) creation and strengthening of more than 160 rural water boards; ii) preparation of a roadmap to develop a rural water and sanitation national strategy with a clear monitoring system to guide Government investments over the next 10-20 years; iii) use of an information system for rural WSS to collect and publish up-to-date information on a public web interface, with a mobile application operational in certain communities; and iv) the standardization of design for rural WSS systems. The WBG has also supported Government efforts to increase quality, coverage and efficiency of WSS in lower-

²³ The Fund was established in June 2012 and is financed by excess revenue from the Panama Canal above 3.5 percent of GDP.

²⁴ This Framework was formally approved on November 17, 2014 through an Executive Decree (No. 578).

income neighborhoods in peri-urban communities through the Metro Water and Sanitation Project (P119694).²⁵ A performance-based US\$20 million contract was launched to improve the quality and sustainability of water service in Colón. WSS master plans were also developed, using a participatory approach, for Chilibre, Alcalde Diaz, and San Miguelito. Finally, the Project contributed to raising awareness of the social dimensions of WSS, and as a result, Panama's water and sewage authority (IDAAN) created a unit dedicated to social activities in the sector, and a social specialist is now involved in all IDAAN activities. The Project will continue to be implemented, and direct, measurable benefits are expected in the next strategy period.

20. **The Government continued to strengthen institutions in the WSS sector.** To ensure sustainable and effective, high quality WSS delivery, the Government took important steps to reform the national water sector. Specifically, it began developing a new institutional framework to re-distribute responsibilities and enhance regulations through the creation of a new institution, the Water Authority. These reforms are included in a draft law pending approval by the national assembly and remain a priority of the Government. In concert with the Andean Development Corporation (CAF) and IDB, the WBG worked closely with the Government to define these reforms and enhance policy dialogue and coordination for the sector. To strengthen sector transparency and guide policy and investment, the WBG delivered knowledge products such as: i) Monitoring Country Progress in Water Supply and Sanitation, assessing goals in WSS and the required investments, and ii) the work through the rural WSS information system which is encouraging South-South knowledge exchange and regional coordination.

(ii) Improve households' access to quality basic health and nutrition services

21. **The WBG partnered with the Ministry of Health on improving health access for vulnerable populations.** The WBG's Health Equity and Performance Improvement Project (P106445) supported the provision of a basic package of health services under the Coverage Extension Strategy, using an innovative results-based scheme of capitation payments made to health regions in support of the provision of services, and fostered the implementation and rollout of mobile health teams. The Project focused on rural poor communities which had a high density of Indigenous Peoples, successfully increasing health care coverage and improving efficiency of service provision. As a result, 75 percent of women received at least three prenatal controls, and 89 percent of children under one year were fully vaccinated.²⁶ In 2013-14, mobile health units provided regular access to a basic package of health services to around 149,028 beneficiaries from 47 population groups in poor rural areas. In addition, using recommendations advanced under this Project, the Ministry of Health also developed and has begun to implement an Indigenous Intercultural Health Plan for Panama. The WBG also produced a note on "Non-communicable Diseases at a Glance in Panama," stimulating dialogue and contributing to the sub-regional report, "Promotion of Healthy Lifestyles in Central America."²⁷

²⁵ Approved in May 2010, after two years of slow progress, execution picked up in 2013.

²⁶ The *Caja de Seguro Social* covers around 80 percent of the population, and the Ministry of Health covers the remaining uninsured population, however there are significant overlaps in coverage.

²⁷ Rep. No 71848. The World Bank, 2012.

(iii) *Strengthen social protection of the vulnerable*

22. **The poor benefited from increased social security coverage.** In support of the Government's efforts, the WBG helped expand the coverage and improve the targeting of social transfer programs. Specifically, the DPL series focused on (i) improving targeting of *RdO* and *100 a los 70*; and (ii) expanding coverage of vulnerable groups through *Beca Unviversal* and *Angel Guardian*. By improving *RdO* targeting, the Government channeled resources to the poor in remote geographic areas, largely excluded in the past, resulting in 46 percent of beneficiary households being indigenous and reaching almost universal coverage in the *Comarcas*. To improve the targeting of *100 a los 70*, the Government established clear target populations²⁸, created the legal basis and technical instruments for operational targeting and eligibility verification, and established operational processes for program implementation and recertification. Going forward, the Government will focus on implementing the recertification of beneficiaries. Furthermore, the Government has improved the coordination of social protection programs through the development of a single registry of beneficiaries which includes *RdO* and *100 a los 70*, harmonizing information among said programs. The Ministry of Social Development has been exploiting synergies in the design of targeting instruments and in critical operational activities, such as payment processes. The newer social programs, *Angel Guardian* and *Beca Universal*, expanded rapidly from their inception. By 2014, *Angel Guardian* supported 7,286 people with severe disabilities, and *Beca Universal* supported 478,574 students (approximately US\$83.5 million). In addition, the Social Protection Project (P098328) facilitated the creation of a large network of social workers to support families in their participation in social programs, including information dissemination on their rights and responsibilities, payment processes, and compliance with co-responsibilities. As such, these workers have the potential for transformational impact, acting as an entry point for all social programs and providing knowledge for effective inclusion.

23. **Finally, IFC helped finance low-income mortgage lending.** *Banco General*, the leading mortgage lender in Panama, had 47,000 outstanding housing loans for low and medium income households at year-end of 2013 for US\$2.3 billion, representing an increase of 30,000 loans from 2011. The IFC supported this increase through a US\$50 million loan with a seven year tenor, allowing *Banco General* to match the maturity needed to finance low-income mortgage lending.

Pillar 3 – Enhanced Public Sector Transparency, Effectiveness, and Efficiency

24. **Pillar 3 sought to enhance public sector transparency, effectiveness, and efficiency in two priority areas:** (i) improve efficiency of public expenditure and deepen the domestic market; and (ii) modernize financial management and procurement systems and introduce a performance focus in the public sector. The CPS presented an ambitious agenda under this pillar, and aimed to achieve eight outcomes, of which three were achieved, two partially achieved and three were not achieved. This pillar is rated Moderately Unsatisfactory.

(i) *Improve efficiency of public expenditure*

25. **Some advances have been made in improving the efficiency of public expenditure.** The WBG has been supporting the Government's new financial management model through the

²⁸ Law 86 passed in 2010.

Enhanced Public Sector Efficiency Technical Assistance Loan (P121492). The cornerstone of this model is the integrated financial management system (ISTMO), being put in place in sector ministries to ensure correct budget execution. ISTMO is expected to be operational in 2015, bringing together accounting, budgetary and logistics functions. This will allow 24 sector ministries and agencies to manage their expenditure in real time. The e-procurement system *PanamaCompra* will then be linked in the following years. In support of efficiency in energy spending, the WBG helped Panama build the technical building blocks for implementation of reform in liquefied propane gas subsidies through a Social Protection TA on Utility Subsidies (P129365). The work first provided stocktaking of the subsidy incidence for the three main public utility services, water, electricity, and gas. The analytics then focused primarily on liquefied gas, including technical assistance for targeting instruments, policy design including alternative subsidy schemes, and specific operational delivery mechanisms. In parallel, the NLTA delivered a number of workshops presenting relevant international experiences, making explicit the desired attributes of a subsidy scheme. Further, a safe temporary internal technical coordination space for subsidy debate was established within MEF. A major finding of the analysis included that regardless of the subsidy scheme, there will be significant number of poor people not covered, especially in Panama City. This underscores the potential important role of other compensatory income transfer instruments.

26. The Public Expenditure and Financial Accountability (P148094), conducted jointly with IDB, identified challenges in Panama's Public Financial Management system. Despite some strengths related to fiscal position, debt management, and payroll administrative controls, Panama faces a number of public financial management shortcomings, in particular related to budget preparation and credibility, seriously undermining the efficiency of sectoral investment plans. Other significant weaknesses were identified, including deviations in adherence to the norms on auditing of Government annual financial statements and budget execution. This demonstrates significant gaps in Government's external audit function, inaccurate Government revenue forecasts, and lack of transparency in the procurement and public contracting. The Government is working closely with the WBG and IDB to achieve a more efficient public expenditure through a number of instruments.

(ii) Modernize financial management and procurement systems and introduce performance focus in the public sector

27. Panama made minor progress in modernizing financial management and procurement systems. To strengthen and modernize planning and budgeting, as well as the financial management and procurement system the World Bank supported the Government through the Fiscal Management and Efficiency of Expenditures DPL Series and the Enhanced Public Sector Efficiency Technical Assistance Loan (P121492). Supported by DPL Series and in coordination with the WBG Treasury, the Government improved institutional arrangements for debt management to increase spending efficiency by developing a formal debt management strategy and enhancing liquidity of the domestic debt market. Bonds placed in the domestic market increased as a share of financing needs from 0 percent in 2009 to 30 percent in 2011, and maintained during the period, with a level of 27.5 percent in 2014. In terms of modernizing Panama's public procurement, a significant increase has been achieved in the number of goods

commonly purchased by Government agencies through framework agreements, using *PanamaCompra*, from 2,452 in 2009 to 7,300 in 2014.

28. **However, given their long-term time horizon, most modernization activities are at an initial stage.** The alignment of the regulatory framework for public procurement with national standards is incomplete, with challenges on the legal framework remaining related to the use of standard bidding documents and award criteria in bid evaluation. Also, to date, no mechanism has been developed to measure the increased savings in publically procured goods and services and further capacity building will be critical to ensure improved efficiency in public procurement processes.²⁹ To increase institutional capacity to handle improved public procurement processes, the Government is expected to implement training and certification programs for procurement officials. Further, to introduce a performance focus in the public sector, the Government initially expressed interest in establishing an M&E unit that would produce or coordinate a number of performance reports. However, during the course of the CPS, the Government's priorities shifted to establishing an M&E system instead of a unit. The M&E system is in the initial stages of development and is expected to be finalized in the coming years.

29. **Cumbersome fiscal *ex-ante* control mechanisms still persist.** The Comptroller's Office seeks to reform the fiscal control system to gradually change its role and reduce cumbersome fiscal *ex-ante* control mechanisms. The *ex-ante* control system is clogged with contracts, requiring prior reviews and making budget execution largely inefficient. At the same time, internal controls and audits in public entities are underdeveloped and do not provide managers with assurance that the internal environment is able to prevent fraud and mismanagement. The WBG has been supporting the Government in this area through the Enhanced Public Sector Efficiency TAL (P121492).

IV. WBG Performance

30. **Overall, WBG performance during the FY11-14 CPS period was Good.** This strategy was Panama's second CPS, following a decade of limited engagement. This CPS revived the WBG's relationship with Panama, and increased engagement by leveraging development solutions from all parts of the WBG. The CPS was aligned with Panama's development goals and provided an adequate framework for the WBG's operations and advisory activities focusing on areas where the WBG had a comparative advantage either through earlier successful programs or relevant regional/global expertise.

Design and Relevance

31. **This CPS was developed closely with the Government, in consultation with civil society, and was designed to support the Government's strategic development plan for the 2010-2014 period.** Government objectives were fully embedded in the CPS and remained relevant throughout the CPS period. Following FY11-12 for which Government priorities were defined, the CPS was designed to be flexible in the outer years to allow the WBG to be responsive to country demand and significantly expand the DPL series. The CPSPR reflected a change in the scope of the strategy, including dropping four investment operations (Social Protection, Health

²⁹ Increased savings in public procured goods and services were not assessed due to technical problems in the handling of databases containing the necessary information.

Services and two Roads Projects) that were being financed by others. The design of WBG interventions was relevant given Panama's context which required a thoughtful combination of complementary instruments delivered by all the WBG institutions.

32. **Although the design of the strategy was well articulated, the Results Framework was poorly designed and overly ambitious.** While the strategy included IFC's planned areas of engagement, the Results Framework failed to integrate and account for IFC's activities. The Results Framework was overly ambitious in that it overestimated the time it would take to achieve a number of planned outcomes, particularly under Pillar 3. Furthermore, some outcomes were difficult to measure, and at times lacked clear indicators and targets. Finally, it was difficult to establish a link between activities listed in the Results Framework and chosen outcomes; for example, the Maritime and Logistics Strategy Implementation (P125860) listed under Pillar 1 did not relate to the only listed outcome in this section of mobilizing tax revenue. Although the CPSPR recognized the changing scope of the CPS by dropping one objective and outcomes that were no longer relevant, it missed the opportunity to meaningfully improve the Results Framework.

33. **The World Bank pursued further dialogue and coordination with other donors (including IDB, CAF, and the UN), particularly as the size of the WBG program grew.** Several operations were implemented jointly or in close coordination with other donors. This was done successfully with the water program, providing in part, a platform for policy reform dialogue. Both the Metro Water and Sanitation Project and the Water Supply and Sanitation in Low Income Communities Project were coordinated with the IDB and CAF to cover distinct geographical areas. This proved a good model, allowing each multilateral to manage and develop their project activities in focalized areas. In terms of knowledge services, the Public Expenditure and Financial Accountability (PEFA) was conducted jointly with IDB to identify challenges in Panama's public financial management system. In contrast, the Social Protection Project was co-financed with the IDB, which led to constraints in joint implementation causing delays, primarily due to differences in prioritizing activities alongside differing timelines. Strategic planning is needed to avoid overlapping activities such as what was seen between the Public Sector Efficiency TAL and a similar IDB project which provided some assistance to the same functional areas, investment and budget planning. Recently, the Government has begun to play a larger coordination role, and there is willingness on all sides to resolve any overlap and provide synergetic support.

34. **The WBG program had a clear focus on poverty and shared prosperity, by supporting social inclusion, particularly for poor, rural, and indigenous communities.** Five of the seven investment lending projects targeted poor, rural, and indigenous communities. Some notable examples include: 1) the Rural Productivity Project built productive alliances to help increase producer incomes; 2) the Health Project contributed to a higher percentage of women receiving pre-natal care; 3) the Social Protection Project strengthened targeting of *Red de Oportunidades*; 4) the Water Supply and Sanitation in Low Income Communities Project improved rural water and sanitation services and gave a voice to communities through local water boards; and 5) the Metro Water and Sanitation Project developed water sector plans in several poor communities. Overall, the program positively impacted marginalized groups, laying the cornerstone for greater engagement in the new CPF.

Program Implementation

35. **During this CPS period, the WBG delivered a solid package of support to Panama.** IBRD committed US\$521 million, exceeding the planned level of financing by US\$70 million. The CPS lending program was focused on DPLs, anchoring the program around the three part Programmatic Fiscal Management and Efficiency of Expenditures DPL series (P123255; P127322; P146942), amounting to US\$400 million compared to the planned US\$150 million. Other new investments included the Public Sector Efficiency TAL (P121492; US\$55 million), and a CAT DDO (P122738; US\$66 million). The IFC built a robust engagement focused on the core areas of Panama's economic growth strategy, and continues to expand, leveraging synergies with the IBRD program. To respond to the growing engagement in Central America, the IFC formally opened its Panama office as a regional hub in January 2013, increasing its presence. IFC's investments increased steadily every year since 2010 with new annual commitments averaging US\$135 million, including mobilization from partners. IFC's total outstanding commitments as of June 30, 2014 totaled US\$588.48 million. Collaboration of the IBRD and IFC deepened on topics such as energy and resulted in greater joint engagement. The World Bank Treasury actively engaged on financial innovation with the Panamanian authorities, supporting the implementation of the sovereign wealth fund and a debt management strategy, and providing key support for the customization of the third DPL, actively analyzing risk management options for the country's IBRD portfolio. MIGA's gross exposure also increased to US\$623 million.³⁰

36. **The WBG became a partner for policy reform through the DPL series (US\$400 million),³¹ which supported all three CPS pillars and contributed to around one third of the expected outcomes.** Specifically, the DPL series supported steps to mobilize additional tax revenue to maintain fiscal sustainability, reform *RdO* to better target transfer programs, and strengthen fiscal management and public procurement. The instrument played multiple roles, reinvigorating the policy dialogue, enhancing coherence of the program, and further supporting the impact of a number of investment operations while laying foundations for others. For example, engagement in sectors featured in the DPL series, such as social protection, is expected to be scaled up going forward.

37. **Along with financial assistance, the WBG provided high-quality technical assistance and cutting-edge knowledge.** The demand for non-lending activities led to an increased knowledge portfolio of 39 non-lending activities and convening services across all three pillars of the CPS (Annex 4). A number of studies improved the knowledge of Panama's constraints and challenges and laid the groundwork for the first Systematic Country Diagnostic (P151399). Several important regional analytical pieces explored the regional context in which Panama operates, such as *Good Jobs: The Role of Human Capital*, and *Trade Facilitation and Regional Integration in Central America*. Further, the WBG used its convening power in more than eight national and regional events, and facilitated six south-south knowledge exchanges, with Panama as a primary knowledge provider. However, the impact of the knowledge portfolio was difficult to measure, in part due to low dissemination and follow up.

³⁰ This exposure includes two guarantees which each cover a US\$250 million loan as well as interest and other associated financing costs.

³¹ This was a large expansion from the previous CPS which supported the first DPL series (US\$255 million).

38. **While the WBG program achieved important outcomes, implementation faced several bottlenecks as highlighted during Country Portfolio Performance Reviews.** As of December 31, 2014, the active portfolio consisted of six operations amounting to US\$440 million. All projects are expected to achieve their development objectives and are rated satisfactory or moderately satisfactory except for one project, the Enhanced Public Sector Efficiency TAL (P121492)³². The implementation of the portfolio, while largely satisfactory, faced several bottlenecks, leading to project extensions, slower than expected execution and lower disbursement ratios. These included poor budget planning and low capacity in handling World Bank procurement contracts. Poor budget planning affected the entire portfolio in that insufficient funds were allocated in the national budget to projects for execution and in many instances, the implementing agencies had to request additional funds that were at times not granted, halting implementation of activities and delaying timely completion. The WBG has been working closely with the authorities to resolve this bottleneck, as well as to build implementation capacity. Due to concerted efforts from both the WBG and the Government, the disbursement ratio has considerably improved from an average of around 13 percent in the period FY10-13 to 26 percent in FY14 faring well with Central American and LAC averages (25 percent and 22 percent, respectively)³³. Four projects closed during the CPS period of which one closed as satisfactory and three as moderately satisfactory. Two DPLs of the series also closed achieving all its development outcomes, and the third DPL has been fully disbursed and will close on January 30, 2015.

V. Key Lessons from the CPS FY11-14 and Recommendations for the New CPF

39. **Lesson 1: The WBG needs to maintain the flexibility in the implementation of its program to ensure prompt and effective delivery.** The CPS period began with a large investment lending program that shifted at the CPSPR. The momentum of the original program could not be maintained despite being relevant and reflecting dialogue with the authorities, as other sources filled the demand. The policy dialogue, however, was strengthened during the second half of the CPS period, especially around the DPL series.

40. **Lesson 2: Given Panama's unique development challenges and sophistication of its economy, delivering as a WBG will be critical.** IFC and MIGA should be at the center stage of WBG support for private sector investment and employment generation, benefiting from synergies with IBRD investments. They can play an even greater role in helping the WBG deliver on commitments to the twin goals. During the CPS period, IFC provided knowledge, finance, and innovation and through selected investments, played a catalyzing role in areas such as green energy generation. The role of MIGA was also critical for improving urban mobility through the provision of the guarantee for the Metro Line 1. Looking ahead, it will be important to incorporate to the extent possible the objectives of IFC and MIGA investments to present a consolidated package of diverse development solutions. Further, as Panama's development opportunities and development challenges are often regional or global in nature, the WBG should consider regional solutions as well as country-specific ones.

³² The Project experienced significant delays in implementation due to its complex nature and low capacity and commitment of different agencies involved in the implementation of the financial management system.

³³ Disbursement in FY10 was 11.8 percent, in FY11 was 16.2 percent, in FY12 was 15.3 percent, and in FY13 was 20.2 percent.

41. **Lesson 3: Maximizing the impact of knowledge requires a strategic framework for selecting and monitoring engagement.** During the CPS, demand for non-lending activities increased significantly and knowledge products played an important role, for example, the high-quality water knowledge analytics complimented projects, provided diagnostics for sector reform dialogue and laid the groundwork for the Systematic Country Diagnostic (SCD). Despite prolific knowledge services, the engagement was dispersed and not closely monitored for impact. As such, the WBG should strategically plan activities. To address the likely increase in demand in areas not reflected in the CPF, the WBG may establish a filter to assess proposals, as well as a proper tracking instrument for better assessing impact. This instrument should take stock regularly to prioritize “winners,” and extract steps to scale-up. More attention should be paid to the dissemination and follow-up of analytical products, and the WBG should develop a strategy to share knowledge globally and manage the high demand for south-south learning experiences to visit Panama. Finally, the WBG should make a greater effort to incorporate IFC knowledge contributions around key thematic priorities.

Box 1. Proposed Initial Filtering Questions:

- Does this activity contribute to diagnostics and/or the SCD? Does it fill knowledge gaps?
- Will the engagement be strategic? How will it support CPF outcomes and Panama’s long term development goals? (Provide a results chain)
- Can the knowledge services be leveraged to engage more deeply? What synergies might exist with other activities?
- How can the Bank’s global knowledge (ex: Green Cities) contribute to this goal?

42. **Lesson 4: Promote cross-fertilization of activities to find synergies and reap benefits.** During this CPS period, the multisectoral DPL was harnessed as an effective instrument for policy reform, supporting delivery of objectives under all three pillars, and acting as an entry point. For example, synergies built between the DPL and Social Protection Project opened doors to new areas of engagement on pension reform. Beyond the DPL, internal communication is a critical factor for teams to find synergies.

43. **Lesson 5: To ensure successful evaluation, the Results Framework of the CPS should be guided by a results chain to link objectives with measurable outcomes and relevant activities.** The Results Framework of this CPS was poorly designed and had unclear and overly ambitious outcome indicators which constrained the evaluation. Similarly, activities were not clearly linked with indicators, and in turn, those indicators were not linked to outcomes and objectives at the highest-level. The WBG in Panama delivered many successful activities whose impacts were not included or linked to outcomes, particularly IFC investments, MIGA contributions and the robust knowledge program.

44. **Lesson 6: Recognize Panama’s public sector inefficiencies and unique institutional situation, and build capacity designed to accelerate implementation.** To avoid insufficient annual allocations and subsequent requests, the implementing agencies should better plan their budget needs. Generally low knowledge of World Bank procurement processes and high staff turnover slowed implementation. To address this knowledge gaps should be supplemented with capacity building, and smoothed through better knowledge transfer, such as preparing learning documents, or the development of an online course for incoming staff on World Bank procedures.

45. **Lesson 7: Enhance contributions to bringing prosperity and opportunities to indigenous peoples and other marginalized groups.** During the CPS, the WBG engagement in marginalized areas was successful. Going forward, the WBG may build on this engagement, grounded in participative approaches, and achieve a broader impact.

CPSCLR Annex 1 – Panama CPSCLR Results Framework

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
CPS Pillar 1: Economic Growth that Supports Competitive Advantages				
Rating: Satisfactory				
<p>A. Maintain macroeconomic stability and enhance Panama’s productive capacity to expand opportunities for job growth outside the traditional urban centers.</p>	<p><i>Outcome Indicator 1:</i> The Government mobilizes additional tax revenue including a 1 percentage point per GDP increase in ITBMS revenues Baseline: 2009=2.1 Target: 2014 = 3.1</p>	<p><i>Achieved.</i> For the year 2013: 3.0% (estimate) Current (2014): Under Measurement</p>	<p><u>Financial Services:</u> Fiscal Management of Expenditures DPL series (FY11-FY14): DPL-I Delivered FY11 (P123255) DPL-II Delivered FY13 (P127322) DPL-III Delivered FY14 (P146942)</p> <p>Non-honoring of a Sovereign Financial Obligation products (2) from MIGA for the Metro de Panama (Line 1) covering two US\$ 250 million loans. Gross exposure US\$623 million.</p> <p>Infrastructure IFC Commitments</p> <ul style="list-style-type: none"> • Pando-Montelirio – Investment to support hydropower development FY10 • Panama Canal Authority – Loan to support the expansion of the Panama Canal FY09 <p>Financial Markets IFC Commitments</p> <ul style="list-style-type: none"> • Multibank - Loan to support SMEs and Climate Smart Businesses, FY14 • Bladex – Loan to facilitate commodity trade financing activities, FY14 • Banistmo - Guarantees for trade finance • Bandelta - to support MSMEs financing, FY14 • Del Istmo – Equity to support insurance, FY14 • BAC Intl – Trade finance guarantees and a loan to provide long-term finance to SMEs in the agribusiness sector 	<p><i>If you can cross-fertilize projects, it is helpful for increasing engagement and creating synergies.</i></p> <p><i>DPL support can open doors to engagement in areas where the demand for investment lending is low, and affect change.</i></p> <p><i>Many more knowledge services were requested and provided than were planned for under the CPS, showing the demand for Bank knowledge and innovative products.</i></p> <p><i>IFC contributions should be included in the next CPF in a way that impact can be measured and the WBG leverages its resources together to achieve development outcomes.</i></p> <p><i>Regional studies can contribute to dialogue and promoting south-south learning opportunities has been shown to have a positive impact.</i></p>

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
			<ul style="list-style-type: none"> • Banco General – Loan to increase mortgages to low-income households, FY12 <p>Green Building Regulation Project (ID 600110) Underway</p> <p><u>Knowledge Services:</u> Public Debt Management Advisory Services by Treasury FY14.</p> <p>Maritime and Logistics Strategy Implementation (P125860)</p> <ul style="list-style-type: none"> • Phase I (Maritime) FY12 • Phase II (Air Cargo) FY14 <p>Strategy for Development of Areas Revertidas Delivered FY13 (P125238; RAS, SFLAC-TF010150)</p> <p>Global Doing Business Report – Yearly</p> <p>TA Doing Business in Central America and the Dominican Republic ongoing P147229 Subnational.</p> <p><u>Convening Services:</u> Panama Investors Conference Delivered FY11, FY12</p> <p>Competitiveness and Doing Business Conference (south-south, how to reform investment climate) - FY13</p>	
	<p><i>Outcome Indicator 2:</i> Increased agricultural productivity of small scale producers targeted by the program measured by 25%</p>	<p><i>Achieved.</i> Current increase (as of August 2014): 22.3%</p> <p><i>Success under both the IBRD and GEF</i></p>	<p><u>Financial Services:</u> Rural Productivity Project P064918</p> <p>Rural Productivity Project (GEF component) Completed. P083045</p>	<p><i>Agriculture in Panama has social and cultural dimensions.</i></p>

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
	<p>increase in sales receipts of small scale producers via PRORURAL financed productive alliances. Baseline: 0³⁴ Target: 25% increase</p>	<p><i>projects has laid the ground work for a new GEF project named “Panama Sustainable Production Systems and Conservation of Biodiversity Project,” to be delivered under the new CPF.</i></p>	<p><u>Knowledge Services:</u> AAA Strengthening Panama’s Agricultural Extension System delivered FY14 (P149141) (Report information: April 24, 2014, LCSAR, Report No: AUS7026 – 2 volumes)</p>	<p><i>Continuous Bank commitment and Government demand has been shown through the Rural Productivity Project building upon the previous Panama Atlantic Mesoamerican Biological Corridor Project (GEF) (P045937), both of which have strong, measurable results. This has led to demand for a third round (GEF), to be delivered in FY15.</i></p> <p><i>Budget allocation as with many projects has been difficult, and the Bank must work closely with the Government to be selective, prioritize, and ensure sufficient budget allocation.</i></p>
<p>B. Create a sustainable environment for building tourism and conserving globally important biodiversity, forests, and marine-coastal ecosystems</p>	<p><i>Outcome Indicator 3: The Government ensures effective conservation (protection and sustainable management) of at least 50,000 ha of forest and other natural ecosystems of global biodiversity significance in the buffer zones of Protected Areas and biological corridor.</i> Baseline: 28,400 (2010) Target: 50,000</p>	<p><i>Mostly Achieved.</i> Current: 43,109.36 (As of August 2014) This is 86.2% of the target.</p>	<p><u>Financial Services:</u> Rural Productivity Project (GEF component) Completed. P083045</p> <p><u>Convening Services:</u> Global Indigenous Peoples Consultation on REDD+ organized by the Bank in FY11</p>	<p><i>Beneficiary buy-in has been critical to the success of this Project. The Project is highly regarded by Indigenous Peoples because it recognizes the environmental services they are providing for the country.</i></p>

³⁴ The project is not using a single baseline for all productive alliances but instead considers all the baselines of sales of each individual productive alliance once they are selected and monitors their progress over time. This is an ongoing process as new productive alliances join in regularly. The M&E of the operation is measuring increases in percentages, starting from “0”.

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
<p>C. Manage the risk of natural disasters and adaptation to climate change.</p>	<p><i>Outcome Indicator 4:</i> Government improves capacity to respond to disasters and climate change by implementing a new disaster risk management and climate change adaptation plan.</p> <p>Outcome indicator: DRM plan implemented by key ministries.</p> <p>Baseline: 0 Target: 3 ministries</p>	<p><i>Achieved.</i> Current (as of August 2014): 3 Ministries</p> <p>DRM interventions implemented by MEF, ANAM, and the Ministry of Housing.</p> <p>Plans for implementation in 2-3 other key ministries are under development.</p> <p>Background: The National Disaster Risk Management Plan for 2011-2015 (precondition for the CAT DDO) was approved, and a new plan to go beyond 2015 is currently under development.</p> <p>Drafted the Disaster Risk Finance and Insurance Framework (with CAT DDO support) which is serving as the model/best practice throughout Latin America. The DFRI was formally approved on November 17, 2014, through an Executive Decree (No. 578).</p> <p>The Central American Probabilistic Risk Assessment (CAPRA) was completed for the city of David for seismic risk to housing, education, and health infrastructure. A preliminary flood risk assessment was carried out for the municipality of Boquete by the Rio Caldera watershed for housing, education, and health infrastructure. Currently underway is a seismic risk assessment for the metropolitan area of the City of Panama for education and health infrastructure (to be delivered in</p>	<p><u>Financial Services:</u> CAT-DDO delivered FY12 (P122738), Renewed FY14</p> <ul style="list-style-type: none"> Support to Panama DRM Program - GFDRR Track 2 Began FY14 (TF017335 – supports P122738 PA CAT DDO) <p>Central America Disaster Risk Reduction and Climate Change Adaptation Initiative Project Ongoing (TF011092/P125899)</p> <p><u>Knowledge Services:</u> Probabilistic Risk Assessment to Improve Resilience to Natural Hazards in Central America. Ongoing. (TF014499/P144982)</p>	<p><i>Real capacity has been built through the Probabilistic Risk Assessment program. The innovative third phase is in progress doing an assessment in the city of Panama – where executing agencies and local academia are the owners of the project (the WBG is only a technical advisor). This is a change from the first assessment done in the city of David which was led by the WBG.</i></p> <p><i>Overall the project moved from a bank executed assessment process, to building local capacity, to moving to a technical advisory role only on the assessment in the city of Panama.</i></p>

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
CPS Pillar 2: Greater Opportunities for All				
Rating: Moderately Satisfactory				
<p>A. Improve access to quality water and sanitation facilities</p>	<p><i>Outcome Indicator 5:</i> Increased access to water and sanitation services in rural and indigenous areas measured by additional people in target areas with access.</p> <p>Baseline 0 (2008) Target: 66,000</p> <p><i>Outcome Indicator 6:</i> Improved access to reliable water and sanitation services in targeted lower-income peri-urban areas; measured by 100,000 additional people with water access and by 60,000 additional people with sanitation access in these areas.</p> <p>Baseline: 0 (2010) Target (water): 100,000 Target (sanitation): 60,000</p>	<p><i>Mostly Achieved.</i> Current (as of September 2014): 53,569 (32,082 people with improved access to water supplies, and 21,487 people with improved sanitation services, some may benefit from both.) Of these beneficiaries, 46% live in indigenous Comarcas.</p> <p>Mostly achieved at 81% of the target.</p> <p><i>Not Achieved, Data Not Available.</i> Works are underway in the Metro Water and Sanitation Project, but service improvement at the user level is unable to be measured. However, by closing (under the new CPF) the Project still expects to reach the target of 100,000 additional people with water access and 60,000 additional people with sanitation access.</p>	<p><u>Financial Services:</u> Water Supply and Sanitation in Low Income Communities (PASAP) P082419</p> <p>Metro Water and Sanitation Improvement ongoing – P119694</p> <p><u>Knowledge Services:</u> NLTA Monitoring Country Progress in WSS in Central America (Report completed for Panama) P132281</p> <p>NLTA Sector Information System Completed FY12 (WPP-TF098787)</p> <p>Political Economy Study in Water Supply and Sanitation (P082419/GPF-TF096729) Completed FY13</p> <p>Preparation of a Performance-Based Efficiency Improvement Contract for IDAAN Colon Business Unit (PPIAF-TF011135) Completed</p> <p>Country Water Supply, Sanitation, and Hygiene (WASH) Poverty Diagnostic in Panama ongoing (P150563)</p> <p>TA Rural Water and Sanitation Information System consolidation and expansion Underway (P148645/SFLAC TF016023) To be delivered under the new CPF with WSP.</p> <p><u>Convening Services:</u> LatinoSan Regional Conference delivered</p>	<p><i>This was the first time IDAAN worked with the Bank, so capacity building was very important, particularly as there were large contracts under the Metro Water and Sanitation Project.</i></p> <p><i>Due to the large performance based contracts and need to build capacity to manage the contracts, effectiveness, and subsequently the disbursement ratio of the project were affected. It is important to fully assess implementing agency capacity when projecting disbursements.</i></p> <p><i>The market for technical staff to work in IDAAN is affected by higher salaries in the private sector.</i></p> <p><i>The change of Government and political transition have translated into staff turnover, including in the management of IDAAN, thus slowing down progress.</i></p>

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
B. Improve poor households' access to quality basic health and nutrition services	<p><i>Outcome Indicator 7:</i> Improved access for women and children to critical health services as indicated percent of children under 1 year of age with complete vaccination scheme and percent of pregnant women with at least three prenatal controls.</p> <p>Vaccination baseline: 26% Target: 85%</p> <p>Prenatal control baseline: 20% Target: 70%</p>	<p><i>Achieved:</i> Percentage of Children <1 year with full vaccination scheme. Current (as of April 2014): 89%</p> <p>Percentage of pregnant women from the total estimated target population with at least 3 prenatal controls (one in each trimester) Current (as of April 2014): 75%</p>	<p>FY13 Partnership with IDB and CAF (ongoing dialogue and coordination on sector reform)</p> <p><u>Financial Services:</u> Health equity and performance improvement project ongoing P106445</p> <p>Social Protection Project (P098328)</p> <p><u>Knowledge Services:</u> Policy Note on Non- Communicable Diseases Completed - Report No. 71848</p> <p>Setting Standards for Improved Governance in Health (regional NLTA) – ongoing (P129669)</p> <p><u>Convening Services:</u> Hackathon against Domestic Violence in PA Delivered FY13</p> <p>Improved LAC Country Responses to Protect the Nutritional Status of the Poorest and Most Vulnerable in Times of Crisis and Emergencies (South-South event) – Delivered (TF010076)</p>	<p><i>The Results Based Financing scheme used under the Health Project was complex, but highly successful and innovative.</i></p> <p><i>The scheme showcased the Bank as a knowledge provider, and the IDB is now also using the model. It is a key input on spending efficiency.</i></p>
C. Strengthen social protection of the vulnerable	<p><i>Outcome Indicator 8: The Beca Universal scholarship program covers all eligible children in grades 1-12 in public schools.</i> Baseline: 291,000 children (2010)</p>	<p><i>Mostly Achieved.</i> Current: 478,574 students receiving the <i>Beca Universal</i> with a total of \$83,486,580.00 as of December 2013.</p> <p>Eligibility was determined by enrollment in public school and “passing grades,” (eligibility requirements have since changed). In 2013, 574,955 students were enrolled in the public education system (<i>Matricula MEDUCA 2013</i>), however</p>	<p><u>Financial Services:</u> Social Protection Project (P098328)</p> <p>Fiscal Management of Expenditures DPL series (FY11-FY14): DPL-I Delivered FY11 (P123255) DPL-II Delivered FY13 (P127322) DPL-III Delivered FY14 (P146942)</p> <p>IFC Education Commitments <i>Universidad Interamericana</i> (Laureate)</p>	<p><i>Cross-Fertilization of projects (and DPLs or TA) can reap large benefits and find synergies.</i></p> <p><i>The DPL was strategically leveraged to engage in sectors where the Social Protection Program was not yet involved. For example, the Bank was able to engage with Beca</i></p>

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
	<p><i>Outcome Indicator 9:</i> The expected number of beneficiaries recertified in 100 a los 70 should be adjusted to 20 percent, as a selective strategy does not require full recertification in specific areas like the indigenous and rural areas.</p>	<p>“passing grades” numbers are difficult to assess as grades change quarterly. That said, using solely enrollment in public school, 83.2% of students were receiving <i>Beca Universal</i>.</p> <p>Note: For this same indicator in the DPL II Project Document the target was set as 466,000 children in 2011. Using this as a proxy target, this outcome has been achieved.</p> <p><i>Not Achieved.</i> With the support of the DPL a new operational rule for the non-contributory pensions program is in place, which was formalized through Ministerial resolution No. 255 approved in October 2012 establishing the Social Vulnerability Survey. However, recertification has not been implemented.</p>	<p><u>Knowledge Services:</u> Social Protection NLTA on Utility Subsidies Delivered FY13 (P129365)</p> <p>Panama Poverty Assessment: Translating Growth into Opportunities and Poverty Reduction Delivered FY11 (P113807)</p> <p>CA Poverty Study AAA Delivered FY13 (P123309) Report No: ACS3801(Central America in the New Millennium: Six Different Stories of Poverty)</p> <p>SSEIR Central America Social Expenditure and Institutional Review AAA Panama (P146907) (Subtask: P150371for CR and Panama) Ongoing. Expected to be delivered in FY15</p> <p>Programmatic Approach: Panama Skills and Productive Inclusion NLTA (P147634) ongoing</p> <p>Social Protection and Rights’ Based Policies in LAC: Institutional and Operational Experiences ongoing (NTF TF013463)</p> <p>Central America (CA) Poverty Measurement and Statistical Capacity – Delivered FY11 (P120378)</p>	<p><i>Universal through the Social Protection Project due to a trigger related to Beca Universal under the DPL II. Similarly the DPL allowed the Social Protection team to engage on non-contributory pensions.</i></p>
CPS Pillar 3: Enhanced Public Sector Transparency, Effectiveness, and Efficiency				
Rating: Moderately Unsatisfactory				
A. Improve efficiency of public expenditure	<p><i>Outcome Indicator 10:</i> Improved mechanism in place in sector ministries to ensure</p>	<p><i>Partially Achieved</i> The new integrated financial management information system</p>	<p><u>Financial Services</u> Fiscal Management of Expenditures DPL series (FY11-FY14):</p>	<p><i>Good Synergies between DPL and Treasury result in positive and innovative</i></p>

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
	<p>correct budget execution as measured by linking the public sector budgeting, investment and procurement systems.</p> <p><i>Outcome Indicator 11:</i> Government builds the technical building blocks for implementation of reform in liquefied propane gas subsidies.</p>	<p>(ISTMO) has been designed and is in its testing phase. Expected to be fully operational in 2015 integrating the budget planning, execution and financial reporting process. The linking of ISTMO with the procurement system <i>PanamaCompra</i> is planned over the next few years.</p> <p><i>Achieved.</i> Groundwork was laid for reform. Government obtains support from international technical experts, including the Bank assistance for a NLTA on utility subsidies, to deepen knowledge and increase capacity for an innovative approach and solution towards a reform in liquefied propane gas subsidies.</p> <p>The NTLA built technical building blocks for the implementation of reform. For example, the NLTA developed an action plan to build a beneficiaries roster and targeting tool.</p>	<p>DPL-I Delivered FY11 (P123255) DPL-II Delivered FY13 (P127322) DPLIII Delivered FY14 (P146942)</p> <p>Enhanced Public Sector Efficiency TA loan Delivered FY11 (P121492)</p> <p><u>Knowledge Services:</u> Public Expenditure and Financial Accountability (P148094) Delivered FY15</p> <p>SSEIR Central America Social Expenditure and Institutional Review AAA Panama (P146907) (Subtask: P150371for CR and Panama) Ongoing. Expected to be delivered in FY15.</p> <p>Social Protection NLTA on Utility Subsidies Delivered FY13 (P129365)</p>	<p><i>results such as support for debt management strategies.</i></p> <p><i>Some outcomes in pillar 3 had to be revised and rewritten during Progress Report to reflect the changing scope of the CPS. Even so, the outcomes remained too overly ambitious to be achieved in one CPS period and some were difficult to measure or had unclear indicators.</i></p> <p><i>Strong Government ownership is critical in achieving difficult reforms which require continued support over an extended period of time.</i></p> <p><i>Projects with more than one executing agency need to work collaboratively and have mechanisms for monitoring implementation and taking actions to solve bottlenecks. Under the Enhanced Public Sector Efficiency TAL, unclear steering arrangements and lack of accountability for results among departments slowed implementation.</i></p>
<p>B. Modernize financial management and procurement systems, and introduce performance focus in the public sector</p> <p>Deepening the domestic market</p>	<p><i>Outcome Indicator 12:</i> Bonds placed in the domestic market increase as a share of financing needs.</p> <p>Baseline: 2009=0 percent (percent of domestic debt in the total debt)</p>	<p><i>Achieved.</i> Baseline: 2009=0 percent Current (as of September 30): 2014=27.5 percent</p> <p>A target for this indicator was not clearly established in the CPSPR (possibly because it would depend on the price in international and domestic markets), however it is assumed to be in line with the DPL series which had an original target of 10 percent by 2011. This target was surpassed and realized at 30 percent in 2011. It is assumed, therefore, that the intention</p>	<p><u>Financial Services:</u> Fiscal Management of Expenditures DPL series (FY11-FY14): DPL-I Delivered FY11 (P123255) DPL-II Delivered FY13 (P127322) DPLIII Delivered FY14 (P146942)</p> <p>Enhanced Public Sector Efficiency TA loan ongoing (P121492)</p> <p><u>Knowledge Services:</u> Public Debt Management Advisory</p>	<p><i>High staff turnover on both sides (the Government and the Bank team) slows down implementation.</i></p>

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
	<p><i>Outcome Indicator 13:</i> MEF establishes an M&E unit that produces/coordinates a number of performance reports, and at least 2 different social programs are under evaluation.</p> <p><i>Outcome Indicator 14:</i> The Comptroller General improves the efficiency of budget execution processes by reducing unnecessary ex-ante control mechanisms.</p> <p>Baseline: Control model based on ex-ante controls with only</p>	<p>of the CPSPR was to maintain the issuance level. Further, the Government's medium term debt management strategy for 2014-2018 seeks to continue to develop the domestic market, with a strategic goal of maintaining 18-30 percent in internal debt.</p> <p>As such, the rate of 27.5 percent as of September 30 for 2014 is in line with the goal.</p> <p><i>Not Achieved.</i> During the CPS period Government priorities shifted, and now seeks to establish an M&E system (rather than unit) within MEF. As such MEF has not established a unit. The M&E system is in the initial stages of development, with results expected in the course of 2015.</p> <p>Under the TAL training has been done with mid and upper-management to develop skills in results based planning, linking to the budget, but impact has not materialized</p> <p><i>Not Achieved</i> No ex-ante control has been removed to date.</p>	<p>Services³⁵ Treasury Engagement has supported the DPL series under Pillar 3. Work focused on the establishment of a formal debt management strategy, an annual revision of the strategy, and an annual evaluation of risk indicators against the strategy's targets.</p> <p>Financial Sector Assessment Program Delivered FY12</p> <p>ROSC follow-up dialogue and support on International Financial Reporting Standards (IFRS) (ongoing) Delivered as a PEFA report product</p> <p>Fiduciary Capacity Building NLTA Delivered FY11 (P110049)</p> <p><u>Convening Services:</u> Support to VIII Latin America Conference on Public Procurement Delivered FY13</p>	<p><i>Need of a strong capacity building, particularly in preparing TOR, early in the project. Additionally, during project design, more attention should be given to the specific project implementation plan and assignment of clear responsibilities for achievement of results to facilitate mobilization of Government officials.</i></p> <p><i>The complexity of designing, testing and implementing a new government-wide system and its integration, such as the integrated financial management information system is difficult to achieve in only one CPS period.</i></p>

³⁵ Originally planned as a FY14 RAS.

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
	<p>the existence of three ex-ante and ex-post controls over public expenditures makes execution difficult.</p> <p><i>Outcome Indicator 15:</i> Government increases institutional capacity to handle improved public procurement processes.</p> <p>Baseline: currently there is no human resource policy or ongoing training program.</p> <p><i>Outcome Indicator 16:</i> Increased savings in public procured goods and services, as measured by the reduction in the average unit and/or operational costs of key items tracked by the Public Procurement Directorate.</p> <p>Baseline: Currently the Government has not developed the tools to measure savings and operational costs, this will be done with support from the</p>	<p><i>Partially Achieved.</i> The Dirección General de Contrataciones Publicas (DGCP) was going to align with Universidad de Panama to create the Academia de PanamaCompra and provide training to all civil servants on the national procurement processes. However, this did not occur due to several factors: 1) a fire burned down the DGCP offices in 2012; 2) the political transition put things on hold; and 3) there has been a high rate of turnover of area directors in DGCP.</p> <p>However, DGCP expressed to the Bank their intention of implementing training and certification programs for procurement officials, the TOR for which is under finalization by the DGCP.</p> <p><i>Not Achieved.</i> Technical problems in the handling of the databases containing the information needed prevented the evaluation of savings. The study is intended to be completed using a different consultant.</p>		

Government Objectives FY11-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (As of September 2014)	WBG Activities that Contributed to the Outcome	Lessons Learned and Suggestions for the New CPF
	<p>World Bank.</p> <p><i>Outcome Indicator 17:</i> Number of items (of goods commonly purchased by Government agencies) covered by framework agreements has increased significantly</p> <p>Baseline: 2009 = 2,452</p>	<p><i>Achieved.</i> Baseline: 2009 = 2,452 Current: 2014³⁶ = 7,300</p> <p>The value of 7,300 was the goal under the DPL and was fulfilled.</p> <p>This is an increase of 297.7%</p>		

³⁶ At the time of the CPSPR, a value for 2011 was written in error to be 26,180. This was incorrectly entered.

CPSCLR Annex 2 – Planned Lending Program and Actual Deliveries (IBRD)

CPS Lending Program (IBRD in US\$ million)		Status at CPSCLR
FY11 Plan		FY11 Actual
Strengthening Panama’s Social Protection System TA	\$50	Dropped
Enhanced Public Sector Efficiency TA (P121492)	\$75	Delivered (\$55)
Social Protection Additional Financing	\$15	Dropped
Road Asset Preservation	\$110	Dropped
Programmatic Broad-based Growth and Efficiency - DPL I (P123255)	\$50	Delivered (\$100)
Total Planned FY11	\$300	\$155 delivered
FY12 Plan		FY12 Actual
Catastrophic Risk Deferred Draw-Down Option Operation (CAT-DDO) (P122738)	\$50	Delivered (\$66)
Programmatic Broad-based growth and efficiency DPL II (P127332)	\$50	Moved to FY13 (\$100)
Total Planned FY12	\$100	\$66 delivered
FY13-FY14 Plan		FY13-FY14 Actual
Programmatic Broad-based Growth and Efficiency DPL II (P127332) FY13	--	Delivered (\$100)
Programmatic Broad-based growth and efficiency DPL III (P146942) FY14	\$50	Delivered (\$200)
Strengthening the Network of Basic Health and Nutrition Services	TBD	Dropped
Secondary Roads Development	TBD	Dropped
Total Planned FY13-FY14	\$50	\$300 delivered
Total Planned FY11-FY14		Total Delivered = \$521

Note: The CPS experienced some significant changes in demand for anticipated lending, and some of the outcomes originally envisioned were achieved through other means. A planned Social Protection TA loan and related additional financing did not materialize due to lack of Government interest, while two projects focused on roads were dropped as Panama funded these activities through other sources. Finally Government demand for a project on strengthening the network of basic health and nutrition services shifted to physical construction of hospitals and was also dropped. In parallel, the DPL series was scaled up. As such, the Results Framework was adjusted at the CPSPR to better reflect the changing scope of the CPS.

CPSCLR Annex 2 Continued – Planned Lending Program and Actual Deliveries (IBRD)

Active Lending Portfolio as of December 30th, 2014

Proj ID	Project Name	Approval Date	Rev Closing	Proj Age in Yrs	Lst DO	Lst IP	Net Comm Amt (\$m)	Total Undisb Bal (\$m)	%Disb	Disb in FY (\$m)	No. of mons Ext
P106445	Health Equity and Performance Improvement Project	08/05/2008	12/31/2014	6.40	S	MS	40.00	.00	100.00%	5.66	18
P121492	Enhanced Public Sector Efficiency Technical Assistance Loan	03/03/2011	09/30/2016	3.80	MU	MU	55.00	38.40	30.20%	1.76	0
P146942	PA Third Programmatic Development Policy	12/30/2013	01/30/2015	1.00	S	S	200.00	.00	100.00%	.00	0
P064918	Rural Productivity Project	03/21/2007	01/27/2015	7.80	MS	MS	39.40	.55	98.61%	1.90	24
P119694	PA Metro Water and Sanitation Improvement Project	05/18/2010	09/30/2015	4.60	MS	MS	40.00	33.42	16.50%	2.75	0
P122738	Disaster Risk Management Development Policy Loan with a CAT	10/18/2011	11/30/2017	3.20	S	S	66.00	66.00	.00%	.00	60
							440.40	138.37	68.58%		

CPSCLR Annex 3 – Planned Non-Lending Activities and Actual Delivery

CPS Program	Status
FY11 Plan	Status at the CPSCLR
<i>Poverty Assessment 2008 (draft)</i>	Panama Poverty Assessment: Translating Growth into Opportunities and Poverty Reduction (P113807) Delivered FY11
<i>Making Progress on Poverty and Inequality</i>	Central America Poverty Measurement and Statistical Capacity (P120378) Delivered FY11
<i>Public Credit Advisory Services</i>	Moved to FY14
<i>CA Regional Competitiveness Study</i>	Moved to FY13
<u>Other:</u>	Fiduciary Capacity Building TA (P110049) Delivered FY11
	Global Indigenous Peoples consultation on REDD+ Delivered FY11
	Investors Conference Participated and Presented FY11
FY12 Plan	Status at Completion Report
<i>Central American Probabilistic Risk Assessment</i>	Probabilistic Risk Assessment to Improve Resilience to Natural Hazards in Central America (P144982/TF014499) <ul style="list-style-type: none"> • Assessment for the City of David completed FY12 • Flood Risk for Boquete completed in FY14 • Seismic Risk for Panama City underway
<i>Public Sector Expenditure and Institutional Review</i>	Social Expenditure and Institutional Review (moved to FY14)
<i>Quick Response / On-demand Analytical Support</i>	Financial Sector Assessment Program (P127018) Delivered FY12
	Maritime and Logistics Strategy Implementation (P125860) Phase 1 (Maritime) delivered FY12 (SFLAC-TF099440)
	Good Jobs : the Role of Human Capital (P117460) Planned for FY13, delivered in FY12 Report No.72912
<i>Improving Regulatory Framework and Financing of Technical and Vocational Training Programs</i>	Dropped
<u>Other:</u>	TA Water Sector Information System (WPP-TF098787) Delivered FY12
	Central America Infrastructure and Strategy for Growth (P122790) Delivered FY12
	Promotion of Healthy Lifestyles in Central America: Multisectoral Approaches to Prevent Noncommunicable Diseases (Rep. No. 71848) Delivered FY12
	Distributional Effects of the Panama Canal Extension (October, 2011, LAC, PREM, Maurizio Bussolo, Rafael E. De Hoyos, Denis Medvedev, Policy Research Working Paper, WPS5848)

	<p>Disaster Risk Management in Central America: GFDRR Country Notes: Panama. Global Facility for Disaster Reduction and Recovery. World Bank. 2011.</p> <p>Investors Conference Participated and Presented FY12</p>
FY13 Plan	Status at Completion Report
<p><i>Higher Education and Innovation for Global Competition</i></p> <p><i>Public Expenditure and Financial Accountability</i></p> <p><i>Quick Response / On-demand Analytical Support</i></p> <p><u>Other:</u></p>	<p>Higher Education and Innovation for Global Competition Analytical Work replaced by the Good Jobs: The Role of Human Capital – Delivered FY12 (P117460) Report No.72912</p> <p>Public Expenditure and Financial Accountability (P148094) Preliminary version delivered FY13, final delivery FY15 (July 2013, LCSFM LAC, World Bank and BID, Report No: AUS9418)</p> <p>Strategy for Development of Areas Revertidas (P125238) Delivered FY13 (RAS SFLAC-TF010150)</p> <p>Social Protection TA on Utility Subsidies (P129365) Delivered FY13</p> <p>Global Doing Business Report – Ongoing (yearly, includes Panama City)</p> <p>Improved LAC Country Responses to Protect the Nutritional Status of the Poorest and Most Vulnerable in Times of Crisis and Emergencies (South-South exchange - TF010076) Delivered FY13</p> <p>TA Social Protection and Rights’ Based Policies in LAC: Institutional and Operations Experiences (NTF TF013463) Ongoing</p> <p>Tourism Sector in Panama: Regional Economic Impacts and the Potential to Benefit the Poor (August, 2012, LAC, SD, Irina Klytchnikova and Paul Dorosh, Policy Research Working Paper, 6183)</p> <p>Unlocking Central America’s Export Potential: Unlocking Potential at the Sector Level: Value Chain Analyses (October, 2012, Finance and Private Sector Development Department, Central America Country management Unit, LAC, World Bank, 75070 v. 2)</p> <p>Political Economy Study in Water Supply and Sanitation (P082419/GPF-TF096729) Completed FY13</p> <p>Support to VIII Latin America Conference on Public Procurement Delivered FY13</p> <p>Hackathon Against Domestic Violence in Panama Delivered January 2013</p> <p>Competitiveness & Doing Business Regional Conference Delivered April 2013</p> <p>Support to LatinoSan Regional Conference Delivered May 2013</p>

FY14 Plan	Status at Completion Report
<i>Central America Capital Markets Regional Integration</i>	Dropped
<i>Poverty Study</i>	Central America Poverty Study Delivered FY13 (P123309) Report No: ACS3801 (Central America in the New Millennium: Six Different Stories of Poverty)
<i>Setting Standards for Improved Governance in Health</i>	TA Setting Standards for Improved Governance in Health (P129669) Regional Underway
<i>Social Expenditure and Institutional Review</i>	Central America Social Expenditure and Institutional Review Panama (P146907) (Subtask: P150371for CR and Panama) Ongoing. Expected to be delivered in FY15
<i>Maritime Strategy Phase II (Support to the Logistics Cabinet)</i>	Maritime and Logistics Strategy Implementation (P125860) Phase II (Air Cargo) Delivered FY14 (SFLAC-TF015368)
<i>Panama Household Survey TA</i>	Dropped
<i>Labor Markets, Training and Skills for Competitiveness</i>	TA Programmatic Approach: Panama Skills and Productive Inclusion (P147634) Ongoing
<i>Public Debt Management Advisory Services (RAS) (from FY11)</i>	Public Debt Management Advisory Services Treasury has been providing advisory services to Panama on public debt management in the context of the DPL series rather than as a separate RAS.
<i>Policy Notes (to be determined, including notes on Digital Inclusion, Labor Markets, Training and Skills for Competitiveness)</i>	Enabling Inclusive Development Through Information and Communications Technologies: ICT Sector Policy Note for Panama Delivered FY14 (P144467)
	Strengthening Panama's Agricultural Extension System (April 24, 2014, LCSAR, Report No: AUS7026 – 2 volumes) (P149141) Delivered FY14
<u>Additional:</u>	Preparation of a Performance-Based Efficiency Improvement Contract for IDAAN Colon Business Unit (PPIAF-TF011135) Delivered FY14
	Trade Facilitation and Regional Integration in Central America (P120272) Completed FY14
	Central America Integration and Competitiveness Study (P119004) Completed FY14
	TA Monitoring Country Progress in Water Supply and Sanitation (P132281) Report completed for Panama FY14
	Country Water Supply, Sanitation, and Hygiene Poverty Diagnostic in Panama (P150563) Underway, to be delivered under the new CPF.
	TA Rural Water and Sanitation Information System consolidation and expansion Underway (P148645/SFLAC TF016023) To be delivered under the new CPF.

	<p>ROSC follow-up dialogue and support on International Financial Reporting Standards (ongoing)</p> <p>TA Doing Business in Central America and the Dominican Republic (P147229) Ongoing Subnational. (Report includes Panama City. Information was also collected on the Port of Colon in terms of risk based systems, and operations of ports and customs.) Report delivered FY15</p> <p>Setting Standards for Improved Governance in Health (regional TA) (P129669) Ongoing</p> <p>Panama Transitions and Strategy Programmatic Approach (P147320) (Multiple Policy briefs and sector notes included) Delivered FY15</p> <p>Regional Indigenous Peoples Dialogue (Safeguards Reform Consultation) Organized by the WBG in FY14</p>
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