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PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

November 5, 2012
Report No.: AB7247

Operation Name	Second Programmatic Fiscal Management and Efficiency of Expenditures Development Policy Loan
Region	LATIN AMERICA AND CARIBBEAN
Country	Panama
Sector	General public administration sector (80%); Public administration- Other social services (20%)
Operation ID	P127332
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF PANAMA
Implementing Agency	
	Ministry of Finance Via España y Calle 52, Edificio Ogawa 4to Piso Panama Tel: (507) 507-7202 Fax: (507) 507-7200 amendez@mef.gob.pa; crpmp@bloomberg.net
Date PID Prepared	November 5, 2012
Estimated Date of Appraisal	January 15, 2013
Estimated Date of Board Approval	March 12, 2013
Corporate Review Decision	Tbd.

I. Key development issues and rationale for Bank involvement

Panama has made important strides in its economic and social development in recent years. Panama's economic growth has been one of the fastest in Latin America over the past decade. The country has done well in integrating into the global economy and has leveraged its geographical position, turning itself into a well-connected logistics hub. Strong economic growth and government transfers have translated into increased welfare. As a result, the overall income poverty rate fell from 45.8 percent in 2012 to 30.1 percent, while extreme poverty fell from 21.2 to 12 percent. The country has also done particularly well in terms of primary education enrolment, which is almost universal.

Despite these important achievements, inequality is high and challenges persist in the public provision of social services. The Gini coefficient for income inequality dropped from 0.57 in 2002 to 0.53 in 2010, but is still one of the highest in Latin America. In terms of education, enrolment rates and timely attainment rates of sixth grade align with Latin American averages, but the Global Competitiveness Report 2012-13 report ranks Panama 112th out of 144 countries on the quality of education. Moreover, Panama faces challenges in providing other basic services to its citizens as measured for example by access to sanitation for poor Panamanians or to pre-natal health checks for indigenous women.

At the outset of its term in 2009, the Government presented a five-year strategic plan with the overall objectives of sustainable economic growth and reduction of poverty and inequality. The plan is built around strategies for economic growth and social development accompanied by a detailed five-year investment plan and fiscal projections. To ensure fiscal sustainability, the Government has complemented the plan with a set of reforms to increase tax revenue and the efficiency of public spending. In particular, the Government has been improving social protection by introducing a non-contributory pension program *100 a los 70*, a universal scholarship program *Beca Universal* and improving the targeting of conditional cash transfer (CCT) programs, including *Red de Oportunidades*. The approved tax policy and administration reforms are expected to generate 1.7 percent of GDP additional tax revenue. In addition, reforms to improve tax information sharing are increasing transparency. To ensure that public expenditures have the greatest possible impact, the Government has also launched several measures to improve spending efficiency in the areas of public procurement, debt management and targeting of transfer programs.

II. Proposed Objective(s)

The Program Development Objective of the proposed DPL series is to support the government of Panama in creating fiscal space and strengthening social transfer programs. The operation supports four key policy areas: (i) tax reforms, (ii) procurement, (iii) debt management, and (iv) social transfer programs.

III. Preliminary Description

The proposed second Programmatic Fiscal Management and Efficiency of Expenditures DPL builds on the progress achieved under the first loan in the series. The first DPL supported the legislative approval of important reforms in public financial management and social protection with an emphasis on coverage, such as broadening the tax base and increasing the number of social protection beneficiaries. The proposed second DPL emphasizes supporting the sustained implementation of these reforms and questions of efficiency, for example a focus on large taxpayers and improved targeting of social transfer programs.

The four components are the following: first component supports the Government's tax policy and administration reforms and its progress to improve the legal framework for enhanced international tax information sharing. Together, these reforms are expected to mobilize tax revenue and facilitate the international exchange of tax information. The second component supports the Government's efforts to strengthen procurement practices and transparency. This component is expected to provide the foundation for increased accountability and transparency in the public sector. The third component supports the Government's efforts in debt management. This component will help to prepare a medium-term debt management strategy and the development of the domestic debt market. The fourth component supports the expansion and strengthening of social transfer programs, especially in indigenous populations and rural areas, with programs like the *Red de Oportunidades* program, the *100 a los 70* program, and the *Beca Universal* program.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The Government actions supported in this DPL are expected to have a positive poverty and social impact. There are reasons to expect a positive or neutral impact of each of the supported reforms, as explained below.

The supported tax reform is expected to have an indirect positive effect on Panamanians at the low end of the income distribution. Increased tax compliance for large corporations or increased transparency through international tax information sharing could generate fiscal space for increased social spending.

The tax information sharing component of the DPL as well as the procurement and debt management components are not expected to directly impact poverty or the distribution of incomes. However, indirect effects could occur, for example based on an overall increased transparency which could generate an improved business environment and hence more employment. Also, more efficient spending may free up resources for social development spending.

Measures on the social protection programs *100 a los 70* and the *Beca Universal* are expected to generate significant, direct positive impacts, especially for indigenous, rural and extremely poor Panamanians. The development of tools to implement the recertification of the *100 a los 70* program is important in order for the program to have a positive distributional impact. A universal, untargeted program would regressive, since poorer people tend to have lower life expectancies—people over 70 make up 3.5 percent of the lowest decile, but 8.7 percent of the top decile. Focusing the program according to economic need greatly improves its progressive nature. The expansion of *Beca Universal* will also improve progressivity. Due simply to the fact that poorer households have more children and the probability of attendance in primary school is higher than secondary school among the poor, the number of beneficiaries of the program among the poor increased as the program expanded to the lower grades.

Environment Aspects

The measures supported under the proposed DPL are not likely to have significant effects on the environment, forests or other natural resources. Policy actions in the areas of tax administration, tax information sharing, public procurement, debt management and social policy are not likely to have either positive or negative environmental impacts.

V. Tentative financing

Source:	($m.)
Borrower	0
International Bank for Reconstruction and Development	100
Borrower/Recipient	
IBRD	
Others (specifiy)	

Total	100

VI. Contact point

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Borrower

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