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R2018-0103/1

May 24, 2018

Closing Date: Friday, June 15, 2018 at 6 p.m.

FROM: Vice President and Corporate Secretary

Panama - Third Programmatic Shared Prosperity Development Policy Financing

Program Document

Attached is the Program Document regarding a proposed loan to Panama for the Third Programmatic Shared Prosperity Development Policy Financing (R2018-0103), which is being processed on an absence-of-objection basis.

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Report No. 125955-PA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED

DEVELOPMENT POLICY FINANCING

IN THE AMOUNT OF US$ 100 MILLION

TO

THE REPUBLIC OF PANAMA
FOR THE

THIRD PROGRAMMATIC SHARED PROSPERITY DEVELOPMENT POLICY FINANCING

June 14, 2018

Macroeconomics and Fiscal Management Global Practice
Central America Country Management Unit
Latin America and the Caribbean Region

REPUBLIC OF PANAMA
GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange rate effective as of April 23, 2018)
PAB 1.00 = US$1.00

WEIGHTS AND MEASURES
Metric System

ABBREVIATIONS AND ACRONYMS

AEOI	Automatic Exchange of Information
AML	Anti-Money Laundering
BEPS	Base Erosion and Profit Shifting
BO	Beneficial Ownership
CAD	Current Account Deficit
CCT	Conditional Cash Transfer
CEDLAS	Socio-Economic Database for Latin America and the Caribbean *(El Centro de Estudios Distributivos, Laborales y Sociales)*
CFT	Combating the Financing of Terrorism
CGO	Comptroller's General Office *(Contraloría General de la República)*
CMNUCC	United Nations Framework Convention on Climate Change *(Convención Marco de las Naciones Unidas sobre el Cambio Climático)*
CO2e	Carbon Dioxide Equivalent
COP	Conference of the Parties
CRS	Common Reporting Standards
DICRE	Directorate of Investments, Concessions, and Risks of the State *(Dirección de Inversiones, Concesiones y Riesgos del Estado)*
DPF	Development Policy Financing
DNFBP	Designated Non-Financial Businesses and Processions
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
EoIR	Exchange of Information on Request
EU	European Union
FACE	Energy Compensation Fund *(El Fondo de Compensación Energética)*
FAP	Panama Savings Fund *(Fondo de Ahorro Panama)*
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FTO	Tariff Fund for the Occidental Region *(El Fondo Tarifario de Occidente)*
GAFILAT	Financial Action Task Force of Latin America *(Grupo de Acción Financiera de Latinoamérica)*
GDP	Gross Domestic Product
GWh	Gigawatt hours
IBRD	International Bank for Reconstruction and Development
IADB	Inter-American Development Bank
IDAAN	National Water Supply and Sanitation Administration *(Instituto de Acueductos y Alcantarillados Nacionales)*

IFC	International Finance Corporation
IMF	International Monetary Fund
ISTMO	Integration and Technological Solutions of the Operational Management Model *(Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa)*
LAC	Latin America and the Caribbean
MEDUCA	Ministry of Education *(Ministerio de Educación)*
MEF	Ministry of Economy and Finance *(Ministerio de Economía y Finanzas)*
MER	Mutual Evaluation Report
MIDES	Ministry of Social Development *(Ministerio de Desarrollo Social)*
ML	Money Laundering
MW	Megawatts
NDC	Nationally Determined Contribution
PCW	Panama Canal Watershed
PISA	Program for International Student Assessment
PFM	Public Financial Management
PMT	Proxy Means Test
PPP	Purchasing Power Parity
OECD	Organization for Economic Co-operation and Development
SEDLAC	Socio-Economic Database for Latin America and the Caribbean
SFRL	Social and Fiscal Responsibility Law
SIASAR	Rural Water and Sanitation Information System *(Sistema de Información de Agua y Saneamiento Rural)*
SIGADE	Debt Management and Financial Analysis System
SINIP	National Planning and Public Investment System *(Sistema Nacional de Inversiones Públicas)*
TERCE	Third Regional Comparative and Explanatory Study *(Tercer Estudio Regional Comparativo y Explicativo)*
TPS	Temporary Protected Status
TSA	Treasury Single Account
UNFCCC	United Nations Framework Convention on Climate Change *(Convención Marco de las Naciones Unidas sobre el Cambio Climático)*
US	United States
WB	World Bank

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REPUBLIC OF PANAMA
THIRD PROGRAMMATIC SHARED PROSPERITY
DEVELOPMENT POLICY FINANCING

TABLE OF CONTENTS

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SUMMARY OF PROPOSED FINANCING AND PROGRAM
REPUBLIC OF PANAMA
THIRD PROGRAMMATIC SHARED PROSPERITY
DEVELOPMENT POLICY FINANCING

Borrower	Republic of Panama
Implementation Agency	Ministry of Economy and Finance
Financing Data	*IBRD Loan.* *Terms*: Commitment-linked variable spread loan, denominated in US dollar, with level repayments of principal payable in 20 years, including 2-year grace period. *Amount:* US$100 million.
Operation Type	Single tranche Development Policy Financing (DPF); third in a series of four operations.
Pillars of the Operation and Program Development Objectives	The Program Development Objectives of the DPF series are to support the Government of Panama's efforts to: (i) strengthen the frameworks for international tax transparency, financial integrity, and fiscal management; (ii) strengthen institutional arrangements to support social assistance and education; and (iii) enhance the regulatory and sustainability framework in the energy and water sectors.
Result Indicators	• Panama has started sending and receiving confidential financial information for tax purposes on automatic basis: Baseline 2014: No; Target 2019: Yes • Number of Banks supervised on-site on AML/CFT matters: Baseline 2014: 0; Target 2019: 55 • Number of money laundering investigations where tax evasion is a predicate criminal offence: Baseline 2014: 0; Target 2019: >1 • Share of investments by local governments that follow SINIP (*Sistema Nacional de Inversiones Públicas*) norms and procedures: Baseline 2014: 0 percent; Target 2019: 70 percent • Share of central government debt that is paid electronically: Baseline: 2014: 0 percent; Target 2019: 100 percent • Number of available disaster financial protection instruments of the Panama's DRM Strategic Framework that underwent a cost-benefit analysis: Baseline 2014: 0; Target 2019: 2 • Percentage of central government and decentralized agencies expenditure payments (from both budgetary and financial accounts) channeled through the TSA. Baseline 2014: 0 percent; Target 2019: 90 percent • Percentage of the extreme poor benefiting from at least one social assistance program: Baseline: 2014: 37 percent; Target: 2019: 60 percent • Percentage of total funds from social assistance programs transferred through the social card (*Clave Social*): Baseline 2014: 0 percent; Target 2019: 35 percent • Number of policy reports led and disseminated by MEDUCA informed by the use of student assessments data at the subnational level: Baseline 2014: 0; Target 2019: 2 • Number of teachers participating in the International Teacher Training of *Panama Bilingüe*: Baseline 2014: 0; Target 2019: 3,500 • Public expenditures on electricity subsidies are reduced by at least 80 percent in nominal terms relative to their level in 2014: Baseline 2014: US$320 million; Target 2017-19 average: US$50 million • Number of Rural Water Management Boards connected to the standardized information system for improving the monitoring of water management (SIASAR): Baseline 2014: 400; Target 2019: 1,700
Overall Risk Rating	Substantial
Operation ID	P166159

PROGRAM DOCUMENT FOR A
THIRD PROGRAMMATIC SHARED PROSPERITY
DEVELOPMENT POLICY FINANCING
TO THE REPUBLIC OF PANAMA

I. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) is the third operation (DPF 3) in a programmatic series of four, aimed at accompanying Panama's efforts to advance its multi-sectoral reforms agenda which emphasizes global public goods.** The operation supports reforms in three main areas or pillars: (i) strengthening the frameworks for international tax transparency, financial integrity, and fiscal management; (ii) strengthening institutional arrangements to support inclusion in social assistance and education; and (iii) enhancing the regulatory and sustainability framework in the energy sector. The reforms in the proposed operation are consistent with the World Bank (WB) Group's Country Partnership Framework for 2015-2018 (Report No. 932425). The series was originally designed as a program series of three loans, but it has been extended to four operations to continue to support critical reforms and implementation of the framework on international tax transparency and financial integrity as well as other critical reform areas of the policy engagement.

2. **This operation supports reforms that have global positive externalities beyond Panama**. Pillar 1 supports, among other reforms, the advancement of international tax transparency, including in the area of automatic exchange of financial information for tax purposes between Panama and the rest of the world; thereby supporting international coordination and collective action to fight tax evasion and erosion of the tax base across countries. It also supports Anti-Money Laundering (AML) reforms that contribute to the international community' fight against abuses of the global financial system and help combat terrorism and other illicit activities. Pillar 3 supports initial energy efficiency measures under Panama's action plan to meet its global commitments on climate change (under the Paris COP-21). Pillar 2 is focused on the domestic poverty alleviation and shared prosperity agenda.

3. **Macroeconomic and structural policies remain sound and have contributed to growth and poverty reduction.**[1] In 2017, GDP expanded by 5.4 percent, compared to estimated growth of 0.9 percent in the Latin American and the Caribbean (LAC) region as a whole. Since 2010, Panama grew by 6.9 percent on average, outpacing the LAC average (2.3 percent) and that of middle income economies (5.1 percent). The country's external current account deficit (CAD) is estimated to have remained stable at around 5.5 percent of GDP in 2017 and was fully financed by Foreign Direct Investment (FDI). Panama's inflation is projected to remain low during the medium-term (in the 1 to 2 percent range). On the fiscal front, public debt is sustainable at around 37.5 percent of GDP in 2017. Moreover, the fiscal deficit declined from 2.3 percent of GDP in 2015 to an estimated 1.6 percent by 2017 and is expected to remain below 2 percent over the medium term. High economic growth helped to reduce the poverty rate (US$5.50 per day poverty line) from 24.9 percent in 2008 to 16.2 percent in 2015 (Figure 1). Moreover, growth has been widely shared, with the income of the bottom 40 percent of the population growing faster than that

[1] Information provided in this paragraph is based on official data from the Panamanian authorities. Estimates and projections were prepared by the WB staff.

of the national average (Figure 2). As a result, Panama's Gini coefficient in 2015 (0.51) was 2.5 percentage points lower than in 2008.

4. **The DPF series continues its support to the international tax transparency and financial integrity reform agenda, which has seen significant progress.** [2] The program has been aligned with the Government's priority to support policy measures aimed at bringing Panama's legal frameworks on AML/CFT and international tax transparency in line with global standards, and ensuring their effective implementation. Panama has made significant progress in strengthening legislation on AML/CFT since the leak of documents from a private legal firm based in Panama regarding operations through off-shore shell structures back in April 2016. Moreover, the country committed and established the legal framework, to implement the OECD's Common Reporting Standard (CRS), ratified the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, and signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information. It also joined the Inclusive Framework of the Base Erosion and Profit Shifting (BEPS) Project of the OECD, ratified the Intergovernmental Agreement that enforces compliance of the Foreign Account Tax Compliance Act (FATCA), established a legal framework to comply with automatic exchange of information under FATCA, and started to exchange information with the United States, among other efforts. Several of these reforms have been supported by this operation (and the preceding DPF 2).

5. **Nonetheless, the reform agenda in the areas of tax transparency and financial integrity will need to continue over the medium term and carries implementation risks.** In particular, recent events such as the decision of the European Council to include Panama in its *subject to close monitoring* list with regards to preferential tax regimes requires work on the country's framework for international tax transparency.[3] Similarly, the work will need to continue under the Latin American "branch" of the Financial Action Task Force (GAFILAT) agenda. This DPF 3 supports the implementation of critical reforms in these areas, and a subsequent DPF 4 in the program series will follow through with further reforms and implementation to help mitigate the risks. Moreover, through the DPF engagement platform, the Bank is providing technical assistance to the authorities in these areas to continue the reform effort and make it sustainable over the medium term. As countries make progress in compliance with the international standards, the evaluation criteria for the subsequent reviews become more demanding, which pushes the compliance bar higher and gradually leads to higher standards. Therefore, despite Panama's recent

[2] The first operation (DPF 1) was approved by the World Bank's Board of Directors on April 7, 2015. The series was designed to address key reform priorities identified in the Systematic Country Diagnostic and the Country Partnership Framework or the period FY15-FY21 focused around (i) social inclusion, (ii) service delivery in water and energy sectors, and (iii) public financial management. The DPF 2 was approved by the World Bank's Board of Directors on September 8, 2016. The design of the second operation (DPF 2) was enhanced to support reforms in the areas of international tax transparency and financial integrity following the leak of documents related to offshore companies in April 2016, which emphasized the importance of strengthening international tax transparency and facilitating exchange of information between Panama and the rest of the world. The third operation (DPF 3) continues to support the international tax transparency and financial integrity reform agenda as well as the reform agenda to improve fiscal management, inclusion, and service delivery.

[3] Initially Panama was included in the common EU list of non-cooperative tax jurisdictions by the Decision of the European Council from December 5, 2017. On 23 January 2018, Panama along with seven other jurisdictions was removed from the list, following commitments made at a high political level to remedy EU concerns and moved to a separate category of *jurisdictions subject to close monitoring*.

efforts, the outstanding shortcomings in its tax transparency and financial integrity frameworks may constitute challenges for the upcoming reviews by the Global Forum and Financial Action Task Force (FATF).[4]

6. **Despite the remarkable progress in poverty reduction, challenges in social inclusion persist, and reforms in social assistance and education are critical in this regard.** Notably, extreme poverty continues to be concentrated in certain areas and vulnerable groups in the country. This requires further improvements in the targeting of the social programs financed through the budget to enable the resources to reach the poorest households. Moreover, Panamanian youth, with limited education and low attainment rates, are facing significant challenges in accessing the labor market, and are vulnerable to crime and violence. Education programs that improve students' skill set, including in languages, can help boost their opportunities to obtain better jobs. The DPF supports critical measures in these areas.

7. **This DPF also supports reforms to foster sustainability in the energy sector that are critical for the country and are linked to Panama's global commitment on climate change issues.** Market driven price signals and efficiency in the use of energy services by users are not just financially sound, but have a significant impact on environmental and climate sustainability. Energy efficiency and the moderation of energy consumption are part of the reform agenda, which is aligned with Panama's nationally determined contribution to the global response to climate change agreed in Paris in 2015. The corresponding Prior Action climate co-benefits represent around 11 percent of the program.

8. **The three pillars of the program complement and reinforce each other**. A stronger framework for international tax transparency and financial integrity will improve investor confidence and support economic growth, while strengthening fiscal management will help ensure sustainability. At the same time, improved transparency and better targeting of social protection systems will help direct resources to those that need them the most, while improved quality of education will contribute to advancing opportunities, particularly for youth, supporting long-term productivity growth. Finally, an enhanced regulatory and sustainability framework for energy will help generate the necessary fiscal space to safeguard social assistance and education programs and helping to meet global commitments on climate change.

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[4] In late 2018, Panama is scheduled to undergo a second round of peer review of Exchange of Information Upon Request (EoIR) by the Global Forum which has enhanced focus on beneficial ownership issues; in early 2019 it will be assessed by the OECD and the European Council with respect to the legislation related to special tax regimes. Over the next few months, FATF will closely monitor Panama's progress in addressing shortcomings in financial integrity identified through the recent mutual evaluation process. Further details are presented in the Government's Program section of the Program Document.

Figure 1: Poverty in Panama was reduced substantially during 2010-2017

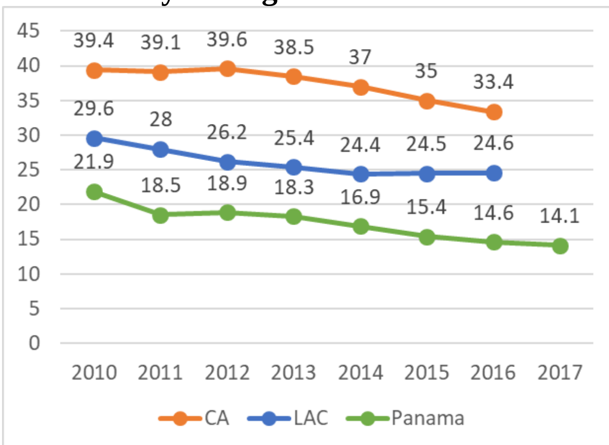
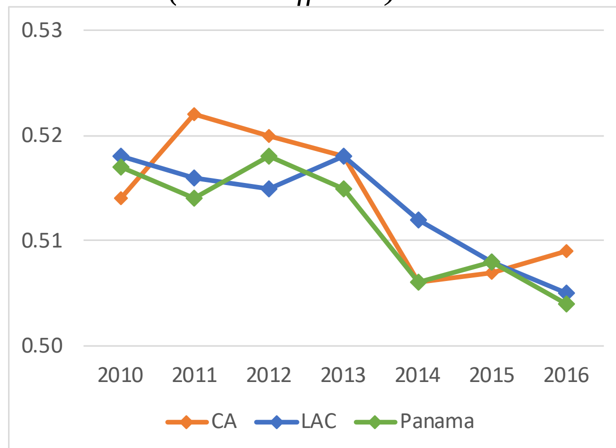


Figure 2: Growth was broadly shared during 2010-2016 *(GINI coefficient)*



Source: WB Staff calculations based on SEDLAC (CEDLAS and the WB). The US$5.50 per day poverty rates are based on 2011 purchasing power parity. The 2017 poverty rate is the WB staff projection.

II. MACROECONOMIC POLICY FRAMEWORK

RECENT ECONOMIC DEVELOPMENTS

9. **Panama's high growth rates have been accompanied by a significant poverty reduction.** Economic growth averaged nearly 7 percent between 2010 and 2017. In the same period, poverty rate declined from 22 to projected 14 percent.[5] The economy's capacity to translate growth into jobs helped to drive poverty rates down. The labor force in Panama increased by 85 percent between 2001 (when it was 1.0 million) and 2016 (1.85 million) (latest available data), more than double the employment growth in LAC (34 percent). Panama's exceptional growth performance over the past decade stems from significant growth in investment, but also from an open, competitive, and diversified economy. The country's continuous improvements in structural policies and infrastructure helped to ensure that Panama was ranked as the third most competitive economy in Latin America and the Caribbean (LAC) by the 2017-18 Global Competitiveness Report, after Chile and Costa Rica.

10. **Panama's growth performance in 2017 was solid, growing on the back of construction, exports and increased Canal traffic.** Panama's economic growth bottomed out at 5 percent in 2016 and rebounded in 2017, with 5.4 percent growth during the year (Table 1). From the sectoral side, growth was led by construction and transport, which jointly contributed nearly half of total growth. Construction of the second line of the Metro continued apace and the construction sector and employment were also boosted by the Colón Urban Regeneration Project and the expansion of Tocumen International Airport. Transport was supported by increased exports thanks to the Canal expansion, which is already rending higher receipts (toll revenue collections were 18 percent higher in 2017 compared to 2016). Exports of services contributed to growth in 2017, with an 8 percent increase in the first three quarters of the year, partially thanks to increased Canal traffic. The widened Canal re-opened in June 2016 and saw a sharp pick-up in traffic by the

[5] Using a poverty line of US$5.50 per day.

end of that year. Traffic continued to grow in 2017 with cargo through the Canal up by 17 percent in 2017 compared to the previous year. The expanded Canal accommodates a new generation of container ships, thereby enhancing Panama's role as a global logistics and trade hub.

11. **The CAD is estimated to have remained stable during 2017 and continues to be fully financed by FDI.** The CAD is estimated to have remained stable during 2017 at around 5.5 percent of GDP. Economic activity in the Colón Free Trade Zone stabilized (with a slight increase of 0.3 percent) after several years of declining performance due to a collapse in goods exports to Venezuela and the imposition of tariffs by Colombia. The CAD is fully financed by net FDI, which remains around 9 percent of GDP. The principal investor countries are the United States, Colombia, Switzerland and Mexico which, together, account for around two thirds of investment. FDI has flowed into a large range of sectors, with an emphasis on services (predominantly commerce, transport and logistics, communications, and financial services) and more recently, the mining sector (thanks to a large new copper mine). Official reserves were US$3.6 billion at the end of Q2-2017 (latest available data), or around two months of import cover. However, the use of the US dollar as the legal tender currency helps mitigate convertibility and transfer risks.

12. **The inflation rate declined in 2017.** From a low inflation rate of 0.7 percent during 2016, inflation declined further during 2017, reaching 0.5 percent by the end of the year (0.8 percent average), driven by declines in food and drinks prices. Notwithstanding the recent increases in oil prices, Panama benefits considerably from the low oil prices (Panama is a net importer). Transportation costs continued a decline that began in 2016, while food prices also declined in the year to November 2017, with potential beneficial poverty impacts.

13. **The fiscal deficit declined slightly to an estimated 1.6 percent of GDP in 2017.** Non-tax revenues in 2017 were buoyed by Panama Canal contributions from increased traffic during 2017 (Table 2). However, poor tax collections in the first half of the year dampened total revenues, which increased very slightly to 20.2 percent of GDP in 2017. Overall, there has been a gradual decline in the share of revenues in GDP over the past few years, which was partially due to a relative decline in the tax base i.e., sectors that tend to pay lower taxes have grown faster than those that pay higher taxes. On the expenditure side, higher spending on wages and salaries (up by over 12 percent during 2017 compared to 2016) following an across-the-board wage hike increased total public spending in 2017 (though a hiring freeze and no wage increases will keep the wage bill contained in the future). At the same time, capital expenditures declined to 6.4 percent of GDP, reflecting a general downward trend over recent years as some major projects were completed. The headline fiscal deficit was an estimated 1.6 percent of GDP. The "Adjusted Fiscal Deficit" came to 1 percent of GDP – the maximum allowed under the Social and Fiscal Responsibility Law (SFRL) – thanks to transfers from the Panama Savings Fund (*Fondo de Ahorro Panama,* FAP).[6] Public debt amounted to an estimated 37.5 percent of GDP at the end of 2017, of which 29.7 percentage points were external and the remainder domestic (see below for more information on debt dynamics).

[6] The SFRL, revised in 2012, establishes legal limits for adjusted fiscal deficits. These limits are 2 percent of GDP in 2015, 1.5 percent in 2016, and 1 percent in 2017. The adjusted fiscal deficit is determined by adjusting the headline fiscal deficit by transfers from the FAP. Fiscal deficits in this document refer to the headline or unadjusted deficits unless otherwise specified.

14. **Panama's financial sector is largely sound and resilient.** The banking sector is well capitalized and profitable, with a total return on equity of 11.8 percent in 2016. The domestic economy is served by 43 banks (general licenses), including two that are state-owned, and 28 international licenses (offshore) banks. Finally, the system also comprises 16 representative offices. Credit to the private sector grew by 7.1 percent in the 12 months to September 2017, while deposits of the private sector grew by 5.5 percent in the first three quarters of the year. The average Tier 1 capital[7] to risk-weighted asset ratio was 15.4 percent at the end of Q2-2017, compared to a Basel III minimum standard of 6 percent. The liquid assets to total assets stood at 15.2 percent at the end of Q2-2017. Despite strong lending activity over the past few years, the loan portfolio remained sound, with a share of non-performing loans at 3.2 percent of total loan portfolio as of mid-2017 (all latest available data). Principal challenges for Panama's financial sector include the closing of correspondent accounts due to increased capital requirements in source countries (which largely impacts smaller banks in Panama), a need for a temporary liquidity facility to support banks in the case of unanticipated challenges (due to the lack of a lender-of-last-resort), and the continued compliance with international standards and norms required to maintain confidence in the banking system.

[7] Tier 1 capital consist of a bank's equity capital plus reserves and may also include other safe and liquid equity capital.

Table 1: Panama—Key Economic Indicators, 2012-2020

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Annual percentage change unless otherwise specified								
Real Sector									
Real GDP	9.8	6.9	5.1	5.6	5.0	5.4	5.6	5.6	5.6
Consumption	3.3	6.9	6.5	3.4	4.8	4.9	5.3	5.2	5.5
Private consumption	3.8	7.6	7.4	3.1	4.1	4.9	5.3	5.3	5.7
Public consumption	0.7	3.6	1.7	5.4	8.4	5.1	5.2	4.6	4.5
Investment	25.4	10.5	6.1	6.5	6.1	3.7	5.1	4.9	4.8
Private	26.2	4.3	16.3	11.8	0.1	4.5	5.0	5.0	4.8
Public	22.2	35.8	-25.5	-19.3	46.4	-0.2	5.4	4.7	4.7
Exports of goods and services	9.4	-3.7	-7.1	0.9	-2.2	7.7	5.6	6.2	6.2
Imports of goods and services	11.4	-0.8	-3.9	0.0	-5.9	6.0	5.2	5.6	5.8
GDP Deflator (Index)	132.0	139.3	145.1	149.5	151.6	153.9	155.5	157.2	159.1
CPI (average)	5.7	4.0	2.6	0.1	0.7	0.8	2.2	2.2	2.2
Fiscal Accounts	Percentage of GDP unless otherwise specified								
Revenues and grants	22.3	21.8	20.5	19.7	20.1	20.1	20.1	19.9	19.8
Expenditures	23.7	24.1	23.6	21.9	21.9	21.7	21.6	21.4	21.2
Overall balance	-1.4	-2.3	-3.1	-2.2	-1.8	-1.6	-1.5	-1.4	-1.4
Selected Monetary Accounts									
Credit to Non-Financial Public Sector	14.1	12.6	9.3	11.7	8.4	7.1	…	…	…
Balance of Payments									
Current account balance	-9.2	-9.0	-13.4	-7.9	-5.5	-5.5	-6.7	-7.3	-8.0
Merchandise exports fob (annual % change)	10.7	-7.2	-14.1	-5.5	-7.8	9.5	6.7	7.3	7.3
Merchandise imports fob (annual % change)	8.2	-4.6	-2.7	-12.8	-8.8	8.1	7.5	7.2	7.4
Net Foreign Direct Investment	8.6	7.1	8.3	7.3	8.7	8.8	8.0	7.9	7.4
Gross reserves (months of imports)	1.6	2.0	3.2	3.2	4.0	…	…	…	…
Public Sector Debt (in % of GDP)	35.3	34.4	36.5	37.2	37.4	37.5	36.6	35.8	34.9
o/w External public debt	26.7	26.8	28.2	28.4	29.2	29.5	28.2	27.2	26.1
Terms of trade (annual % change)	-0.5	2.1	-0.2	3.9	-4.8	-0.3	-1.2	-0.5	-0.5
Memorandum items									
GDP nominal in US$ billion	40.4	45.6	49.9	54.3	57.8	61.8	66.0	70.5	75.3

Source: Panamanian authorities, IMF, and WB staff estimates and projections.

Table 2: Panama—Fiscal Accounts of the Non-Financial Public Sector, 2014-2020

	2014	2015	2016	2017	2018	2019	2020
Revenues	**20.5**	**19.7**	**20.1**	**20.1**	**20.1**	**19.9**	**19.8**
Current revenue	20.3	19.6	20.0	19.9	19.9	19.7	19.6
Central Government	13.9	13.0	13.0	13.3	13.4	13.3	13.3
Taxes	10.0	9.3	9.6	9.2	9.2	9.2	9.2
Direct	5.1	4.7	5.1	4.9	4.9	4.9	4.9
Indirect	4.9	4.6	4.5	4.3	4.3	4.3	4.3
Non-tax revenue	3.9	3.7	3.4	4.1	4.2	4.1	4.1
o/w: Panamá Canal contributions	1.3	1.1	1.2	1.8	1.8	1.7	1.7
Social Security Agency	5.6	5.6	5.8	5.7	5.5	5.5	5.5
Consolidated Agencies	0.4	0.4	0.3	0.3	0.4	0.4	0.3
Public Enterprises Operating Balance	0.2	0.2	0.1	0.3	0.3	0.3	0.3
Non-consolidated agencies	0.2	0.4	0.7	0.3	0.3	0.2	0.2
Capital revenue	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Expenditures	**23.6**	**21.9**	**21.9**	**21.7**	**21.6**	**21.4**	**21.2**
Current expenditures	15.9	15.3	15.4	15.5	16.0	15.9	15.7
Central Government	8.7	8.1	8.1	8.2	8.2	7.8	7.6
Wages and salaries	3.9	4.0	4.3	4.5	4.4	4.3	4.2
Goods and services	1.4	1.0	1.1	1.1	1.1	1.0	1.0
Other current expenditures	3.4	3.0	2.6	2.6	2.7	2.5	2.4
Social Security Agency	5.1	5.0	5.2	5.2	5.4	5.7	5.7
Consolidated agencies	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Interest	1.7	1.7	1.7	1.7	2.0	2.0	2.0
Capital expenditures	7.7	6.7	6.5	6.2	5.6	5.5	5.5
Balance	**-3.1**	**-2.2**	**-1.8**	**-1.6**	**-1.5**	**-1.5**	**-1.4**
Public Debt							
Public Sector Debt (in % of GDP)	36.5	37.2	37.4	37.5	36.6	35.8	34.9
o/w External public debt	28.2	28.4	29.2	29.5	28.2	27.2	26.1
Memorandum items							
GDP nominal in US$ billion	49.9	54.3	57.8	61.8	66.0	70.5	75.3

Source: Panamanian authorities, IMF, and WB staff estimates and projections.
Notes: The non-financial public sector does not include the operations of the Panama Canal Authority.

Table 3: Panama—Balance of Payments Financing Requirements and Sources, 2014-2020

	2014	2015	2016	2017	2018	2019	2020
Financing Requirements (US$ Mil.)	**7296**	**4852**	**5794**	**5549**	**6453**	**7293**	**8143**
Current Account Deficit	6677	4274	3160	3419	4445	5143	5993
Medium- & Long-Term Debt Amortizatio	619	578	2634	2130	2008	2150	2150
Financing Sources (US$ Mil.)	**7296**	**4852**	**5794**	**5549**	**6453**	**7293**	**8143**
Capital Grants	24	16	9	8	10	10	10
FDI and Portfolio Investments	4013	3712	5034	5430	5308	5566	5566
Medium- & Long-Term Debt Disburseme	2075	1778	282	1260	2103	2785	3438
Change in Reserves (+ decrease)	1184	-654	469	-1149	-968	-1069	-871

Source: Panamanian authorities, IMF, and WB staff estimates and projections.

MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

15. **Panama's growth outlook is expected to remain solid over the medium-term.** Real GDP growth is estimated at 5.4 percent in 2017 and is expected to remain around this level or a little higher over the medium-term. The expanded Panama Canal, will continue to support growth and fiscal revenues. A new copper mine is planned to start production in 2019 and generate around US$2 billion of exports annually at full capacity (Panama exported US$14.6 billion of goods in 2016). Growth will also be supported by strong investment, albeit at lower levels than during the boom years. Some large projects in the next years include the construction of the second and third metro lines in Panama City, the Colón urban renewal project and the expansion of Tocumen International Airport. Growth is expected to continue to be driven by construction, financial intermediation, transport, communication and logistics, and wholesale and retail trade.

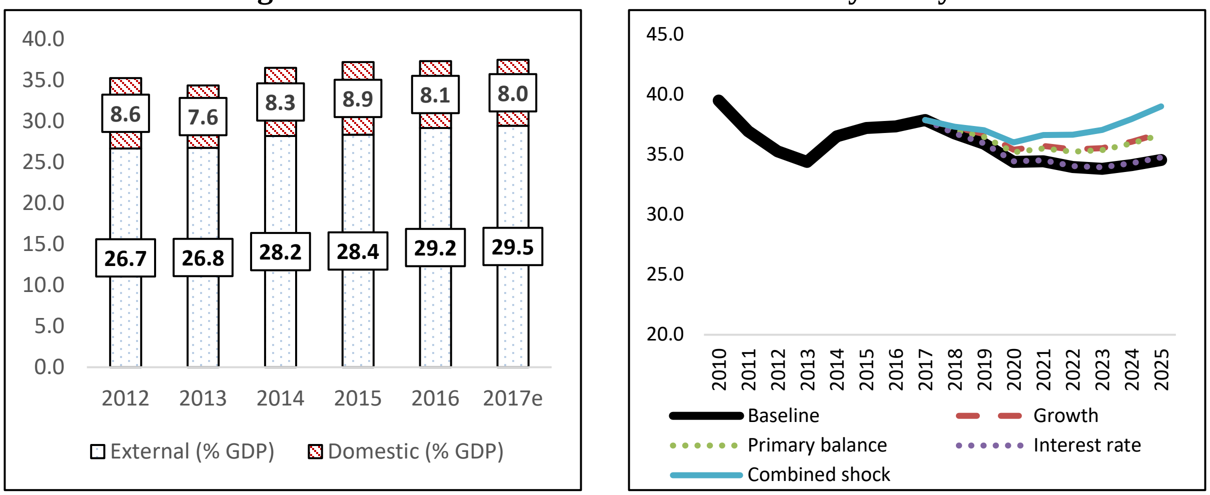
16. **The CAD is expected to widen slightly on the back of increased oil prices and continue to be financed by FDI during the projected period.** The CAD has declined during recent years, partly thanks to low oil prices. The CAD is estimated at 5.5 percent in 2017 and is expected to widen gradually over the projection period, reaching 8 percent of GDP by 2020, on the back of higher oil prices and imports to finance the new construction projects. Exports are projected to accelerate due both to the expanded Canal and the expected increase in copper exports after 2020, when the copper mine should be operating at full capacity. Exports of services will remain sizeable (supported by the expanded canal) and will contribute to exports. Robust FDI inflows, including in the mining, commerce, logistics and energy sectors, are projected to continue to finance the current account deficit.

17. **Inflation is projected to remain low, while monetary conditions will tighten following the gradual normalization in US monetary policy.** The inflation rate is projected to accelerate slightly from their recent low levels, and remain at around 2 percent over the medium-term. The normalization of monetary policy in the US, in the context of the fully dollarized Panamanian economy, will result in higher interest rates over the medium-term.

18. **The headline fiscal deficit of the non-financial public sector is projected to remain stable and sustainable over the medium term.** The projection assumes limited fiscal policy changes over the medium-term. On the revenue side, tax collections are expected to broadly keep up with economic growth, while social security contributions are expected to see a very small decline. On the expenditure side, capital investments are projected to fall slightly to 5.5 percent of GDP over the medium-term as future capital projects will have lower financing requirements than the Canal expansion. With public debt falling slightly, interest expenditures are expected to remain contained. A gradual shift to a domestic borrowing as the domestic debt market deepens will result in an increase in interest expenditures, counterbalancing the savings from declining overall debt. Increase in public sector wages in 2016 and several years prior to this increased wage expenditure as a share of GDP. However, a hiring freeze is now in place and there is no automatic wage indexation in Panama. These policies, combined with pronouncements during 2017 by the Minister of Finance on the need to contain wage expenditures mean that the nominal wage bill growth will be outpaced by the nominal GDP growth, leading to a decrease in spending on public sector wages during the projection period (up to 2020).

19. **Panama's public debt levels are sustainable and resilient to adverse economic shocks.** Under the baseline scenario, the public debt-to-GDP ratio is expected to have peaked at 37.5 percent of GDP in 2017 and decrease gradually thereafter to 34 percent of GDP by 2022. A debt sustainability analysis conducted by the WB indicates resilience to different economic shock scenarios (see Figure 3). For example, a slowdown in the GDP growth rate to around 4 percent annually starting in 2018 would result in an increase in the debt-to-GDP ratio to current levels by 2025. Under a combined shock scenario—which assumes permanent quarter standard deviation shocks applied to the real interest rate, the growth rate, and the primary fiscal balance—Panama's debt-to-GDP ratio would reach 40 percent of GDP by 2025.

Figure 3: Panama—Public Debt Sustainability Analysis



Source: Panamanian authorities and WB staff estimates and projections.
Notes: Individual shocks represent scenarios in which a permanent 1/4 standard deviation shock is applied to the real interest rate, growth rate, and fiscal primary balance. The combined shock represents a scenario in which a similar shock is applied to all variables (i.e., interest rate, growth rate, and fiscal primary deficit) at the same time.

20. **Panama's macroeconomic policy framework is sustainable and adequate for the proposed operation.** Growth is projected to remain high over the medium-term, with low inflation, and the fiscal and external balances are expected to remain sustainable. These outcomes are underpinned by prudent macroeconomic management and the implementation of structural reforms, some of which are supported by the DPF series. Nonetheless, the outlook is vulnerable to some downside risks. Being a small, open and well-integrated economy, Panama is vulnerable to external shocks. Uncertain global market conditions could limit Panama's service exports, FDI inflows and fiscal receipts. As a dollarized economy, Panama's exports would become less competitive as interest rate policy is normalized in the US and the US Dollar appreciates. In addition, Panama could also be impacted by trade policy changes in the US as well as changes in the US immigration policy. Further discussion of risks and mitigation measures is contained in the risk section of this document.

IMF Relations

21. **The Government maintains an ongoing dialogue with the IMF on macroeconomic policy in Panama**. On May 4, 2017, the IMF's Executive Board concluded the last Article IV Consultation, highlighting Panama's robust macroeconomic performance and continued solid economic growth. The IMF Board noted the importance of improving the quality of institutions in the areas of international tax transparency and AML/CFT, fiscal management, education, healthcare, and skills to support inclusive growth (see the IMF Relations Note in Annex 4).

III. THE GOVERNMENT'S PROGRAM

22. **The DPF series is fully aligned with the Government's Economic and Social Strategy 2015-2019.** The strategy's key priorities include actions aimed at promoting inclusion (social strategy) and increasing the country's competitiveness (economic strategy) along six areas: (i) economic development, by promoting productivity and economic diversification through boosting sectors such as logistics, agriculture, tourism and mining; (ii) social development, to increase quality of life by improving water and sanitation services, urban cleanliness, housing, urban transportation and health; (iii) human development, to reinforce human capacity by enhancing basic education and technical training; (iv) infrastructure, to boost connectivity through roads, ports, airports and energy infrastructure; (v) environmental sustainability, by advancing on land and environmental management; and (vi) governance, to strengthen institutions by bolstering the National Planning and Public Investment System (SINIP), establishing a program-based budget, enhancing internal control mechanisms, improving civil service, promoting decentralization, and ensuring justice and safety for all Panamanians. In 2017, the Government focused its reform efforts on advancing the reforms related to international tax transparency and financial integrity, while at the same time pursued reforms to improve financial management, service delivery in education, social assistance, energy and water sectors.

23. **The authorities are working to strengthen the AML/CFT framework and ensure effective implementation of the FATF recommendations.** In February 2016, Panama was removed from the FATF "Grey List" of countries with strategic AML/CFT deficiencies, after it implemented a series of legislative and regulatory steps to address deficiencies identified during the assessment process. The decision to remove Panama from the "Grey List" was based on the previous FATF standards (from 2003). In mid-2017 Panama underwent a new assessment under the prevailing 2012 FATF standards, which now reviews the effective implementation of the AML/CFT framework along with the technical (legal) compliance.[8]

24. **In late 2017, a GAFILAT[9] meeting highlighted the important progress made by the country in the legal and implementation framework for AML/CFT, while also noting shortcomings that would need further work over the coming year.** The Mutual Evaluation

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[8] The amended standards place greater emphasis on a risk-based approach, whereby countries are expected to analyze and understand how the money laundering/terrorism financing risks they identify affect them and take appropriate measures to mitigate and manage those risks. The 2012 FATF standards include tax crimes as predicate offences to money laundering.

[9] GAFILAT (Grupo de Acción Financiera de Latinoamérica) is a FATF-Style regional Body that groups 16 countries from North, Central and South America.

Report of Panama, which was published in January 2018, points to several weaknesses in the AML/CFT framework. From a legislative point of view, among several areas for improvement, a core shortcoming identified was lack of criminalization of tax evasion in the AML framework. On the implementation side, Panama's National Risk Assessment does not seem to properly assess all the risks existing in the country and hence the mitigation plan is not accurately addressing these risks. Further efforts are also needed to ensure that the Designated Non-Financial Businesses and Professions (DNFBPs) of high risk, such as resident agents, are implementing their AML/CFT obligations effectively. Panama aims to take steps to further improve AML/CFT procedures based on recommendations from the GAFILAT/FATF Mutual Evaluation Report (MEF) of January 2018, where shortcoming have been identified from a technical and effective perspective.

25. **Over the last 18 months, the authorities have strengthened international tax transparency and created foundations for the automatic exchange of information between Panama and the rest of the world, but the progress needs to continue.** In April 2016, 11.5 million documents were leaked from a private legal firm based in Panama regarding operations through off-shore shell structures by over 200,000 entities from all over the world. This event underscored the need to strengthen the framework for international tax transparency and the Government committed to advance the tax transparency reform agenda by adhering with the Automatic Exchange of Information by 2018. Following this high-level commitment, Panama has taken a series of policy steps to align its legal framework to CRS, including through approval of domestic legislation, ratification of Multilateral Convention on Mutual Administrative Assistance in Tax Matters, and most recently, its decision to adhere to the CRS Multilateral Competent Authorities Agreement. The strong policy action was recognized by the OECD in June 2017, when Panama received "Largely Compliant" rating in the Fast Track review of the standards for Exchange of Information on Request (EoIR). Panama has been successfully exchanging financial account information on automatic basis with the United States since September 2017, under the Foreign Account Tax Compliance Act (FATCA). Box 1 summarizes recent measures related to tax transparency. Despite the progress in reforming its legal framework, the upcoming second round of peer review of EoIR scheduled for late 2018 may be challenging for Panama due to the enhanced focus on access and availability of beneficial ownership information, an area where the country has still certain shortcomings.[10] The planned DPF 4 (Trigger 3) is aimed at supporting reforms in this critical area. With regards to the automatic exchange of information, the assessments under the peer review process are likely to start not until 2020, once the detailed criteria are developed by the Global Forum.

26. **Apart from tackling the challenges related to the exchange of tax information, Panama has also committed to comply with the BEPS minimum standards.** The BEPS review of harmful tax practices identified three tax regimes (*Multilateral Headquarters Regime, Panama-Pacific Special Economic Area Regime, and IP-regime City of Knowledge*), which need to be reformed to adhere with the international standards. Panama has made a high-level commitment to implement the necessary legal changes to these regimes before the end of 2018, as part of the

[10] Panama's "Largely Compliant" rating the Fast Track was temporal until the second-round assessment takes place. The assessment criteria for this second round have been enhanced, mainly incorporating new requirements related to access and availability of Beneficial Ownership (BO) information. Even OECD countries that were rated as compliant in the first round are having difficulties to prove full compliance on this aspect. The Fast Track review of Panama is already including recommendations on BO.

commitment with the OECD under the Inclusive Framework. Panama is also in the process of revising the tax regime related to foreign owned call centers, which was questioned by the European Council and resulted in placing Panama in the *subject to close monitoring* list of non-cooperative tax jurisdictions. It is expected that Panama's compliance with regards to amending the special tax regimes will be reviewed by the OECD and the European Council in early 2019.

Box 1. Recent Measures Related to Tax Transparency in Panama

Following the leak of documents from a private legal firm based in Panama in April 2016, the Government made a strong commitment to reforming the legal framework for international tax transparency. The legislative, regulatory, and implementation steps taken by Panama since April 2016 include:

- April 2016: Panama commits to implementing OECD's Common Reporting Standard as of 2018 (*DPF 2 Prior Action*).
- October 2016: Panama signs the Multilateral Convention on Mutual Administrative Assistance in Tax Matters.
- October 2016: Panama joins the Inclusive Framework of the Base Erosion and Profit Shifting (BEPS) Project of the OECD. As a BEPS Member, Panama is committed to comply with the BEPS minimum standards, which are contained in Action 5 (countering harmful tax practices), Action 6 (preventing treaty abuse), Action 13 (transfer pricing documentation) and Action 14 (enhancing dispute resolution).
- November 2016: Panama ratifies the Intergovernmental Agreement that enforces compliance of the Foreign Account Tax Compliance Act (FATCA).
- October-November 2016: Panama establishes legal framework to comply with automatic exchange of financial information under FATCA and CRS by approving the Law 47 of October and the Law 51 of November, respectively (*DPF 3 Prior Action*).
- March 2017: Panama ratifies OECD's Convention on Mutual Administrative Assistance in Tax Matters (*DPF 3 Prior Action*).
- May 2017: Panama approves secondary legislation to comply with automatic exchange of financial information under FATCA and CRS (Executive Decree 124), (*DPF 3 Prior Action*).
- June 2017: The Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) assigns Panama a "Largely Compliant" rating in the Fast Track review of the standards for Exchange of Information on Request (EoIR).
- September 2017: Panama starts exchanging information on automatic basis with the US under FATCA agreement.
- December 2017: Panama commits to adhere to the CRS Multilateral Competent Authorities Agreement (MCAA).
- January 2018: Panama signs the MCAA. With MCAA in place, Panama has all legal framework ready to start automatic exchange of information.
- January 2018: Panama signs the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) under BEPS Action 15 (multilateral instrument). The BEPS Convention is the first multilateral treaty, which has been set up to allow jurisdictions to integrate results from the OECD/G20 BEPS Project into their existing networks of bilateral tax treaties.
- By July 2018: Automatic Exchange of Information (AEOI) Confidentiality Assessment.
- By December 2018: Second round of peer review of Exchange of Information Upon Request (EoIR) by the Global Forum (GF).
- 2019: Major improvements to demonstrate an effective AML/CFT regime based on recommendations from GAFILAT/FATF Mutual Evaluation Report (MER).
- 2020-21: Peer Review on AEOI by the GF.

In December 2017, the European Council decided to include Panama in its common list of non-cooperative tax jurisdictions due to lack of clear commitment to amend or abolish the preferential tax regime for foreign owned call centers.[11] The EU has also expressed concerns with regards to other preferential tax regimes (Multilateral Headquarters Regime, Panama-Pacific Special Economic Area Regime, and IP-regime City of Knowledge), but Panama has reiterated its high-level commitment to address them as part of its commitment to the OECD's BEPS Inclusive Framework. On January 23, 2018, Panama along with seven other jurisdictions was removed from the list, following commitments made at a high political level to remedy EU concerns. As a result, Panama was moved to a separate category of jurisdictions *subject to close monitoring* and has until end-2018 to amend the foreign owned call centers regime.

[11] The listing criteria are focused on three main categories: tax transparency, fair taxation and implementation of anti-BEPS measures. Panama was included in the list under criterion 2 "fair taxation".

IV. THE PROPOSED OPERATION

OPERATION DESCRIPTION AND LINK TO GOVERNMENT PROGRAM

27. **The proposed DPF is the third operation in the programmatic series of four loans, aimed at supporting the Government of Panama's efforts to: (i) strengthen the frameworks for international tax transparency, financial integrity, and fiscal management; (ii) strengthen institutional arrangements to support social assistance and education; and (iii) enhance the regulatory and sustainability framework in the energy sector.** These three pillars complement and reinforce each other. First, a stronger framework for international tax transparency and financial integrity will improve investor confidence and support economic growth, while the strengthening of fiscal management will help ensure fiscal sustainability. Second, improved transparency and better targeting of social protection systems will help direct resources to those that need them the most, while improved quality of education will contribute to advancing opportunities, particularly for vulnerable youth, and supporting the competitiveness agenda to boost long-term productivity growth. Finally, an enhanced regulatory and sustainability framework for energy will help increase the fiscal space needed to safeguard social assistance and education programs and heling to meet global commitments on climate change.

28. **The programmatic series has been extended to four lending operations to support a critical outstanding reform agenda that complements the hitherto reform efforts as well as to support effective implementation of the legislative framework.** In particular, in the area of international tax transparency and financial integrity the authorities have committed to a sequenced reform program, which stipulates for the enactment of some key legislative initiatives to address outstanding challenges identified by the recent reviews of the international community.[12] These reforms are critical for ensuring Panama's adherence with the international standards. Similarly, there is a clear continuity of the WB's support to reforms in the social assistance, education and water sectors, which help ensure sustainability of the reforms and, through the WB's technical assistance (TA), help mitigate some of the implementation risks.

29. **The policies supported in the DPF series have positive global externalities beyond Panama and are fully aligned with the Government's program**. In particular, the program supports objectives of the Social and Economic Strategy 2015-2019 described in Section III. The proposed third operation consolidates progress achieved under the series, and lays the groundwork for future policy dialogue. In addition, the measures supported by this DPF in the area of energy are aligned with the Government's priorities for climate change mitigation and adaption, as reflected in Panama's commitment to the United Nation's Framework Convention on Climate Change (April 2016) which sets forth a Nationally Determined Contribution to the global response to climate change.

30. **The design of the proposed operation builds on lessons learned from previous DPFs in Panama and the WB's experience in other middle-income countries.** Key lessons include

[12] With regards to the European Council, in January 2018 Panama committed at a high political level to remedy EU concerns with regards to its special tax regimes legislative framework by the end of 2018. Panama is also taking steps to address the shortcomings in its AML/CFT framework with regards to the criminalization of tax evasion following the publication of the MER by GAFILAT in January 2018.

supporting government-led initiatives to obtain ownership of reform, as illustrated by previous operations in Panama. The legal and regulatory framework underpinning the reform program was initiated and developed by the Administration, with technical inputs from the WB and other development partners. Moreover, as in the past operations strong analytical underpinnings and technical support was critical, particularly in supporting a program that has positive externalities that go well-beyond the country itself, helping to support the global public goods agenda.

PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

31. **The scope of the proposed operation remains unchanged since DPF 2 and the prior actions in DPF 3 under tax transparency pillar reflect a more ambitious reform program than that envisaged by the triggers included in DPF 2. In addition, the indicative triggers for DPF 4 help to ensure reform continuity across the priority areas.** With respect to DPF 3, out of twelve indicative triggers identified under DPF 2, four were converted to prior actions (the language of the prior actions was adjusted to better capture their legal form), three were strengthened (i.e., the scope of the action was broadened), and five were removed from the Policy Matrix. In turn, two new prior actions were added, reflecting the authorities' priorities related to the adoption of the legal framework for international tax transparency and legislative progress in AML framework. All of these new measures are crucial for Panama and the international community due to positive global externalities that they generate. Two of the indicative triggers – related to the approval of the Public Investment Law and the introduction of the new payment modality for CCT transfers – were removed from the DPF 3 due to the change in the Government priorities and hence delayed timeline for their approval. The remaining three indicative triggers are no longer supported by the operation, but their implementation is ongoing. For example, the institutional reforms of the water management company IDAAN are now being implemented under the sectoral support of the Inter-American Development Bank (IADB)[13], while the development of the institutional framework for the operations of the State Insurance Technical Committee is being supported by the technical assistance from IFC. The Government, through MEDUCA, is also in the process of conducting evaluation of the *Beca Universal* Program. Annex 6 presents a comparison of the DPF 3 indicative triggers and the DPF 3 prior actions. The extension of the DPF series and the inclusion of the fourth operation (DPF 4) in the programmatic series led to some adjustments in the results framework. A new result indicator was added to measure the outcomes of DPF 4 trigger and the time horizon and target values of result framework were updated to reflect changes in the program design.

Pillar 1: Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management

International Tax Transparency

Prior Action 1: *The Borrower has established the legal framework for the implementation of the Common Reporting Standards for the Automatic Exchange of Information in Tax Matters, as evidenced by Law No. 51, dated October 27, 2016 and published in the Borrower's Official*

[13] The IADB loan (PN-L1148): Program to Improve the Operational Management of the National Water and Sewer Systems Institute in the Panama City Metropolitan Area was approved in December 2017. The DPF program continues to support reforms in the water sector through policy actions planned for DPF 4.

Gazette on October 28, 2016; and Executive Decree No. 124, dated May 12, 2017 and published in the Borrower's Official Gazette on May 12, 2017.

Prior Action 2: *The Borrower has: (i) approved the Convention on Mutual Administrative Assistance in Tax Matters, as evidenced by Law No. 5, dated February 21, 2017 and published in the Borrower's Official Gazette on February 23, 2017; and (ii) signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, as evidenced by the OECD's list of signatories; all to complement its legal framework for the automatic exchange of financial information in tax matters.*

32. **Strengthening the framework for international tax transparency and ensuring its effective implementation is a key priority for Panama.** The fallout from the leak of documents from a private legal firm based in Panama regarding operations through off-shore shell structures in April 2016 emphasized the importance of strengthening international tax transparency and facilitating exchange of information between Panama and the rest of the world. Under the DPF 2, the Government committed to adhere to the Common Reporting Standards for Automatic Exchange of Financial Account Information in Tax Matters developed by the Global Forum on Transparency and Exchange of Information for Tax Purposes by 2018. This decision locked Panama into an institutional and policy reform process, which included legislative, technical, and operational actions that are needed for the adherence to the CRS by 2018. In particular, the adherence to the CRS involves four key steps: (i) translating the reporting and due diligence requirements into domestic law through amendments to existing legislation as well as new legal acts; (ii) selecting a legal basis for the exchange of information (automatic exchanges on bilateral or multilateral basis); (iii) putting in place the administrative and information technology infrastructure to collect and exchange information within the Competent Authority; and (iv) protecting confidentiality and data safeguards.

33. **The approval of Law 51 of 2016 and the Executive Decree 124 of 2017 translated the CRS reporting and due diligence requirements into the Panamanian legal framework.** According to the new legislative framework, financial institutions in Panama are now obliged to report information to the Panamanian tax authority and follow due diligence procedures consistent with the CRS. Furthermore, the Law creates additional obligations for financial institutions, such as the maintenance of all documentation obtained during the performance of due diligence procedures for five years. Financial institutions are required to perform due diligence procedures in accordance with the regulations published by the Executive branch (i.e. the Executive Decree 124 of 2017). The Decree lays out specific provisions that stakeholders need to take into consideration. The most important ones include: the due diligence provisions for pre-existing accounts for CRS purposes, the IT format that financial institutions must follow to report information to the tax authority, registry of entities that qualify as reporting financial institutions and the deadlines for financial institutions to report information to the tax authority for CRS purposes.

34. **The ratification of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters and the signing of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information complement the legal framework for the effective exchange of financial information for tax purpose.** The Convention is the most

comprehensive multilateral instrument available for all forms of tax co-operation to tackle tax evasion and avoidance. It serves as a vehicle to facilitate collaboration among tax administrations from signatory countries across all forms of compulsory payments to the general government except for customs duties.[14] The collaboration covers activities related to exchange of information (including on request, spontaneous and automatic), simultaneous tax examinations, tax examinations abroad, assistance in recovery and measures of conservancy, and the service of documents. The Convention expands the obligations for the exchange of information upon request and not the automatic exchange of information. The automatic exchange of information is conditioned by the subscription of a bilateral or multilateral agreement between competent authorities. Panama signed the CRS Multilateral Competent Authority Agreement in January 2018. This multilateral instrument allowed Panama to automatically expand its network of treaties to facilitate automatic exchange of information. This is the last step for Panama to have the legal framework in place to allow for exchange of information on automatic basis in September 2018. In parallel, Panama is relying on the administrative and information technology infrastructure to collect and exchange information within the US under FATCA to expand it to exchange under CRS. The first FACTA exchanges successfully took place in September 2017.

35. **The triggers for DPF 4 (Annex 1) aim to follow up on specific reforms needed to effectively exchange information under the CRS and strengthen the special tax regimes framework in line with country's commitment to the international community.** The CRS imposes privacy and data protection obligations on every tax authority that participates in automatic exchange.[15] The DPF 4 Trigger supports the implementation of a confidentiality and data safeguards framework to ensure information security on tax payers data, which is critical for Panama to be able to receive information from other jurisdictions. The reforms to the special tax regimes framework (DPF 4 Trigger) will help to respond to the concerns of the international community with regards to base erosion and profit shifting. The OECD's assessment under Action 5 in late 2017 concluded that Panama has three potentially harmful preferential tax regimes: (i) the Intellectual Property Regime - City of Knowledge Technical Zone, (ii) the Multinational Headquarters Regime, and (iii) the Panama-Pacifico Special Economic Zone Regime. As part of its commitment to the OECD, Panama has made high-level political decision to address the harmful features of the regimes by end 2018. The Panamanian authorities are also committed to strengthening the tax framework for foreign owned call centers. The ring-fencing of the call centers regime, which explicitly excludes domestic taxpayers from taking advantage of its benefits, was questioned by the European Council and led to including Panama in the EU list of non-cooperative tax jurisdictions. The Government's commitment from early January to amend the regime by the end of 2018 has allowed Panama to exit the list.

36. **Expected results:** The supported measures are expected to result in Panama exchanging financial information for tax purposes on automatic basis (both sending and receiving) by 2019.

[14] 116 jurisdictions currently participate in the Convention, including 15 jurisdictions covered by territorial extension. This represents a wide range of countries including all G20 countries, all BRICs, all OECD countries, major financial centers and an increasing number of developing countries.

[15] Tax authorities are required to safeguard financial data, limit their use of data to prescribed purposes, and disclose any breaches of confidentiality. Panama is working on an Action Plan on information security management to enhance the protection of confidentiality and data safeguards. This Action Plan will be assessed by the Global Forum in early 2018. Only if Panama meets the standards on confidentiality will be also able to receive information on automatic basis by its partners (AEOI on reciprocal basis).

These exchanges will allow Panama to join the international efforts to tackle tax evasion. Automatic exchange of information (AEOI) will enable the discovery of formerly undetected tax evasion. It will enable governments to recover tax revenue lost to non-compliant taxpayers, and will further strengthen international efforts to increase transparency, cooperation, and accountability among financial institutions and tax administrations. Additionally, AEOI will generate secondary benefits by increasing voluntary disclosures of concealed assets and by encouraging taxpayers to report all relevant information.

Financial Integrity

Prior Action 3: *The Borrower, through its Superintendence of Banks, has adopted internal supervision procedures on bearer shares and beneficial owners on banks and fiduciaries, and started implementation of the internal supervision procedures, as evidenced by letter SBP-DPC-N-0652-2018 of the Superintendent of Banks dated February 8, 2018.*

Prior Action 4: *The Borrower, through MEF, has submitted to the National Assembly a draft bill to establish tax evasion as a predicate offense for money laundering, as evidenced by the Draft Bill No. 591 submitted on January 18, 2018 to the National Assembly.*

37. **Panama has strengthened the AML/CFT framework, but further reforms and effective implementation are needed to address weaknesses in this area.** In June 2014, FATF publicly identified Panama among the countries with strategic AML/CFT deficiencies. In mid-2014, the authorities and FATF agreed on a plan to address several of these deficiencies, that allowed the country to be removed from the FATF "Grey List" in February 2016. Nonetheless, the 2014 assessment was prepared based on the previous FATF standards from 2003. The assessment carried out in 2017 against the prevailing 2012 FATF standard focused on the effective implementation of the AML/CFT framework. The amended standards place greater emphasis on a risk-based approach whereby countries are expected to identify, analyze and understand their money laundering/terrorism financing risks and take appropriate measures to mitigate and manage those risks. A GAFILAT (the Latin American "branch" of FATF) meeting in Mexico in December 2017, where the Mutual Evaluation Report of Panama was discussed, noted important progress since the last assessment in 2014 and identified certain shortcomings in Panama's legal and implementation framework for AML/CFT. From a legislative and technical point of view, some of the relevant shortcomings were related to risk assessment, lack of criminalization of tax evasion related to AML, insufficient obligations to take preventive controls on resident agents, and lack of prohibition of nominee directors or shareholders, among others.

38. **Panama has implemented the supervision procedures on bearer shares and beneficial owners on banks and fiduciaries in line with the amended anti-money laundering legislation (DPF 3 Prior Action)**. A custody regime for share certificates issued to the bearer was approved by Law No. 47 of August 2013. The bearer shares that were issued prior to the entry into force of the Law that establishes the regime were granted a transition period, in which they were to be exchanged for registered shares or delivered in custody. After the end of that period, the issuance of bearer shares was prohibited, unless the company has adopted the regime of immobilization of shares (custody) established in the Law, and the amendments from October 2016 (Law 52) made all bearer shares, which had not been registered or transformed, void. As part of its supervision

procedures, the Superintendence of Banks has been monitoring banks and fiduciaries with respect to the possession of the bearer shares. For example, in 2016, 45 banks and 18 fiduciaries were supervised against the prevailing AML standard.

39. **Panama's Government decision to criminalize tax evasion and establish tax crimes as a predicate offence to money laundering translates into the legal framework one of the key elements of the revised FATF recommendations.** The revised FATF Recommendations refer to tax crimes, which have been included in the list of crimes which countries must treat as predicate offences for money laundering. This includes bringing the proceeds of tax crimes within the scope of the powers and authorities used to combat money laundering. Lack of the criminalization of tax offences and treating them as predicate offense to ML (money laundering) entails a number of difficulties, since it prevents the carrying out of domestic investigations and the capacity to provide international cooperation. Panama's new amendments to the Penal Code address the existing shortcomings as they define the offence as a "tax fraud" when the amount defrauded is equal to or greater than US$300,000 and establish tax crime among the predicate offenses of money laundering thereby increasing the possibilities for prevention and investigation of ML offenses. The legislation stipulates penalties of 2 to 5 years and a fine of up to 10 times the amount defrauded to natural and legal persons who simulate, hide, omit, falsify or deceive tax authorities.

40. **The DPF 4 Triggers support the enactment of the tax evasion legislation, the improvements to the country's National Risk Assessment (NRA), and increased obligations of resident agents to follow up customers' activity in order to detect changes in beneficial ownership.** All of these actions are critical to addressing the main weaknesses the AML/CFT framework identified in the Mutual Evaluation Report by the GAFILAT.[16] First, the enactment of the amendments to the Penal Code to criminalize tax evasion and establish tax crimes as a predicate offence to money laundering, are critical to enhance the possibilities for prevention and investigation of ML offenses through increasing the scope of the application of Panama's legal framework to the additional set of crimes. From the Bank's perspective it is also important that the DPF series supports the whole legislative process of this law, from the Cabinet approval (DPF 3 Prior Action) to the actual enactment and implementation (DPF 4 Trigger). Second, related to tax criminalization, it is important that the country's NRA is enhanced to include one of the main ML risk related to the receipt of funds or other financial assets resulting from tax crimes committed abroad and also an improved assessment related to terrorism financing risks. Finally, the DPF4 trigger supports increased obligations of resident agents to follow up customers' activity with regards to changes in beneficial ownership and keep beneficial ownership information up to date.

41. **Expected results**: Panama's reforms in the area of AML/CFT framework are critical to safeguard the country's role as an international financial center. In terms of measurable results indicators, the country is expected to increase the number of banks that are supervised (on-site and off-site) in a year using the new AML supervision procedures, from 0 in 2014 to 55 by end-2019 and initiate ML investigations where tax evasion is a predicate criminal offence.

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[16] GAFILAT (2018) – Mutual Evaluation Report of the Fourth Round – Republic of Panama; http://www.gafilat.org/index.php/es/biblioteca-virtual/miembros/panama/evaluaciones-mutuas12/MERPanama-FourthRound.pdf

Public Financial Management

Prior Action 5: *The Borrower, through MEF, has completed the integration of all budgetary accounts of central government entities under the Treasury Single Account, with links to ISTMO as evidenced by MEF Letter 2018-29601 dated April 25, 2018.*

42. **Extending the coverage of budgetary accounts under the Treasury Single Account to all central government entities will help reduce Panama's fragmentation in the management of cash resources.** The National Treasury System and the Treasury Single Account (TSA) were created in 2014 to support the liquidity management of public funds, enhance the effectiveness of the existing treasury system, and speed up the processing of payments. The system is based on two principles: (i) cash unity; and (ii) centralized administration of public funds by the National Treasury Department. The implementation of the TSA in the central administration was initiated in 2014 and has been supported by DPF 1 and DPF 2. The ultimate objective is to unify the administration of over 5,800 bank accounts of the central government and public-sector entities. In 2016, MEF began channeling funds for 181 budgetary accounts of 21 central government entities through the TSA and in 2017, they incorporated 347 budgetary accounts of all 24 central government institutions.[17] All of the transactions of the accounts incorporated into the TSA are automatically recorded and linked with the accounting module of ISTMO. The use of a TSA improves transparency and accountability in the use of public financial resources by smoothing the allocation of resources through improved cash management, avoiding idle balances in the banking system and reducing unnecessary financing costs.

43. **The consolidation of the TSA is complemented by the links to the newly rolled-out integrated system for financial management, known as ISTMO.** The ISTMO, officially launched in 2015, seeks to strengthen and integrate, through information technology solutions, the core functions of budget planning and execution, treasury management, accounting, and reporting. The first phase of the roll-out of the ISTMO to all 25 central government institutions was completed in 2017 and the extension of the system to decentralized entities has commenced (with four decentralized entities currently using the system). Together, the use of both the TSA and ISTMO will improve the efficiency of public finance management, increase the transparency and accuracy of government accounts, and yield cost savings from the minimization of idle balances in the banking system. This process is expected to facilitate a reliable reconciliation of banking accounts with the Government's accounting information. The links created between ISTMO with the revenue collection and debt management systems will also support the consolidation of cash management systems.

44. **Expected results:** The integration of cash management through the TSA combined with the consolidation of financial management functions under ISTMO, with linkages to the revenue collection and debt management systems, are expected to enhance the transparency and accuracy of public resource management. Improved cash management through the TSA would enable more efficient use of government resources during budget execution, channeling available cash to priority objectives and improving the timeliness of payments. It is expected that by the end of

[17] Accounts are classified into two types in Panama: (i) budgetary accounts (*cuentas presupuestarias*); and (ii) financial accounts (*cuentas financieras*). The latter are considered extra-budgetary accounts that have been in existence for some time and reflect past practices of managing accounts.

2019, at least 90 percent of payments of central government institutions and decentralized entities (from both budgetary and financial accounts) will be channeled through the TSA. Other result indicators leading to improved fiscal management and related to the prior actions supported by the DPF series include: (i) the improved compliance with SINIP procedures whereby by the end 2019, 70 percent of all local investment projects are expected to be rigorously evaluated by SINIP procedures; (ii) strengthened debt management whereby the share of central government debt that is paid electronically increases from 0 percent in 2014 to 100 percent by 2019, and (iii) improvements to the disaster risk management through the application of cost-benefit analysis to existing and new financial instruments (at least 2 by end 2019) for contingent fiscal risks.

Pillar 2: Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education

Prior Action 6: *The Borrower has: (i) created a Single Registry of Beneficiaries and a Single Payment Platform, and mandated periodical recertification of beneficiaries of, inter alia, the Red de Oportunidades, 120 a los 65 and Angel Guardián conditional cash transfers programs (CCTs), as evidenced by Law No. 54, dated November 8, 2016, published in the Borrower's Official Gazette dated November 11, 2016; and (ii) approved and adopted a Unique Registry Form for Social Protection, as evidenced by Resolution No. 285, dated July 28, 2017 and published in the Borrower's Official Gazette on September 7, 2017.*

Prior Action 7: The Borrower, through MIDES, has established: *(i) a proxy-means test to target the beneficiaries of Red de Oportunidades, 120 a los 65 and Angel Guardián conditional cash transfers programs, and (ii) criteria for recertification of beneficiaries of the Red de Oportunidades, 120 a los 65 and Angel Guardián conditional cash transfers programs; all as evidenced by Resolution No. 544, dated November 14, 2016 and published in the Borrower's Official Gazette on November 29, 2016.*

45. **CCTs have been a key budget policy vehicle to help reduce extreme poverty in Panama.** The Ministry of Social Development (MIDES) is responsible for the design and the implementation of three CCT programs: (i) the flagship poverty program *Red de Oportunidades* (Opportunities Network), aimed at providing income support to the extreme poor; (ii) *120 a los 65* program, which targets poor and vulnerable elderly; and (iii) the *Ángel Guardián* program for extreme poor individuals with disabilities. Launched in 2006, *Red de Oportunidades* has been serving over 70,000 households. Beneficiary families receive US$50 per month in exchange for their children's school attendance and regular primary health care visits. The *120 a los 65* program (originally *100 a los 70*) has been operational since 2009 and provides a benefit of US$120 per month to individuals over 65 years of age who do not receive a contributory pension and are considered vulnerable. This payment is contingent upon health checkups and participation in counseling and medical guidance talks, courses, and seminars. Finally, the *Ángel Guardián* program supports disabled individuals living in extreme poverty. Overall, these CCT programs represent around 0.7 percent of GDP annually, and have contributed to reducing extreme poverty and improving social indicators, such as rates of school enrollment, medical check-ups, and pregnant woman screenings.

46. **Improving the efficiency of CCT programs has been a key priority for the Government.** At the inception of the DPF series, the main challenges were related to weak targeting mechanisms, gaps in coverage, leakage of benefits that led to losses of fiscal resources, and lack of coordination between social assistance support schemes within MIDES. The lack of clear and consistent criteria for eligibility and recertification of beneficiaries and multiple registries of beneficiaries affected the efficiency of CCTs and led to higher administrative costs. For example, the proxy means testing targeting criteria have not been used consistently across the CCT programs. Especially, *120 a los 65* program, the largest CCT program in terms of both the number of beneficiaries and the fiscal cost, was targeted at individuals who were "socially at-risk, vulnerable, marginalized, or poor". As such the eligibility criteria were much broader and more general than for *Red de Oportunidades* and *Ángel Guardián*, which utilize the same proxy means test score. Furthermore, the lack of a single registry of beneficiaries did not allow for the regular monitoring of beneficiaries and cross-referencing data with other administrative databases, while the absence of rules for periodic recertification led to fiscal leakages and inclusion errors, affecting coverage for the extreme poor. According to the latest household survey data, the coverage of *120 a los 65 program* among the poor was 54 percent and 37 percent among the extreme poor, whereas an audit of beneficiaries of *Red de Oportunidades* revealed that roughly 15 percent of beneficiaries were not eligible for social assistance. The fragmentation of information on beneficiaries and payments led to higher administrative costs and reduced budget availability for social transfers.

47. **The Government has made substantial progress in addressing these challenges over the DPF series.** For example, under the DPF 1 the coverage and the benefits of the elderly *120 a los 65* program were expanded, while under the DPF 2, MIDES completed an audit of beneficiaries of the *Red de Oportunidades* program that led to the identification and exclusion of nearly 10,000 households (out of about 70,000 households) that did not qualify for the program. Also, supported by DPF 2, MIDES amended the Operational Manual of the *Red de Oportunidades* program to mandate the regular update of the registry of beneficiaries and prioritize poor and vulnerable households as well as created a Social Development Directorate to strengthen the management and coordination of all CCT programs.

48. **The creation of the Single Registry of Beneficiaries and the Single Payment Platform and the adoption of the Unique Registry Form for Social Protection supported by this operation will help address the outstanding challenges.** The Single Registry of Beneficiaries is a centralized technological platform where all essential information on beneficiaries of CCT programs will be stored, monitored and analyzed for the benefit of all stakeholders. Similarly, the thus far fragmented system of payment at the program level will be replaced by the Single Payment Platform, which will administer payments of all programs. The Registry of Beneficiaries will be built using the information from the Unique Registry Form, which is a mandatory instrument designed for capturing information about all beneficiaries of CCT programs; as well as other information systems and databases already available in Panama (for example data from the Electoral Tribunal to validate nationality and life events, National Authority of Land Management, Social Security, and others). In the Law 54, of November 8, 2016, the Government has established a Single Registry of Beneficiaries and the Single Payment Platform. The Unique Registry Form has been developed and, by December 2017, MIDES had trained over 750 social workers how to use the new Form. The harmonization and consolidation of the information on beneficiaries and payments is expected to provide reliable data for all CCT programs at lower administrative cost,

support enhanced coordination of programs for households in poverty, reduce and prevent the duplication of benefits reducing fraud and corruption. Mandatory periodical recertification of beneficiaries of all conditional cash transfers will help eliminate inclusion errors across CCT program and ensure that information in the Registry of Beneficiaries is periodically updated and monitored.

49. **Consistent application of proxy means test and establishing criteria for recertification of beneficiaries of conditional cash transfers programs will improve targeting and reduce leakage.** The new regulation makes the application of proxy means test score obligatory for all CCT programs, thereby harmonizing the income-based eligibility criteria across programs. As such this reform implies the use of the same proxy-means for *120 a los 65* program as the one used for *Red de Oportunidades* and *Ángel Guardián.* In addition, the resolution establishes eligibility criteria for CCT programs and a set of common rules for the recertification of beneficiaries depending on their economic situation. The households in extreme poverty will need to go through the recertification process using the Unique Registry Form every 5 years, while households in poverty will need to be recertified every 3 years. The recertification will not apply to households in the areas where extreme poverty exceeds 70 percent based on the poverty map of the Ministry of Economy and Finance. MIDES has already initiated the roll-out of the recertification process: by August 2017 over 33,000 beneficiaries were subject to recertification using the Single Beneficiary Form. A proxy-means test was applied to 14,000 of those beneficiaries, which led to the exclusion of over 11,000 ineligible beneficiaries, i.e., 77 percent of all evaluated (recertification was carried out in areas with the lowest poverty rates, explaining the high number of exclusions).

50. **A trigger for DPF 4 supports establishment of a process for regular updates to the proxy means test for CCT programs with a view to improve targeting continuously.** Following the implementation of the new proxy-means test, the Government should validate its effectiveness with the aim to assess the quality of targeting. As societies change, PMT models may become outdated. Intuitively, the models can and should be updated when the validation results are not satisfactory or more recent data become available. The household surveys used to produce the models are often released in 5- to 10-year cycles, which suggests a similar pattern for PMT model updates. Institutionalizing the regular updates to the PMT algorithm can help authorities increase efficiency of the CCTs.

51. **Expected results:** These actions are expected to improve the targeting and coverage of CCT programs in Panama within the shrinking fiscal envelope. Regular updates to the registry of beneficiaries, and improvements in the targeting formulas are expected to increase the number of extreme poor and vulnerable people benefitting from social assistance by reducing inclusion errors, and improving the coverage and targeting of social assistance schemes. As a result, the percentage of the extreme poor benefiting from at least one social assistance program is expected to increase from 37 percent in 2014 to 60 percent in 2019. Other result indicator leading to strengthening institutional arrangements to support inclusion in social assistance and connected with the prior actions supported by the DPF series is related to the usage of the social card (*Clave Social*) for the payment of benefits which is expected to increase from 0 percent in 2014 to 30 percent in 2019.

Prior Action 8: *The Borrower has: (i) institutionalized the Panama Bilingüe Program, including the obligation of MEDUCA to establish mechanisms for monitoring, certification and recertification for English language teachers, as evidenced by Law No. 18, dated May 10, 2017 and published in the Borrower's Official Gazette on May 10, 2017; and (ii) through MITRADEL, rolled out and implemented the ProJoven program across the country, as evidenced by MITRADEL Letter No. 0377 D.M, dated April 13, 2018.*

52. **Matching the skills acquired in the formal education system with the needs of the current and future labor market represents an ongoing challenge for inclusive growth.** In 2016, 36 percent of formal firms in Panama reported not being able to find the workforce with the skills they need (ManPower Group, 2016). Skills are the third biggest constraint for business development (19 percent of the total firms), after corruption and practices of the informal sector (WB, Enterprise Survey 2010). The mega trends of technological change, globalization and automation are also imposing, at a fast pace, changes in the skills needed by the workforce. MITRADEL has identified shortages of human capital with technical expertise in logistics, tourism and construction, while at the same time young graduates of technical schools and vocational programs face difficulties to find jobs as they often lack experience demanded by employers. In addition, as for a globalized trade and logistics hub, the level of English proficiency in Panama is also low. The 2016 Education First (EF) English Proficiency Index, which measures adult English proficiency based on test results from more than one million adults who took the EF Standard English Test in 2016, Panama was classified 49th out of 80 participating countries with a score of 50.68, which responds to low proficiency level. Going forward, improving the technical skills of young people in areas of strong labor demand is key for addressing current skills mismatches and ultimately productivity growth.

53. ***Panama Bilingüe* program, institutionalized in 2017, will serve as a platform to improve the quality of English skills nationwide.** *Panama Bilingüe* is an extensive training program targeted at current and future English language teachers. These trainings are organized in two phases: first, teachers are provided training opportunities in Panama, and after that, they participate in English language immersion programs at universities abroad, mainly in the US, the United Kingdom, and Australia. There, participants both develop their English language skills and also learn more modern teaching pedagogies. As part of *Panama Bilingüe*, MEDUCA is obliged to establish mechanisms for monitoring, certification and recertification of teachers trained in the English language. These certificates will be granted by international certifying bodies.[18] Apart from this training component, *Panama Bilingüe* includes increased English curriculum in preschools (Kids Program) and schools (After School Program). To oversee the implementation of *Panama Bilingüe*, the National Directorate of Foreign Language Teaching will be created within MEDUCA. The new organizational unit will be responsible for coordination, supervision and evaluation of English language teaching in public schools in Panama.

54. **Building on the achievements of the pilot phase of *ProJoven* program, the Government has scaled-up the program nationally as a vehicle to create job opportunities for youth.** *ProJoven,* which was first piloted under the DPF 1, has had positive results on labor

[18] One example is University of Cambridge's CELTA (Certificate in Teaching English to Speakers of Other Languages).

market prospects of the participants. According to MITRADEL, over 50 percent of youth participating in the program, were offered jobs by the same companies. As a result, the Government has scaled-up the program nationally.[19] The program is targeted at young people - between 15 and 29 years old; with technical background, who graduated from vocational secondary education programs as well as technical university graduates. The participants are provided three types of activities: (i) soft-skills training; (ii) 3-month subsidized internship in a recognized company; and (iii) follow-up mentoring from labor intermediation specialists and HR personnel of the companies. By May 2017, more than 3,000 young people had participated in *ProJoven*. Going forward, the Government wants to use the *ProJoven* program to increase employment opportunities of vulnerable youth from households living in extreme poverty.

55. **The trigger for DPF 4 includes (i) the development and dissemination of standardized data from nationwide student assessments to produce school level scorecards with basic outcome indicators, and (ii) the use of the scorecards to improve pedagogic practices in the classroom and school management practices as defined in best practice manual**. One of the key goals of the DPF series was to support evidence-based policy making in education sector. In this context, the trigger helps to ensure that the student performance information is not only collected, but also used and disseminated on ongoing basis to improve learning outcomes.

56. **Expected Results:** The actions supported by the operation are aimed at supporting medium- and long-term improvements in Panama's education and training system, facilitate the school-labor market transitions for youth while supporting firm productivity (by reducing mismatches). The result indicators for the actions supported by this operation include increase in the number of teachers who participated in the International Teacher Training as part of *Panama Bilingüe*, from 0 in 2014 to 3,500 teachers by end of 2019. In addition, the DPF series has supported actions for improving the monitoring of student learning in the country, through the participation and dissemination of international student assessments (including in 2018 PISA and TERCE) and development of school-level scorecards. These actions support the increased use of data on learning assessments to inform education policies. It is expected that by end-2019 MEDUCA will disseminate at least 2 reports which use student assessments results at the subnational level.

[19] The lack of internship opportunities in the Province of Darién is due to supply side factors related to lack of businesses focused on technical skills.

Pillar 3: Enhancing the Regulatory and Sustainability Framework in the Energy and Water Sectors

Energy

Prior Action 9: *The Borrower: (i) through the National Secretary of Energy, has issued energy efficiency standards for the construction of new public and private buildings, as evidenced by the adoption of the Sustainable Construction Guidelines for Saving Energy in Buildings dated November 17, 2016 and published in the Borrower's Official Gazette on November 24, 2016; and (ii) through the Ministry of Commerce and Industries, has publicly disclosed the energy efficiency technical standards for air conditioners, making them binding, as evidenced by Resolutions No. 65, No. 67 and No. 69 dated July 11, 2017, published in the Borrower's Official Gazette dated July 21, 2017.*

57. **Energy efficiency and the moderation of energy consumption have been important challenges for the country and core to its action plan to meet its global commitments on climate change issues.** The energy sector in Panama is struggling to keep pace with the growing demand that has arisen due to the outstanding performance of the Panamanian economy in the last decade. Delays in investments related to the transmission system and power generation capacity, and slow progress on diversification of power generation over the last decade have not matched the accelerated increase in demand and have exposed the energy sector to droughts and the volatility of international oil prices, making the system vulnerable to energy outages and booming electricity prices. For example, during 2013 and 2014, the Government was forced to introduce emergency response measures to reduce electricity demand and prevent power outages, including restrictions on the use of air conditioning. According to the National Energy Plan, the demand for electricity will increase over 600 percent in the next thirty years in a business-as-usual scenario. Therefore, one of the key priorities for the Government is to ensure adequate supply of energy and its efficient use.

58. **The adoption of the Sustainable Construction Guidelines will help to reduce the energy consumption in the new buildings and is aligned with Panama's nationally determined contribution to the global response to climate change agreed in Paris in 2015**. As noted in the Panama's National Energy Plan, the commercial and residential buildings in Panama make intensive use of electricity. Taken together, the residential and commercial sectors use over 70 percent of electricity in Panama. In such context, the adoption of the Sustainable Construction Guidelines will help to ensure that the design of the new buildings will take advantage of the natural environment and thermal-efficient materials and designs, with a view to reducing energy consumption. The guidelines are binding based on Article 118 of Law 23, 1997 and contain the baseline of energy consumption for each type of building and proposals for active and passive measures to achieve compliance with minimum savings percentages. For example, active measures include the use of mechanical and electrical systems to create comfort conditions inside buildings. Meanwhile, passive measures refer to those that are incorporated into the architectural design of buildings and are inclined to use the environmental conditions of the environment. The guide and the baseline of energy consumption for each type of building will be reviewed by the National Energy Secretariat every five years. It is expected that the application of the new standards is expected to bring around 15-20 percent savings in the electricity consumption of new residential and commercial buildings.

59. **The implementation of the energy efficiency standards for the priority consumer products will support more efficient use of electricity.** The international experience shows that the regulation of the energy efficiency standards for basic residential and commercial appliances can help optimize electricity consumption. As such, the standards set minimum required efficiency standards for appliances available in the domestic market. Supported by the WB's Technical Assistance, the Government of Panama initiated the design and implementation of energy efficiency standards for air conditioner units. These products are considered priority as they account for a large share of electricity use by commercial and residential users. According to the National Energy Plan, air conditioning units will account for over 48 percent of the electricity consumption in the commercial sector 55 percent of total residential electricity use by 2050. Going forward, the Government plans to extend the energy efficiency standards to other consumer appliances. In addition to the standards, the Government is implementing an initiative to require a homogenized national energy-efficiency labeling system for these appliances, like the energy star system in the US, in order to provide comparable information to the consumer and incentivize the purchase of energy efficient appliances.

60. **Expected results:** The regulations supported by DPF 3 seek to promote energy efficiency and more responsible use of energy by consumers to prevent pollution and excessive greenhouse gas emissions. They are fully aligned with Panama's nationally determined contribution to the global response to climate change in the area of climate change mitigation, as agreed during the 21st session of the Conference of the Parties in Paris in December 2015 (COP21). These actions, together with the policy reforms supported by the whole DPF series, are expected to reduce subsidies and improve the fiscal sustainability of the energy sector, which is fundamental for providing reliable, affordable and continuous access to electricity. As a result, the average amount of electricity subsidies in 2017-2019 is expected to be reduced by at least 80 percent in nominal terms relative to its level in 2014 (US$320 million).

Water

61. **Prudent fresh water management is not only critical to the local population but also to the adequate operation of the Panama Canal, which in turn is key for global trade**. Availability of water and prudent water management have been a perennial priority given the importance of the Panama Canal to the economy, and improvements will contribute toward adapting to climate change. The original Panama Canal uses 52 million gallons of fresh water for each ship that passes through, while the Canal expansion has nearly doubled the water demand, requiring an additional 1.8 billion gallons of fresh water per day. Ensuring an adequate water supply for the Canal's operations and for the population is a challenge that is periodically exacerbated by droughts resulting from El Niño weather event and the growing demand of other competing water users (i.e. agriculture and hydropower generation). These increasing pressures pose a threat on water security for different water users, particularly for the Panama Canal that has been forced to limit the size of transiting ships during severe drought periods[20].

[20] Based on OECD (2017), Multi-dimensional Review of Panama: Volume 1. Initial Assessment, OECD Development Pathways, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264278547-en

62. **In the recent years, the Government has improved the provision of water and sanitation services and advanced the coordination within the water sector.** The access to drinkable water in urban areas is almost universal, and in rural areas access has progressed to 89 percent in 2015 from 76 percent in 2000. However, improvements in sanitation have been much slower. While access to improved sanitation increased to 75 percent from 59 percent between 2000 and 2015, Panama is still at the bottom of the benchmark countries. These numbers drop even further for indigenous populations, where potable water coverage is only 28 percent and sanitation coverage is 6 percent. A notable government response is the "100/0" program, which aims to universalize access to improved drinking water and improved sanitation through the construction of bathrooms to replace latrines (DPF 1 Prior Action). DPF 1 also supported strengthening the Rural Water and Sanitation Information System (SIASAR) to monitor the development and performance of rural water supply and sanitation services. Recently the Government has established the National Water Council, CONAGUA, to improve water management and intra-sectoral coordination.

63. **The trigger for DPF 4 is the approval of an interinstitutional agreement to define access to data and data sharing arrangements among sector stakeholders with a view to develop the first National Water Resources Information system to improve water management.** Currently, the Government lacks accurate and up-to-date information to make appropriate use of its water resources. To determine the quality and quantity of water, to allocate and to plan, and ultimately to justify management and control decisions based on sound technical knowledge, the Government requires precise and reliable information. The interinstitutional agreement is expected to be a first institutional step to create reliable, timely, good quality and publicly available water resources information system.

64. **Expected results:** The measures supported by the DPF program will strengthen the regulatory and sustainability framework in the water and sanitation sector and improve service delivery. The actions supported under DPF 1 and planned regulatory changes under DPF4 are expected to strengthen the management of water resources. Specific result indicator of the DPF series in the water area is the number of Rural Water Management Boards connected to the Rural Water and Sanitation Information System, which is expected to increase from 400 in 2014 to 1,700 in 2019, out of a total of 2,824 rural water boards.

Analytical Underpinnings

65. **The DPF series is underpinned by extensive analytical work conducted by the WB Group.** It includes the 2015 Panama Systematic Country Diagnostic, the Panama Public Expenditure Review, and the Panama Social Expenditure Review, which together with analytical work by other institutions, provided the basis for an ongoing policy dialogue with the Government. Table 4 links the proposed prior actions to specific analytical work.

Table 4: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management	
Prior Action 1: The Borrower has established the legal framework for the implementation of the Common Reporting	• Panama Systematic Country Diagnostic (WB 2015)

Prior Actions	Analytical Underpinnings
Standards for the Automatic Exchange of Information in Tax Matters, as evidenced by Law No. 51, dated October 27, 2016 and published in the Borrower's Official Gazette on October 28, 2016; and Executive Decree No. 124, dated May 12, 2017 and published in the Borrower's Official Gazette on May 12, 2017. **Prior Action 2.** The Borrower has: (i) approved the Convention on Mutual Administrative Assistance in Tax Matters, as evidenced by Law No. 5, dated February 21, 2017 and published in the Borrower's Official Gazette on February 23, 2017; and (ii) signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, as evidenced by the OECD's list of signatories; all to complement its legal framework for the automatic exchange of financial information in tax matters. **Prior Action 3:** The Borrower, through its Superintendence of Banks, has adopted internal supervision procedures on bearer shares and beneficial owners on banks and fiduciaries, and started implementation of the internal supervision procedures, as evidenced by letter SBP-DPC-N-0652-2018 of the Superintendent of Banks dated February 8, 2018. **Prior Action 4.** The Borrower, through MEF, has submitted to the National Assembly a draft bill to establish tax evasion as a predicate offense for money laundering, as evidenced by the Draft Bill No. 591 submitted on January 18, 2018 to the National Assembly. **Prior Action 5:** The Borrower, through MEF, has completed the integration of all budgetary accounts of central government entities under the Treasury Single Account, with links to ISTMO as evidenced by MEF Letter 2018-29601 dated April 25, 2018.	• Breve análisis del ilícito tributario en Panamá y su confronte con el derecho de 14 países de América, Asia y Europa, (IADB, 2017) • Fast Track Review of Panama (OECD, June 2017). • WB Technical Assistance activities on information security (confidentiality and data safeguards). • OECD: Phase 1 Peer Review Report and Supplementary Reports (2010, 2014, 2015) on Panama's Legal and Regulatory Framework on Tax Transparency • IMF: Panama: Detailed Assessment Report—FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism (IMF, 2014) • IMF Article IV reports • Panama Public Expenditure and Financial Accountability Assessment (WB, IADB, and Government of Panama 2012) • Strengthening Public Expenditure Management in Panama: A Basis for Better Government Performance (WB 2014) • Mutual Evaluation Report of the Republic of Panama (GAFILAT, January 2018) • Harmful Tax Practices - 2017 Progress Report on Preferential Regimes: Inclusive Framework on BEPS (OECD, 2017) • WB Technical Assistance for tax regime adjustment and AML, and confidentiality for tax sharing
Pillar 2: Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education	
Prior Action 6: The Borrower has: (i) created a Single Registry of Beneficiaries and a Single Payment Platform, and mandated periodical recertification of beneficiaries of, inter alia, the *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs, as evidenced by Law No. 54, dated November 8, 2016, published in the Borrower's Official Gazette dated November 11, 2016; and (ii) approved and adopted a Unique Registry Form for Social Protection, as evidenced by Resolution No. 285, dated July 28, 2017 and published in the Borrower's Official Gazette on September 7, 2017. **Prior Action 7:** The Borrower, through MIDES, has established: (i) a proxy-means test to target the beneficiaries of *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs, and (ii) criteria for recertification of beneficiaries of the *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs; all as evidenced by Resolution No. 544, dated November 14, 2016 and published in the Borrower's Official Gazette on November 29, 2016.	• Panama Systematic Country Diagnostic (WB 2015) • Panama Social Sector Expenditure and Institutional Review (WB 2015) • Multi-Dimensional Review of Panama: Volume 1: Initial Assessment, (OECD 2017) • *Red de Oportunidades*: Conditional cash transfer evidence from Panama (Arraiz, S. Rozo 2011) • Review of Social Assistance programs and Recommendations for Priorities and the Way Forward; and Social Protection Responses to the triple wave of crises in Central America and Panama (Marques 2009, 2010) • Technical Vocational Education and Training: Mapping Institutions and Policies (WB 2014) • *Mejores Empleos en Panamá: El Rol del*

Prior Actions	Analytical Underpinnings
Prior Action 8: The Borrower has: (i) institutionalized the *Panama Bilingüe* Program, including the obligation of MEDUCA to establish mechanisms for monitoring, certification and recertification for English language teachers, as evidenced by Law No. 18, dated May 10, 2017 and published in the Borrower's Official Gazette on May 10, 2017; and through MITRADEL; and (ii) through MITRADEL, rolled out and implemented the *ProJoven* program across the country, as evidenced by MITRADEL Letter No. 0377 D.M, dated April 13, 2018.	*Capital Humano* (WB 2012)
Pillar 3: Enhancing the Regulatory and Sustainability Framework in the Energy and Water Sectors	
Prior Action 9: The Borrower: (i) through the National Secretary of Energy, has issued energy efficiency standards for the construction of new public and private buildings, as evidenced by the adoption of the Sustainable Construction Guidelines for Saving Energy in Buildings dated November 17, 2016 and published in the Borrower's Official Gazette on November 24, 2016; and (ii) through the Ministry of Commerce and Industries, has publicly disclosed the energy efficiency technical standards for air conditioners, making them binding, as evidenced by Resolutions No. 65, No. 67 and No. 69 dated July 11, 2017, published in the Borrower's Official Gazette dated July 21, 2017.	• *Guía de Implementación de las Normas de Eficiencia Energética y Etiquetado de Equipos Consumidores de Energía*, (TA, WB 2017, ESMAP) • Panama Systematic Country Diagnostic (WB 2015) • *Fiscal and Welfare Impacts of Electricity Subsidies in Central America* (WB 2017) • Contribución Nacionalmente Determinada a la Miticación del Cambio Climático (NDC) de la Republica Panamá ante la Convención Marco de Naciones Unidas sobre Cambio Climático (CMNUCC) (Government of Panama, April 2016)

LINK TO CPF, OTHER BANK OPERATIONS, AND THE WBG STRATEGY

66. **The proposed DPF is fully consistent with the Country Partnership Framework for 2015-2021.** The proposed DPF plays an instrumental role in influencing outcomes in the three pillars of the Country Partnership Framework: (i) supporting continued high growth; (ii) ensuring inclusion and opportunities for marginalized and Indigenous groups; and (iii) bolstering resilience and sustainability. Building on the progress made by the previous DPF in enhancing social inclusion and fiscal management, the current DPF aims to consolidate reforms particularly in the areas of fiscal management, social protection and environmental sustainability. The WB's active portfolio comprises operations in the areas of social protection, water and sanitation, disaster risk management, and public financial management, with expansion envisioned to support for Indigenous Peoples, and improved access to healthcare. The objectives of relevant operations are linked to the objectives of the proposed DPF 3. In addition, the prior actions complement ongoing activities supported by the IFC in the energy and education sectors. The IFC has joined forces with the WB to support energy efficient facilities, with a focus on financing renewable energy generation plants. It is also promoting the expansion of private health and education services in Panama.

67. **The proposed DPF is also fully consistent with the WB's Group strategy aimed at eradicating extreme poverty and promoting shared prosperity.** The PDOs are directly linked with specific priorities of the Government's reform program, and in addition, as noted in Section V, the DPF program is likely to have positive effects for poverty reduction and shared prosperity.

The program aims to improve social assistance, education, as well as regulatory and sustainability framework in the water and energy sectors, including by helping to contribute toward Panama's COP-21 commitments. At the same time, the program aims to safeguard macroeconomic stability and resilience, which are key preconditions for sustained poverty reduction.

68. **Analytical and advisory activities complement the DPF program.** The recent Systematic Country Diagnostic identified challenges and priority areas to advance social inclusion, service delivery, and fiscal sustainability. A 2015 assessment of social spending for Central American countries, including Panama, analyzes the fiscal sustainability and effectiveness of social programs, providing recommendations for the short- and medium-term. The proposed DPF 3 builds on the findings in these studies and seeks to strengthen policy coordination to ensure the greatest possible impact of public expenditures in terms of poverty reduction and shared prosperity. Ongoing technical assistance on social protection supports the strengthening of the institutional functions for enhanced coverage of social programs. The Bank works closely with other donors, on ongoing engagement to assist the Government to improve the transparency of the country's tax system, enhance the capacity of the tax administration to use the data received by exchange of information with other countries to tackle tax evasion, and promote the exchange of tax information to meet the standards of the Global Forum.

CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

69. **The design of the proposed DPF was informed by consultation processes among various sectors of the Panamanian society.** The measures supported by the operation are aligned with the Government's strategy *Plan El Pueblo Primero*. This document has been subject to consultations with different levels of Government, private sector, and civil society. During round table sessions, the Government, private sector, academia, think thanks, Indigenous Peoples, Afro-Panamanian groups, civil society and non-governmental organizations discussed the country's development priorities and challenges, such as expanding inclusion and opportunities, improving service delivery, and modernizing fiscal management. As a result of these participatory consultations, the Government has launched sectoral strategies, some of which the WB is supporting as part of this DPF series to reduce poverty and boost shared prosperity. For instance, the Ministry of Education and the Ministry of Labor have established an alliance with private companies in Panama to pilot an apprenticeship program for graduate students to access job opportunities and strengthen their skills and capacity for the labor market demand. The process of developing the Sustainable Constriction Guidelines has also benefited from consultation process facilitated by the Panamanian Chamber of Construction, the Panamanian Society of Engineers and Architects and the Technical Board of Engineering and Architecture.

70. **The proposed program represents a coordinated engagement with development partners.** This DPF series has been prepared in close consultation with the IMF and the IADB as part of a coordinated effort to support sound macroeconomic management and structural reforms. The WB's support to issues related to international tax transparency and AML/CFT is coordinated with the IMF and the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes.

V. OTHER DESIGN AND APPRAISAL ISSUES

POVERTY AND SOCIAL IMPACT

71. **The DPF 3 supports actions that are expected to have largely neutral or positive effects on poverty reduction and income distribution in the short-term, and overall positive effects over the medium- and long-term.** Annex 5 summarizes the analysis carried out on the potential effects of the reforms supported under the operation, which suggests a positive or neutral impact on poverty and social development indicators (Table 5). While some measures may have immediate implications for household income (i.e., reforms of social transfers and youth active labor market program), the majority of actions are of an institutional nature and will be broadly neutral for poverty in the short-term. Stronger institutions, an enhanced regulatory framework, and improved procedures within the public administration, are all expected to support poverty reduction and boost shared prosperity over the medium- and long-term.

72. **Measures aimed at strengthening international tax transparency, financial integrity and fiscal management are expected to have positive effects on the poor over the medium-term, while the short-term effects are expected to be largely neutral.** The prior actions under Pillar 1 are institutional in nature and are expected to be neutral for the poor in the short run. Prior actions related to international tax transparency, financial integrity, and financial information management systems are related to administrative processes and are expected to increase confidence in, and improve the efficiency of, the state. In the absence of these reforms, investors' confidence could be lowered which could negatively affect economic growth and job creation. This in turn could have negative welfare effects given that labor income is a main driver of poverty reduction in Panama. Hence, it is expected that the medium-term impact of these measures will be positive in terms of welfare.

73. **Measures aimed at strengthening institutional arrangements in social assistance programs are expected to have a positive effect on poverty and income distribution.** In November 2016, the Single Registry of Beneficiaries and the Single Payment Platform for all CCT programs was created under Law 54 to facilitate the monitoring of potential overlaps across programs and the cross-checking with other administrative databases. The Single Registry of Beneficiaries is designed to increase social assistance transparency and equity by improving program targeting, minimizing inclusion and exclusion errors, eliminating program duplications, allowing the application of eligibility criteria and recertification for new and existing beneficiaries, while improving program monitoring and evaluation, and efficiency. The institutionalization of a single platform for payments streamlines the system allowing for central auditing and monitoring of payments.

74. **While not expected to immediately influence poverty, the education reforms (institutionalization of the *Panama Bilingüe* program) and the youth employment programs (the national roll-out of *ProJoven* program), are likely to yield improvements in the quality of educational services and facilitate the school-to-labor market transition of youth over the medium- and long-term.** The *Panama Bilingüe* program, by increasing the English language skills of students in public education centers, will lead to greater equality of opportunities between private and public-school students and, it is expected, lead to better prospects for these students in

the labor markets and further education. The *ProJoven* program facilitates the transition from education to labor market for young people. The program has the potential to reduce poverty and vulnerability among young people once the target population is expanded to include beneficiaries of conditional cash transfers.

75. **The adoption of the Sustainable Construction Guidelines is not expected to have an impact on poverty.** As the take-up of the measure has a one-year lag there will would be no immediate impact. Nor is the measure expected to have an impact on poverty in the medium term. Social housing, the government program to provide low-income housing, is excluded from the new construction guidelines. Thus, cost savings on energy that would accrue to the new construction techniques would not be available to the beneficiaries of social housing. As the poor spend a greater proportion of their income on energy services than middle and upper classes, the potential energy savings might have been important. However, the cost of including the guidelines in the Social Housing program was expected to raise the building costs leading to a decrease in the number of units that could be delivered to the poor. The tradeoff was explicitly considered and the Government determined that the lost opportunity of increasing the energy efficiency was outweighed by the reduction in the number of households that could be provided to the poor. The poor, along with the rest of the population, will also benefit from the lower emissions of greenhouse gases that result from the application of the guidelines.

76. **The impact of energy efficiency standards is substantial, although the direct impact on poverty is limited.** The projected impact up to 2030 is estimated to be: (i) annual national savings of electricity of more than 370 Gigawatt hours (GWh) GWh, representing a 14 percent savings in residential energy use compared to 2015; (ii) savings of US$300 million or Megawatts (MW) 70 in investments for electricity generation; and (iii) a reduction in greenhouse gas emissions of 1.6 million Carbon dioxide equivalent (CO_2e) (equal to the emissions of 30,000 vehicles for 11 years). As many of those living in extreme poverty do not have access to electricity and, even when they do, have much lower levels of ownership of electro-domestic goods, the effect of these savings is expected to be minimal. However, for those in poverty who have access to these goods, the reduction in costs is a positive benefit, that can be used to increase consumption of energy or other items of need. Finally, the poor, especially those in urban areas, will benefit from improved air quality along with the rest of the population.

Table 5: Likely Poverty and Social Effects of the Prior Actions

Prior Actions under DPF 2	Groups most affected	Short-Term Effects on Poverty / Distribution
Pillar 1: Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management		
Prior Action 1: The Borrower has established the legal framework for the implementation of the Common Reporting Standards for the Automatic Exchange of Information in Tax Matters, as evidenced by Law No. 51, dated October 27, 2016 and published in the Borrower's Official Gazette on October 28, 2016; and Executive Decree No. 124, dated May 12, 2017 and published in the Borrower's Official Gazette on May 12, 2017.		Neutral / Neutral
Prior Action 2. The Borrower has: (i) approved the Convention on Mutual Administrative Assistance in Tax Matters, as evidenced by Law No. 5, dated February 21, 2017 and published in the Borrower's Official Gazette on February 23, 2017; and (ii) signed the Multilateral Competent Authority Agreement on Automatic		Neutral / Neutral

Prior Actions under DPF 2	Groups most affected	Short-Term Effects on Poverty / Distribution
Exchange of Financial Account Information, as evidenced by the OECD's list of signatories; all to complement its legal framework for the automatic exchange of financial information in tax matters.		
Prior Action 3: The Borrower, through its Superintendence of Banks, has adopted internal supervision procedures on bearer shares and beneficial owners on banks and fiduciaries, and started implementation of the internal supervision procedures, as evidenced by letter SBP-DPC-N-0652-2018 of the Superintendent of Banks dated February 8, 2018.		Neutral / Neutral
Prior Action 4. The Borrower, through MEF, has submitted to the National Assembly a draft bill to establish tax evasion as a predicate offense for money laundering, as evidenced by the Draft Bill No. 591 submitted on January 18, 2018 to the National Assembly.		Neutral / Neutral
Prior Action 5: The Borrower, through MEF, has completed the integration of all budgetary accounts of central government entities under the Treasury Single Account, with links to ISTMO as evidenced by MEF Letter 2018-29601 dated April 25, 2018.		Neutral / Neutral
Pillar 2: Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education		
Prior Action 6: The Borrower has: (i) created a Single Registry of Beneficiaries and a Single Payment Platform, and mandated periodical recertification of beneficiaries of, *inter alia*, the *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs, as evidenced by Law No. 54, dated November 8, 2016, published in the Borrower's Official Gazette dated November 11, 2016; and (ii) approved and adopted a Unique Registry Form for Social Protection, as evidenced by Resolution No. 285, dated July 28, 2017 and published in the Borrower's Official Gazette on September 7, 2017.	Households living in poverty/extreme poverty	Positive / Positive
Prior Action 7: The Borrower, through MIDES, has established: (i) a proxy-means test to target the beneficiaries of *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs, and (ii) criteria for recertification of beneficiaries of the *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs; all as evidenced by Resolution No. 544, dated November 14, 2016 and published in the Borrower's Official Gazette on November 29, 2016.	Households living in extreme and moderate poverty	Neutral / Positive
Prior Action 8: The Borrower has: (i) institutionalized the *Panama Bilingüe* Program, including the obligation of MEDUCA to establish mechanisms for monitoring, certification and recertification for English language teachers, as evidenced by Law No. 18, dated May 10, 2017 and published in the Borrower's Official Gazette on May 10, 2017; and through MITRADEL; and (ii) through MITRADEL, rolled out and implemented the *ProJoven* program across the country, as evidenced by MITRADEL Letter No. 0377 D.M, dated April 13, 2018.	Students living in vulnerable households	Neutral / Neutral
Pillar 3: Enhancing the Regulatory and Sustainability Framework in the Energy and Water Sectors		
Prior Action 9: The Borrower: (i) through the National Secretary of Energy, has issued energy efficiency standards for the construction of new public and private buildings, as evidenced by the adoption of the Sustainable Construction Guidelines for Saving Energy in Buildings dated November 17, 2016 and published in the Borrower's Official Gazette on November 24, 2016; and (ii) through the Ministry of Commerce and Industries, has publicly disclosed the energy efficiency technical standards for air conditioners, making them binding, as evidenced by Resolutions No. 65, No. 67 and No. 69 dated July 11, 2017, published in the Borrower's Official Gazette dated July 21, 2017.		Neutral / Positive

ENVIRONMENTAL ASPECTS

77. **The measures supported under the proposed DPF are not expected to have significant effects on the environment, forests or other natural resources.** Pillars 1 and 2 of this DPF are primarily institutional in nature and thus, unlikely to have significant effects on the environment.

- Prior Actions 1 and 2 are aimed at improving the international tax transparency framework in Panama in order to bring them closer in line with international standards and best practices, with no expected impact on the environment, forests or other natural resources.
- Prior Actions 3 and 4 focus on the strengthening of the AML/CFT framework and adoption of new supervision procedures to facilitate implementation of the amended anti-money laundering legislation. It is not expected to have significant impacts on the environment, forests or other natural resources.
- Prior Action 5 in the area of fiscal management is expected to lead to a more efficient use of public resources, particularly through enhanced budgeting systems and more resilient public finances. Indirectly, this prior action may contribute to a more efficient use of public resources in the environment sector.

78. **Strengthening institutional arrangements to support inclusion in social assistance and education can have indirect, positive environmental effects (Prior Actions 6-8).** The supported CCT programs require beneficiaries to regularly visit primary health care providers, who might identify and help prevent diseases caused by environmental conditions, including respiratory diseases caused by household air pollution or diarrheal diseases stemming from inadequate water supply, sanitation and hygiene. The Government may use the data gathered at health centers to inform assess existing policies and design further interventions to improve environmental health conditions. Similarly, strengthening educational programs will increase vulnerable populations' knowledge and intangible capital, both of which can have positive, indirect effects on Panama's environment, forests, and other natural resources.

79. **Promoting increased energy efficiency through standards for residential and commercial construction, and for consumer products, is expected to have positive environmental effects (Prior Action 9).** These reforms will incentivize increased energy efficiency among consumers, particularly in the commercial sector, which has experienced the fastest energy consumption growth rates in recent years. Increased energy efficiency is expected to result in lower emissions of local and global air pollutants, particularly because thermal energy is the source of 40 percent of Panama's electricity. These measures can therefore contribute to reduce local air pollution, as well as to achieve the goals of Panama's nationally determined contribution (NDC).

PUBLIC FINANCIAL MANAGEMENT, DISBURSEMENT AND AUDITING ASPECTS

80. **Panama's public financial management (PFM) and public procurement systems are adequate for the operation.** The budget is published promptly after its approval in the Official Gazette. The published budget and data on budget execution are publicly available online. According to the latest Public Expenditure and Financial Accountability Assessment conducted jointly by the WB and the IDB and published in July 2013, Panama's PFM systems are

characterized by: (i) a timely review and approval of the national budget by the National Assembly; (ii) good and timely public debt management and reporting; (iii) readily accessible information on government expenditure to the public; and (iv) permanent reconciliation of payroll registries management. At the same time, several PFM areas would benefit from further improvement, particularly in relation to budget preparation and execution: (i) budget credibility and predictability is affected by significant and numerous budget modifications throughout the year; (ii) predictability of the availability of funds for commitment of expenditures is uneven; (iii) a mechanism for the proper control of payment arrears should be put in place; (iv) quality and comprehensiveness of budgetary reports and annual financial statements could be improved; and (v) a strengthened internal and external audit functions and internal control framework is required.

81. **The Government has been making further progress in strengthening its PFM system.** The Government is implementing a set of key reforms[21] to strengthen and modernize planning and budgeting, the financial management system, the financial control framework, and procurement systems. The WB has been supporting the Government in the improvement of PFM through the previous and the current DPF series, as well as the Enhanced Public Sector Efficiency Technical Assistance Loan. Notably, with support from this DPF series, the Government has introduced a new Integrated Financial Management System (ISTMO), which aims at providing a modern platform that integrates accounting, budgetary, and treasury functionalities in all central government entities and has initiated the roll-out of the ISTMO system in selected decentralized entities. To support ISTMO, Panama is pursuing reforms in public accounting through the gradual implementation of International Public Sector Accounting Standards and the expansion of the Treasury Single Account (TSA), which has already integrated all budgetary accounts of the central government entities. As a result, Panama would improve the quality of its financial statements, thereby enhancing the efficiency and effectiveness of public programs, and the transparency and accountability of public resources. A challenge ahead to better support the country's efforts is to put in place a new control and asset management framework, through implementation of International Standards of Supreme Audit Institutions. Similarly, there are challenges[22] in enhancing the citizenship's perception of corruption (Panama currently ranking 96 out of 180 countries with an overall score of 37/100, with only minimal changes over the last 5 years[23])

82. **The WB will disburse the loan proceeds into the US dollars TSA of the MEF once the loan is approved and becomes effective**. Upon its deposit, DPF disbursement will become available to finance budgeted expenditures. The account is denominated in US dollars, which is legal tender in the country, and is held at the National Bank of Panama, a state-owned bank and the Government's financial agent (as Panama has no Central Bank). A WB review of an audit report on the 2016 financial statements of the National Bank of Panama as well as the WB's experience with designated accounts indicates that the banking control environment into which the loan proceeds will flow is adequate. On this basis, no audit will be required for the deposit account, and no additional fiduciary arrangements are considered necessary at this time. Upon IBRD's request, the Borrower will provide written confirmation that the amount of the loan has been credited to an account available to finance budgeted expenditures. Such confirmation will be sent to the Bank within 30 days after the deposit. If the proceeds of the loan are used for excluded

[21] These are covered in detail under Prior Action 5 on Public Financial Management.
[22] Prior Actions 1 to 5 included in Pillar 1 are aimed at enhancing transparency.
[23] According to Corruption Perception Index (CPI) 2017 produced by Transparency International.

expenditures as defined in the Loan Agreement, IBRD will require the Borrower to refund an amount equal to the amount of said payment to IBRD promptly upon notice from IBRD. Amounts refunded to IBRD upon such notice, shall be cancelled from the Loan.

MONITORING, EVALUATION AND ACCOUNTABILITY

83. **MEF is responsible for the implementation of the program supported by the DPF.** As the main implementing agency, MEF will coordinate with other Government agencies involved in the implementation of the DPF, including MIDES, MEDUCA, MITRADEL, DGI, and the Energy Secretariat. Together with MEF and the National Statistics and Census Institute, these institutions will collect the necessary data to assess implementation progress and evaluate results. The technical capacity of these institutions is adequate to perform regular monitoring of the indicators and outcome measures shown in the monitoring and results framework of the policy matrix (Annex 1).

84. **Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions under a WB Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service.** The Grievance Redress Service ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and the WB Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate Grievance Redress Service, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

VI. SUMMARY OF RISKS AND MITIGATION

85. **The overall risk of this operation is considered to be substantial due to the assessment of risks related to political environment and institutional capacity for implementation.** Macroeconomic risks (discussed in detailed in the Macroeconomic Policy Framework section and below), risks associated with sector strategies and policies, technical design of the program, as well as risks associated with stakeholders are considered moderate.

86. **Risks associated with the political environment are substantial.** Political disagreement or legislative gridlock could threaten the pace of the reform agenda, particularly with regard to the agenda on international tax transparency and AML/CFT. The authorities are fully aware of this risk and are utilizing a continuous consultation process and raising awareness on key policy measures. The authorities have demonstrated credible commitment to the reform program and there is consensus among the major political parties as well as the private sector on the need to improve tax transparency and financial integrity by adhering to international norms and standards. This consensus has enabled the passage of a number of important legislative reforms thus far. To help mitigate the risks the Bank has extended the DPF series to include one additional operation

(DPF 4) to support authorities in implementing the legislative changes in the tax transparency and AML/CFT frameworks. Such engagement will allow for continual monitoring and engagement to reduce risks to development outcomes. In addition, the WB, in coordination with development partners, is engaged in a policy dialogue with the Panamanian authorities to support consensus on the importance of the reform program. However, elections are a little over one year away, making passage of legislation through Congress more challenging, even when it relates to issues in which there is substantial agreement.

87. **Risks associated with institutional capacity for implementation are substantial.** In particular, the effectiveness of reforms in tax transparency and AML/CFT will depend on the ability of the Government to apply and enforce new provisions, and build capacity in new regulatory agencies. Similarly, the success of the reforms in social protection, education, and in the electricity sectors will depend on the effective implementation of new regulations. In addition, in a number of DPF-supported areas, the progress in reform implementation depends on smooth collaboration and coordination between multiple actors. The authorities have demonstrated their intention and ability to mitigate these risks, including through seeking Technical Assistance from international institutions and ensuring high-level leadership of reforms. Moreover, reform implementation across all pillars of this operation is being supported by advisory activities and technical assistance from the WB, IMF, IADB, OECD, and other development partners. WB support focuses on strengthening tax transparency, social protection, and education systems, strengthening energy and water sector management, and improving fiscal management. To further mitigate institutional capacity risks, the Government is building capacity, for instance by training staff and hiring of consultants to support the implementation of key measures related to the CRS implementation. CRS.

88. **Macroeconomic risks are moderate.** Risks to the macroeconomic situation stem from external conditions and domestic factors. On the external side, being a small, open and well-integrated economy, Panama is vulnerable to external shocks. Uncertain global market conditions could limit Panama's service exports, FDI inflows and fiscal receipts. The mitigating factors include the expanded Panama Canal, which has already boosted receipts from the Canal and can help to build stronger fiscal buffers, which are important in the context of a dollarized economy. As interest rate policy is normalized in the US, Panama's exports would become less competitive. This latter risk is partly moderated by the fact that the US is the destination of around 40 percent of Panama's goods and services exports. In addition, Panama could also be impacted by trade policy changes in the US as well as changes in US immigration policy. Unlike other Central American countries, Panama is a net sender of remittances and may find itself an attractive destination for migrants from Northern Triangle countries and Nicaragua who would otherwise reside in the US. This presents both opportunities and risks for the country. Critically, continued progress in adherence to international financial standards and norms is important to maintain the confidence in the financial sector and government policy certainty.

89. **Stakeholders' risks are moderate.** These risks relate to the socially-sensitive reform agenda. For example, recertification of beneficiaries Conditional Cash Transfers will lead to redistribution of resources within the program, which could be opposed by some beneficiaries. The authorities are aware of these risks and are utilizing a consultation process with the stakeholders,

including through the implementation of a communication strategy for more effective outreach to the broader society.

Risk Categories	**Rating**
1. Political and governance	Substantial
2. Macroeconomic	Moderate
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary[24]	Moderate
7. Environment and social[25]	Moderate
8. Stakeholders	Moderate
9. Other	Not applicable
Overall	**Substantial**

[24] Fiduciary risks are considered moderate. The detailed discussion on fiduciary arrangements is included in section Public Financial Management, Disbursement and Auditing Aspects of the Program Document.
[25] Environmental and social risks are considered moderate. The detailed discussion on environmental risks is included in section Environmental Aspects of the Program Document.

ANNEX 1: POLICY AND RESULTS MATRIX

DPF 1 Prior Actions	DPF 2 Prior Actions	DPF 3 Prior Actions	DPF 4 Triggers	Results Indicators
Pillar 1: Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management				
	Prior Action 1: The Borrower, through the Ministry of Foreign Affairs, has taken initial actions aimed at conforming with the Common Reporting Standards for Automatic Exchange of Financial Account Information in Tax Matters (CRS) through its commitment to adhere to the CRS by 2018, as evidenced by Notification D.S.-MIRE-2016-25092, dated May 9, 2016.	**Prior Action 1:** The Borrower has established the legal framework for the implementation of the Common Reporting Standards for the Automatic Exchange of Information in Tax Matters, as evidenced by Law No. 51, dated October 27, 2016 and published in the Borrower's Official Gazette on October 28, 2016; and Executive Decree No. 124, dated May 12, 2017 and published in the Borrower's Official Gazette on May 12, 2017.	**Trigger 1**. The Borrower has implemented a framework on confidentiality and data safeguards to ensure information security on tax payers data received on automatic basis from other countries.	Panama has started sending and receiving confidential financial information for tax purposes on automatic basis: Baseline 2014: No Target 2019: Yes
		Prior Action 2. The Borrower has: (i) approved the Convention on Mutual Administrative Assistance in Tax Matters, as evidenced by Law No. 5, dated February 21, 2017 and published in the Borrower's Official Gazette on February 23, 2017; and (ii) signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, as evidenced by the OECD's list of signatories; all to complement its legal framework for the automatic exchange of financial information in tax matters.	**Trigger 2**. The Borrower has adjusted its special tax regimes legislative framework to comply with international standards.	
		Prior Action 3: The Borrower, through its Superintendence of Banks, has adopted internal supervision procedures on bearer shares and beneficial owners on banks and fiduciaries, and started implementation of the internal	**Trigger 3.** The Borrower has mandated resident agents to follow up customers' activity on an ongoing basis in order to detect changes in beneficial ownership.	Number of Banks supervised on-site on AML/CFT matters: Baseline 2014: 0 Target 2019: 55

		supervision procedures, as evidenced by letter SBP-DPC-N-0652-2018 of the Superintendent of Banks dated February 8, 2018.	**Trigger 4.** The Borrower, through the National Commission against Money Laundering, has enhanced its National Risk Assessment system to improve the identification of AML/CFT risks.	
		Prior Action 4. The Borrower, through MEF, has submitted to the National Assembly a draft bill to establish tax evasion as a predicate offense for money laundering, as evidenced by the Draft Bill No. 591 submitted on January 18, 2018 to the National Assembly.	**Trigger 5.** The Borrower, has enacted legislation that establishes tax evasion as a predicate offense for money laundering.	Number of money laundering investigations where tax evasion is a predicate criminal offence: Baseline 2014: 0 Target 2019: >1
	Prior Action 2: The Borrower has amended the Decentralization Law which, inter-alia: (i) establishes a mechanism to distribute property taxes to municipalities, (ii) establishes a municipal public investment program, and (iii) creates the National Secretariat for Decentralization to supervise and coordinate the decentralization process, as evidenced by Law 66, dated October 29, 2015, duly published in the Borrower's Official Gazette dated October 30, 2015.			Share of investments by local governments that follow SINIP *(Sistema Nacional de Inversiones Públicas)* norms and procedures: Baseline 2014: 0 percent Target 2019: 70 percent
	Prior Action 3: The Borrower, through MEF, has signed an agreement with the Comptroller General to define tasks and responsibilities for public debt servicing, including to allow for the use of the integrated SIGADE-ISTMO platform, as evidenced by *"Acuerdo Interinstitucional para la Implementacion de la Interfaz*			Share of central government debt that is paid electronically: Baseline: 2014: 0 percent Target 2019: 100 percent

	SIGADE-ISTMO”, dated January 21, 2016.			
Prior Action 1: The Government has approved a policy for managing fiscal risks related to natural disasters which includes the identification and evaluation of fiscal risk from disasters; the integration of disaster risk analysis into public investment planning; and the design of risk retention and risk transfer tools.	**Prior Action 4:** The Borrower, through MEF, has adopted a medium-term disaster risk management operational plan to strengthen the Borrower's disaster risk management framework, as evidenced by Ministerial Resolution 001-DICRE, dated March 2, 2016.			Number of available disaster financial protection instruments of the Panama's DRM Strategic Framework that underwent a cost-benefit analysis: Baseline 2014: 0 Target 2019: 2
Prior Action 2: The Government has (a) approved the introduction of the Treasury Single Account; and (b) channeled all funds of the treasury and MEF through the Treasury Single Account.	**Prior Action 5:** The Borrower, through MEF, has: (a) expanded the application of the new financial information management system ISTMO to central government entities, as evidenced by Letter DNC-N-No. 036-16, dated April 20, 2016; and (b) integrated 23 budgetary accounts of central government entities under the Treasury Single Account; as evidenced by Letter Nota No. 900-01-333-DT, dated April 27, 2016.	**Prior Action 5:** The Borrower, through MEF, has completed the integration of all budgetary accounts of central government entities under the Treasury Single Account, with links to ISTMO as evidenced by MEF Letter 2018-29601 dated April 25, 2018.		Percentage of central government and decentralized agencies expenditure payments (from both budgetary and financial accounts) channeled through the TSA. Baseline 2014: 0 percent Target 2019: 90 percent

Pillar 2: Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education				
Prior Action 3: The Government has expanded the coverage and the benefits of the social protection program for the elderly without pension (*120 a los 65* program) to provide 120 B/ monthly.	**Prior Action 6:** The Borrower, through MIDES, has completed an audit of beneficiaries of the conditional cash transfer program *“Red de Oportunidades”* to improve the coverage and targeting of beneficiaries, while reducing fiscal leakage in the program, as evidenced by the official notification from MIDES to MEF, dated February 3, 2016.	**Prior Action 6:** The Borrower has: (i) created a Single Registry of Beneficiaries and a Single Payment Platform, and mandated periodical recertification of beneficiaries of, *inter alia*, the *Red de Oportunidades*, *120 a los 65* and *Angel Guardián* conditional cash transfers programs, as evidenced by Law No. 54, dated November 8, 2016, published in the Borrower’s Official Gazette dated November 11, 2016; and (ii) approved and adopted a Unique Registry Form for Social Protection, as evidenced by Resolution No. 285, dated July 28, 2017 and published in the Borrower’s Official Gazette on September 7, 2017.	**Trigger 6.** The Borrower has established a process for regular updates to the proxy means test for conditional cash transfer programs with a view to improve targeting continuously.	Percentage of the extreme poor benefiting from at least one social assistance program: Baseline: 2014: 37 percent Target: 2019: 60 percent
		Prior Action 7: The Borrower, through MIDES, has established: (i) a proxy-means test to target the beneficiaries of *Red de Oportunidades*, *120 a los 65* and *Angel Guardián* conditional cash transfers programs, and (ii) criteria for recertification of beneficiaries of the *Red de Oportunidades*, *120 a los 65* and *Angel Guardián* conditional cash transfers programs; all as evidenced by Resolution No. 544, dated November 14, 2016 and published in the Borrower’s Official Gazette on November 29, 2016.		
	Prior Action 7: The Borrower, through MIDES, has signed an agreement with a regulated financial institution to channel payments to beneficiaries of all conditional cash transfer programs through said			Percentage of total funds from social assistance programs transferred through

	financial institution, as evidenced by "*Convenio Clave Social 14-15*" between MIDES and the National Bank of Panama, dated June 15, 2015.			the social card *(Clave Social)*: Baseline 2014: 0 percent Target 2019: 35 percent
Prior Action 4: The Government has increased payment incentives to the beneficiaries of the *Beca Universal* program differentiated by schooling level (*primaria*, *pre-media*, *media* cycles).	**Prior Action 8:** The Borrower, through MEDUCA, has: (a) taken initial actions aimed at participating in the Program for International Student Assessment (PISA), through the issuance of an official notification to the OECD informing of its participation in the 2018 PISA, as evidenced by Letters from MEDUCA to the OECD (DM-280-2015, dated February 3, 2015; DM-2561-2015, dated November 26, 2015, and DM-082-2016, dated January 11, 2016); and (b) completed and published the microdata of the 2013 Third Regional Comparative and Explanatory Study (TERCE).		**Trigger 7.** The Ministry of Education has issued a resolution mandating (i) the development and dissemination of standardized data from nationwide student assessments to produce school level scorecards with basic outcome indicators, (ii) the use of the scorecards to improve pedagogic practices in the classroom and school management practices as defined in best practice manual.	Number of policy reports led and disseminated by MEDUCA informed by the use of student assessments data at the subnational level: Baseline 2014: 0 Target 2019: 2
Prior Action 5: The Government has (a) piloted a vocational training program *ProJoven* that provides on the job training to graduates of the technical branch of secondary education; and (b) legally created a new set of baccalaureates, including the creation of curricula consistent with labor market demands.	**Prior Action 9**: The Borrower has: (a) established and regulated the implementation of the program *"Panama Bilingüe"*, as evidenced by Executive Decree 148, dated April 1, 2016; and (b) approved the curricula for the new technical baccalaureates, which includes the development of non-cognitive skills, as evidenced by Executive Decree 149, dated April 12, 2016.	**Prior Action 8:** The Borrower has: (i) institutionalized the *Panama Bilingüe* Program, including the obligation of MEDUCA to establish mechanisms for monitoring, certification and recertification for English language teachers, as evidenced by Law No. 18, dated May 10, 2017 and published in the Borrower's Official Gazette on May 10, 2017; and through MITRADEL; and (ii) through MITRADEL, rolled out and implemented the *ProJoven* program across the country, as evidenced by MITRADEL Letter No. 0377 D.M, dated April 13, 2018.		Number of teachers participating in the International Teacher Training of *Panama Bilingüe:* Baseline 2014: 0 Target 2019: 3,500

Pillar 3: Enhancing the Regulatory and Sustainability Framework in the Energy and Water Sectors				
Prior Action 6: The Government has approved (a) a resolution for the adjustment of electricity tariff subsidies; and (b) a law establishing a regime of incentives to increase the share of renewable energy in the power generation matrix.	**Prior Action 10:** The Borrower has reduced electricity tariff subsidies through the replacement of the nation-wide Fund for Energy Compensation (FACE) with a geographically-targeted Fund for the Occidental Region (FTO), as evidenced by Cabinet Resolutions No. 59 and No.60, both dated June 23, 2015 and Cabinet Resolution No.2, dated January 5, 2015.	**Prior Action 9:** The Borrower: (i) through the National Secretary of Energy, has issued energy efficiency standards for the construction of new public and private buildings, as evidenced by the adoption of the Sustainable Construction Guidelines for Saving Energy in Buildings dated November 17, 2016 and published in the Borrower's Official Gazette on November 24, 2016; and (ii) through the Ministry of Commerce and Industries, has publicly disclosed the energy efficiency technical standards for air conditioners, making them binding, as evidenced by Resolutions No. 65, No. 67 and No. 69 dated July 11, 2017, published in the Borrower's Official Gazette dated July 21, 2017.		Public expenditures on electricity subsidies are reduced by at least 80 percent in nominal terms relative to their level in 2014: Baseline 2014: US$320 million Target 2017-19 average: US$50 million
Prior Action 7: The Government has (a) created a management unit within the *Secretaria de Metas Presidenciales* to carry out a basic sanitation plan to provide 100 percent access to drinking water and 0 latrines; and (b) launched a standardized information system for improving the monitoring of water management in rural areas.			**Trigger 8.** The Borrower, through CONAGUA, has signed an interinstitutional agreement to define access to data and data sharing arrangements among sector stakeholders with a view to develop the first National Water Resources Information system to improve water management.	Number of Rural Water Management Boards connected to the standardized information system for improving the monitoring of water management (SIASAR): Baseline 2014: 400 Target 2019: 1,700

ANNEX 2. ENVIRONMENTAL IMPACT ANALYSIS

Prior Actions	Significant positive or negative effects on environment, forests and natural resources (yes/no/to be determined)
Pillar 1: Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management	
Prior Action 1: The Borrower has established the legal framework for the implementation of the Common Reporting Standards for the Automatic Exchange of Information in Tax Matters, as evidenced by Law No. 51, dated October 27, 2016 and published in the Borrower's Official Gazette on October 28, 2016; and Executive Decree No. 124, dated May 12, 2017 and published in the Borrower's Official Gazette on May 12, 2017.	No significant positive or negative effects
Prior Action 2. The Borrower has: (i) approved the Convention on Mutual Administrative Assistance in Tax Matters, as evidenced by Law No. 5, dated February 21, 2017 and published in the Borrower's Official Gazette on February 23, 2017; and (ii) signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, as evidenced by the OECD's list of signatories; all to complement its legal framework for the automatic exchange of financial information in tax matters.	No significant positive or negative effects
Prior Action 3: The Borrower, through its Superintendence of Banks, has adopted internal supervision procedures on bearer shares and beneficial owners on banks and fiduciaries, and started implementation of the internal supervision procedures, as evidenced by letter SBP-DPC-N-0652-2018 of the Superintendent of Banks dated February 8, 2018.	No significant positive or negative effects
Prior Action 4. The Borrower, through MEF, has submitted to the National Assembly a draft bill to establish tax evasion as a predicate offense for money laundering, as evidenced by the Draft Bill No. 591 submitted on January 18, 2018 to the National Assembly.	No significant positive or negative effects
Prior Action 5: The Borrower, through MEF, has completed the integration of all budgetary accounts of central government entities under the Treasury Single Account, with links to ISTMO as evidenced by MEF Letter 2018-29601 dated April 25, 2018.	No significant positive or negative effects

Pillar 2: Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education	
Prior Action 6: The Borrower has: (i) created a Single Registry of Beneficiaries and a Single Payment Platform, and mandated periodical recertification of beneficiaries of, *inter alia*, the *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs, as evidenced by Law No. 54, dated November 8, 2016, published in the Borrower's Official Gazette dated November 11, 2016; and (ii) approved and adopted a Unique Registry Form for Social Protection, as evidenced by Resolution No. 285, dated July 28, 2017 and published in the Borrower's Official Gazette on September 7, 2017.	No significant positive or negative effects.
Prior Action 7: The Borrower, through MIDES, has established: (i) a proxy-means test to target the beneficiaries of *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs, and (ii) criteria for recertification of beneficiaries of the *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs; all as evidenced by Resolution No. 544, dated November 14, 2016 and published in the Borrower's Official Gazette on November 29, 2016.	No significant positive or negative effects.
Prior Action 8: The Borrower has: (i) institutionalized the *Panama Bilingüe* Program, including the obligation of MEDUCA to establish mechanisms for monitoring, certification and recertification for English language teachers, as evidenced by Law No. 18, dated May 10, 2017 and published in the Borrower's Official Gazette on May 10, 2017; and through MITRADEL; and (ii) through MITRADEL, rolled out and implemented the *ProJoven* program across the country, as evidenced by MITRADEL Letter No. 0377 D.M, dated April 13, 2018.	No significant positive or negative effects
Pillar 3: Enhancing the Regulatory and Sustainability Framework in the Energy and Water Sectors	
Prior Action 9: The Borrower: (i) through the National Secretary of Energy, has issued energy efficiency standards for the construction of new public and private buildings, as evidenced by the adoption of the Sustainable Construction Guidelines for Saving Energy in Buildings dated November 17, 2016 and published in the Borrower's Official Gazette on November 24, 2016; and (ii) through the Ministry of Commerce and Industries, has publicly disclosed the energy efficiency technical standards for air conditioners, making them binding, as evidenced by Resolutions No. 65, No. 67 and No. 69 dated July 11, 2017, published in the Borrower's Official Gazette dated July 21, 2017.	Yes, significant positive effects. Increased energy efficiency is expected to result in fewer emissions of local and global air pollutants. These measures can therefore contribute to reduce local air pollution, as well as to achieve the goals of Panama's nationally determined contribution.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

República de Panamá
Ministerio de Economía y Finanzas
Despacho de la Viceministra de Economía

23 de abril de 2018
MEF-2018-28712

Mr. Jim Yong Kim
President
The World Bank
1818 H Street NW
Washington D.C. 20433
United States of America

Ref: Letter of Development Policy for the Third Shared Prosperity Development Policy Financing

Dear Mr. Kim,

On behalf of the Government of Panama, I have the pleasure of submitting to you the letter of development policy for a Third Shared Prosperity Development Policy Financing (DPF) in the amount of US$100 million. This operation will support the Republic of Panama in continuing to pursue its ongoing reform program and will assist in sustaining the achievements made thus far.

This operation will enable our Government to continue to advance three development objectives: (1) strengthen the frameworks for international tax transparency, financial integrity, and fiscal management; (2) strengthen the institutional arrangements to support inclusion in social assistance and education; and (3) enhance the regulatory and sustainability framework in the energy sector.

I would like to express my gratitude for the World Bank's continued support to the reform process in Panama. Budget support operations, technical assistance projects, and knowledge activities continue to play a significant role in supporting the economic and social reforms undertaken by the Panamanian Government, amid what remains a turbulent and uncertain external environment. In particular, this operation supports strategic priorities of our Economic and Social Strategy 2015-2019, which aims to promote inclusion and increase the competitiveness of Panama's economy.

Macroeconomic Framework

Maintaining macroeconomic stability is a high priority for our Government. Since taking office in June 2014, our administration has aimed to strengthen the investment climate through a prudent management of public finances, while prioritizing social and infrastructure investment and boosting the competitiveness of the economy.

In the past few years, in spite of the uncertain external environment, Panama's economic fundamentals have remained strong. Our country recovered from the 2008 global financial crisis faster than other countries in the region and was able to realize higher rates of economic growth following the global crisis than preceding it. The average annual growth rate was close to 7 percent during 2010-2017. Growth has remained reasonably stable at between 5.0 and 5.6 percent every year since 2014, reflecting general economic stability in Panama. Growth has been led by major infrastructure projects including the expansion of the Panama Canal, which the country expects to generate future economic benefits. The high rates of economic growth have been accompanied by job creation and a significant reduction in the poverty rate, which fell from 29.8 percent in 2010 to 22.1 percent in 2016, and extreme poverty (which fell from 12.2 percent in 2010 to 9.9 percent in 2016 – below 10 percent for the first time ever (using the national poverty line). Inequality of income has also fallen, from a Gini coefficient of around 0.54 in 2008 to around 0.51 in 2015.

Panama's fiscal position has also steadily improved. The fiscal deficit of the non-financial public sector narrowed year-on-year from 3.1 percent of GDP in 2014 and is expected to be around or less than 1.7 percent in 2017 In the medium term, our Government is committed to stay within the deficit limit set forth in the Social and Fiscal Responsibility Law (SFRL) and reduce the adjusted fiscal deficit to 0.5 percent of GDP by 2018. To this end, we are strengthening fiscal management. In particular we are continuing improvements in public finance administration by rolling out the Single Treasury Account and ISTMO system to all central government entities, and expanding its reach to decentralized entities.

Going forward, we expect economic growth to stabilize at around 5.5 percent over the medium term. Growth will be supported by the operations of the expanded Canal, ongoing infrastructure investment (e.g. second and third metro lines, a new bridge and urban regeneration projects), and an increase in copper exports with the start of operations of the Minera Panama copper mine.

Strong macroeconomic fundamentals and sound policies have helped Panama withstand several waves of global market turbulence and paved the way for sustained economic growth and poverty reduction. Nonetheless, while benefiting from its trade and financial openness, Panama's economy continues to be exposed to external shocks and thus needs to further strengthen macroeconomic resilience through reforms in the areas supported by this DPF series, including: international tax transparency, financial integrity, fiscal management, social inclusion, and service delivery.

Objectives and Components of the Program

The reforms outlined below are designed to help safeguard economic growth and ensure that prosperity continues to be shared across society.

1. **Strengthen the frameworks for international tax transparency, financial integrity, and fiscal management**

Our Government has made considerable progress in the area of **international tax transparency and financial integrity**. In particular, regarding AML and Combating the Financing of Terrorism (AML/CFT) we have established the legal framework to implement the OECD's Common Reporting Standard (CRS), ratified the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, and signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information. In addition, we have begun implementation of supervision procedures on banks for bearer shares and beneficial owners and started the process of establishing tax evasion as a predicate offense for money laundering, as required by the Financial Action Task Force (FATF) international standards. Our Government also started exchanging tax information with the US under FATCA agreement in September 2017. Strong progress in the tax transparency area was recognized by the OECD in June 2017, when Panama received "Largely Compliant" rating in the Fast Track review of the standards for Exchange of Information on Request.

Going forward, we remain committed to further strengthening of our frameworks for international tax transparency and financial integrity. In particular, in the former area, we plan to implement an action plan on confidentiality and data safeguards to ensure that information security is maintained on taxpayer data received from other jurisdictions. This will enable us to participate fully in international automatic exchange of taxpayer information. We are also working to adjust the legislative framework for special tax regimes to comply with international standards, as part of our commitment to the Inclusive Framework of the Base Erosion and Profit Shifting Project of the OECD and the European Council's concerns regarding the call center tax regime. In the area of financial integrity, we will expand supervision of beneficial owners by the resident agents to ensure regular follow-up on customer activity, and expect our National Assembly to establish tax evasion as a predicate offense for money laundering, to ensure our country meets prevailing global standards. These steps will help both to lock in the significant progress we have made to date and to address the critical weaknesses that remain in these areas.

Improving **fiscal management** is also among the priorities of our Government. Overall adherence to a sustainable fiscal and macroeconomic framework remains anchored in our SFRL, which aims to guide fiscal deficits and public debt levels. Fiscal management, as well as our ability to adhere to the SFRL, have been improved by the integration of all central government budgetary accounts into a Treasury Single Account. Over the medium term, these will help to improve the efficiency of public finance management, increase the transparency of government accounts, and ultimately create additional fiscal space.

2. Strengthen the institutional arrangements to support inclusion in social assistance and education

Expanding inclusion and opportunities, through reforms strengthening institutional arrangements to support social assistance and education, is a critical component of our reform agenda. Our Government is committed to further improvements in the **social assistance system.** To achieve this, in recent years, we have expanded coverage and benefits of the social protection program for the elderly, completed an audit of the beneficiaries of the conditional cash transfer (CCT) program to expand coverage while reducing leakages. We have also created a single registry and single payment platforms for *Red de Oportunidades*, 120 a *los* 65 and *Angel Guardián* CCT programs to improve efficiency in the administration of social welfare programs. In addition, we have established a proxy means test for these programs and begun recertification of beneficiaries to improve coverage and reduce leakages further. Additional improvements are planned, including the establishment of a process for regular updates to the proxy means test for CCT programs to ensure the criteria remain current and relevant.

In **education policy**, our efforts are geared towards improving educational outcomes of students and improving labor market prospects of young graduates. To this end, we have taken a multifaceted approach. We have been working on strengthening the system for monitoring and evaluation of education outcomes of Panamanian students through participation in international student test assessments (TERCE 2013, PISA 2018). At the same time, we have taken steps to improve the quality of education services in Panama. With the creation of the *Panama Billingüe* Program, we are emphasizing the teaching of English across all age groups. We are also making an effort to improve labor market outcomes of young graduates by reforming the curricula for technical baccalaureates and through the roll-out of the *ProJoven* program.

3. Enhance the regulatory and sustainability framework in the energy sector

Our Government is also committed to improving **public service delivery** in the **energy** sector by enhancing the regulatory framework and financial sustainability of service providers. We have reformed energy subsidies, helping to reduce fiscal expenditures and contributing to global climate change goals, by substituting the country-wide Energy Compensation Fund (FACE) with the geographically-targeted Tariff Fund for the Occidental Region. Efforts to improve energy efficiency also focus on the adoption of standards for the construction of new buildings as well as energy efficiency standards for air conditioners, which represent an important part of total energy consumption in Panama.

Conclusion

Our Government hereby reiterates its strong commitment to undertake necessary reforms actions to strengthen the frameworks for international tax transparency, financial integrity, and fiscal management; strengthen institutional arrangements to support social assistance and education; and enhance the regulatory and financial sustainability framework of service delivery in the energy sector. The World Bank's support and expertise remain a crucial element in the fulfillment of our program's objectives.

In light of the prudent macroeconomic policy framework, the actions already carried out, and our commitment to advance further across all pillars of this DPF series, our Government requests the favorable consideration of its operation and the approval of the Third Shared Prosperity Development Policy Financing operation.

Yours sincerely,

Gustavo Valderrama
Vice Minister

ANNEX 4: IMF RELATIONS NOTE

PANAMA—ASSESSMENT LETTER FOR THE WORLD BANK

May 14, 2018

This letter updates the assessment contained in the 2017 Article IV Consultation staff report for Panama published on May 4, 2017.

1. **Economic activity remains robust, and accelerated somewhat in 2017.** GDP is estimated to have grown 5.4 percent in 2017, up from 5.0 percent in 2016. Economic activity has been mainly driven by strong shipping traffic through the expanded Panama Canal, buoyant construction activity from large public and private infrastructure projects, and solid performance in logistics and communication services. Inflation remains low at 0.6 percent y/y in March 2018, as lower food prices offset slightly higher transport prices. The banking sector remains well capitalized and profitable.

2. **Downside risks to the outlook include lack of further progress to strengthen tax transparency and financial integrity and a less benign external environment.** Continued progress on tax transparency and AML/CFT will be important to maintain Panama's role as an international financial and business center, and sustain the growth model. Macrofinancial risks stem primarily from potential oversupply in segments of the property market, which, combined with elevated household and corporate leverage and rising interest rates, could affect financial stability. A less favorable external environment, including waning support for global integration and a faster-than-expected tightening of U.S. monetary policy would have substantial economic and financial impacts, while stronger-than-expected global growth would provide a boost to economic activity.

3. **Fiscal policy has been in line with the fiscal rule and public debt remains sustainable.** The overall deficit of the non-financial public sector (NFPS) is estimated to have narrowed to 1.6 percent of GDP in 2017 from 1.8 percent of GDP a year earlier, below the ceilings implied by the Social and Fiscal Responsibility Law (SFRL). Revenues were mainly driven by significantly higher Canal contributions, while tax collections rose only marginally following a strong performance in 2016. Strong current expenditure growth, particularly on public sector wages, led to some crowding out of public investment. Assessment and management of fiscal risks, related to unfunded pension liabilities, turnkey projects, and contingent liabilities need to be improved. The recent draft legislation to establish a fiscal council can further strengthen the fiscal responsibility framework.

4. **The authorities continue making progress to comply with international standards on AML/CFT, tax transparency and exchange of tax information.** GAFILAT's 2017 assessment confirmed Panama's significant progress toward compliance with international standards on AML/CFT, but highlighted still critical areas for further improvement, including to criminalize tax evasion. In January this year, the government presented to Parliament a bill to criminalize large tax frauds. Panama was also found to be 'Provisionally Largely Compliant' with respect to the exchange of information by the Global Forum, under its fast-track review conducted in mid-2017, pending a full evaluation in the second half of 2018. Panama also recently signed new bilateral and multilateral agreements on information exchange.

5. **The medium-term outlook remains strong, supported by the expanded canal and a wide range of private and public investment.** Growth is projected at 5.6 percent in 2018, rising to 5.8 percent in 2019, before moderating to 5.5 percent over the medium term. Inflation is expected to stabilize at about 2 percent. The envisaged medium-term consolidation plan under the SFRL implies a gradual decline of the NFPS deficit to about 1 percent of GDP, with net debt expected to remain below the SFRL target of 40 percent of GDP. The external current account deficit is expected to narrow over the medium-term as the opening of a large copper mine boosts exports, with resilient FDI inflows expected to continue financing the bulk of the smaller deficit.

Table 1. Panama: Selected Economic and Social Indicators

Population (millions, 2016)	4.0	Poverty line (percent, 2015)	23.0
Population growth rate (percent, 2016)	1.6	Adult literacy rate (percent, 2010)	94.0
Life expectancy at birth (years, 2014)	77.6	GDP per capita (US$, 2017)	15,317.7
Total unemployment rate (August, 2017)	6.0	IMF Quota (SDR, million)	376.8

			Est.	Projection	
	2015	2016	2017	2018	2019
			(Percent change)		
Production and prices					
Real GDP (1996 prices)	5.8	5.0	5.4	5.6	5.8
Consumer price index (average)	0.1	0.7	0.9	2.2	2.5
Consumer price index (end-of-year)	0.3	1.5	0.5	2.2	2.5
Output gap (% of potential)	0.3	-0.4	-0.5	-0.2	-0.1
Domestic demand (at constant prices)					
Public consumption	7.0	12.2	16.1	4.9	5.0
Private consumption	7.5	13.6	9.4	6.9	6.0
Public investment [1]	-8.8	-0.6	-9.7	-5.5	6.0
Private investment	6.5	0.8	6.1	6.0	4.4
Financial sector					
Private sector credit	11.6	8.3	7.4	7.1	7.7
Broad money	5.5	4.1	5.7	7.9	8.5
Average deposit rate (1-year)	2.7	2.7	2.7	...	...
Average lending rate (1-year)	3.3	3.5	3.5	...	...
External trade					
Exports of goods and services	-1.5	-2.7	6.4	7.3	8.9
Imports of goods and services	-11.1	-8.3	6.2	8.5	4.7
			(In percent of GDP)		
Saving-investment balance					
Gross domestic investment	44.7	44.7	43.9	43.2	42.6
Public sector	6.3	6.0	4.9	4.3	4.4
Private sector	38.4	38.7	39.0	38.9	38.3
Gross national saving	36.8	39.2	37.7	37.2	38.3
Public sector	4.9	5.2	6.1	5.8	5.9
Private sector	32.0	34.0	31.6	31.5	32.4
Public finances [1]					
Revenue and grants	22.4	23.2	22.8	22.9	23.0
Expenditure	26.6	25.8	24.8	24.2	24.1
Current, including interest	17.7	17.4	18.0	18.1	18.0
Capital	8.9	8.4	6.8	6.1	6.1
Overall balance, including ACP [2]	-4.1	-2.6	-2.0	-1.4	-1.2
Overall balance, excluding ACP [2]	-2.2	-1.8	-1.6	-1.3	-1.2
Total public debt					
Debt of Non-Financial Public Sector [3]	37.2	37.1	38.2	37.7	37.0
External	28.8	29.3	29.6	28.4	26.7
Domestic	8.4	7.8	8.5	9.3	10.3
Debt of ACP	5.1	4.8	4.1	3.4	2.8
Other [4]	3.3	4.0	3.7	3.4	3.2
External sector					
Current account	-7.9	-5.5	-4.9	-5.5	-3.9
Net oil imports	3.5	3.4	3.8	4.6	4.3
Net foreign direct investment inflows	7.3	8.7	8.8	7.5	6.7
External Debt	160.6	155.1	143.7	147.0	147.5
Memorandum items:					
GDP (in millions of US$)	54316	57821	61838	66711	72371

Sources: Comptroller General; Superintendency of Banks; and IMF staff calculations.
1. Includes Panama Canal Authority (ACP).
2. Starting from 2015, includes overspending allowed under Article 34 of Law 38 of 2012.
3. Non-Financial Public Sector according to the definition in Law 31 of 2011.
4. Includes contingent liabilities of ENA, ETESA, and AITSA.
5. Includes the ACP.

ANNEX 5: POVERTY AND SOCIAL IMPACT ANALYSIS

Pillar 1: Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management

Prior Action 1: The Borrower has established the legal framework for the implementation of the Common Reporting Standards for the Automatic Exchange of Information in Tax Matters, as evidenced by Law No. 51, dated October 27, 2016 and published in the Borrower's Official Gazette on October 28, 2016; and Executive Decree No. 124, dated May 12, 2017 and published in the Borrower's Official Gazette on May 12, 2017.

Prior Action 2. The Borrower has: (i) approved the Convention on Mutual Administrative Assistance in Tax Matters, as evidenced by Law No. 5, dated February 21, 2017 and published in the Borrower's Official Gazette on February 23, 2017; and (ii) signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, as evidenced by the OECD's list of signatories; all to complement its legal framework for the automatic exchange of financial information in tax matters.

Prior Action 3: The Borrower, through its Superintendence of Banks, has adopted internal supervision procedures on bearer shares and beneficial owners on banks and fiduciaries, and started implementation of the internal supervision procedures, as evidenced by letter SBP-DPC-N-0652-2018 of the Superintendent of Banks dated February 8, 2018.

Prior Action 4. The Borrower, through MEF, has submitted to the National Assembly a draft bill to establish tax evasion as a predicate offense for money laundering, as evidenced by the Draft Bill No. 591 submitted on January 18, 2018 to the National Assembly.

Prior Action 5: The Borrower, through MEF, has completed the integration of all budgetary accounts of central government entities under the Treasury Single Account, with links to ISTMO as evidenced by MEF Letter 2018-29601 dated April 25, 2018.

1. **Measures aimed at improving public debt management, international tax transparency, financial integrity, and fiscal management in Panama are expected to have a neutral direct effect on poverty and inequality reduction.** However, to the extent that they reduce economic volatility and protect the fiscal space necessary to preserve public spending targeted to help the most vulnerable segments of the population, these measures are important for long-term and sustainable poverty reduction. The measures undertaken under Pillar 1 in the operation will improve the transparency, quality and enforcement of public sector budgets and financial management, with the expected result of improving long-term fiscal sustainability while increasing trust in public and private institutions. Full compliance with the global standards against money laundering and terrorist financing, as well advances in tax transparency are likely to be largely neutral for poverty over the short-term. However, in the long-term, measures related to administrative processes are expected to increase confidence in, and improve the efficiency of, the state. In the absences of these reforms investor confidence could decrease which could negatively affect growth, job creation and, as labor income is a main driver of poverty reduction, welfare levels. It is expected that the medium-term impact of these measures will have a positive effect on poverty.

Pillar 2: Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education

Prior Action 6: The Borrower has: (i) created a Single Registry of Beneficiaries and a Single Payment Platform, and mandated periodical recertification of beneficiaries of, inter alia, the *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs, as evidenced by Law No. 54, dated November 8, 2016, published in the Borrower's Official Gazette dated November 11, 2016; and (ii) approved and adopted a Unique Registry Form for Social Protection, as evidenced by Resolution No. 285, dated July 28, 2017 and published in the Borrower's Official Gazette on September 7, 2017.

Prior Action 7: The Borrower, through MIDES, has established: (i) a proxy-means test to target the beneficiaries of *Red de Oportunidades*, *120 a los 65* and *Angel Guardián* conditional cash transfers programs, and (ii) criteria for recertification of beneficiaries of the *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs; all as evidenced by Resolution No. 544, dated November 14, 2016 and published in the Borrower's Official Gazette on November 29, 2016.

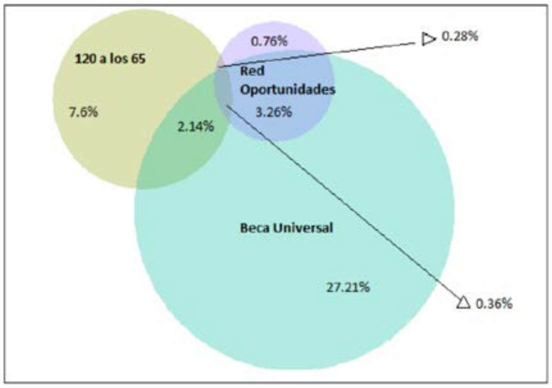
Prior Action 8: The Borrower has: (i) institutionalized the *Panama Bilingüe* Program, including the obligation of MEDUCA to establish mechanisms for monitoring, certification and recertification for English language teachers, as evidenced by Law No. 18, dated May 10, 2017 and published in the Borrower's Official Gazette on May 10, 2017; and through MITRADEL; and (ii) through MITRADEL, rolled out and implemented the *ProJoven* program across the country, as evidenced by MITRADEL Letter No. 0377 D.M, dated April 13, 2018.

Social Assistance

2. **Public transfers under Panama's social programs have been an important source of poverty reduction.** The three main social transfer programs—the CCT program *Red de Oportunidades,* the non-contributory pension program *120 a los 65,* and the school scholarship program *Beca Universal,* a cash transfer program contingent on school attendance and minimum grade level—support more than a third of all households in Panama (Figure A.1). In 2016, one in four households (27.2 percent) benefited from the *Beca Universal* and no other program, while 3.3 percent and 7.6 percent of households are recipients only of either *Red de Oportunidade (RdO)s* or *120 a los 65*, respectively. In total, 5.7 percent of households are beneficiaries of more than one of these programs with, the greatest overlap being between *RdO* and *Beca Universal.* The impact of these transfer programs on poverty reduction has been strong. More than 60% of the reduction in extreme poverty in the 2011 to 2015 period was associated with public transfers (Figure A.2). Public transfers played a key role in rural areas and in *comarcas*, where these effects were particularly strong. The monthly benefits of the programs are B/.120 for *120 a los 65*; B/.50 for *Red Oportunidades* and between 30 to B/. 50 for *Beca Universal*.

Figure A.1: One in three households benefit from public transfers

Share of Households Receiving Public Transfers, 2016



Source: WB staff estimates based on the *Encuesta de Mercado Laboral*, August 2016.

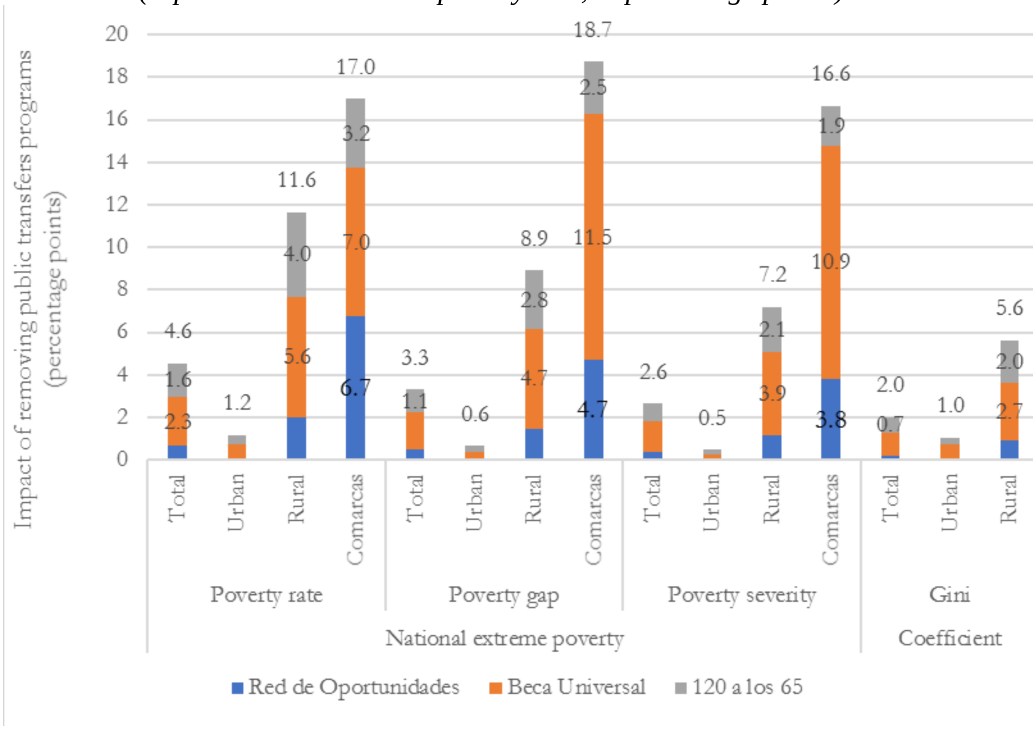
Figure A.2: Public transfers are linked to strong poverty reduction

Contribution of Different Income Sources to Changes in Extreme Poverty, 2011-2015

Source: Panama WASH Poverty Diagnostic, 2017, WB.

3. In the absence of these social assistance programs, poverty would have been higher (Figure A.3). A simple simulation exercise of the impact of removing these three social assistance programs shows that extreme poverty would rise by 4.6 percentage points, i.e., more than 48 percent. *Beca Universal* would have the most impact, followed by *120 a los 65* and then *Red de Oportunidades* (although this does not include the value of the non-cash benefits associated with these two programs). Performing the same exercise by area, we found that removing these three programs would increase extreme poverty by 11.6 and 17.0 percentage points in rural areas and *comarcas*, respectively. Clearly a simple simulation overestimates the impact of removing transfers as the public transfers may have crowded out private ones, but the exercise gives an insight into the importance of these benefits for welfare in Panama. Importantly, inequality, which is already high in Panama, would rise by 2.0 percentage points to 53.2 percent in the absence of these three programs.

Figure A.3: Poverty would increase if social assistance programs were removed
Simulation exercise of the hypothetical impact of removing key social assistance programs in Panama (expected increase in the poverty rate, in percentage points)



Source: WB Staff estimates based on the *Encuesta de Mercado Laboral*, August 2016.
Note: This represents an upper bound effect as secondary effects of changes in private transfers or labor market activities, not included in this calculation, might be able to somewhat mitigate the negative effects of a change in benefits.

4. **Ensuring the efficiency and effectiveness of social spending is critical. The measures aimed at strengthening the institutional structure of social assistance programs are expected to have positive poverty and distributional effects**. In November 2016, the Law 54, created the Single Registry of Beneficiaries and the Single Payment Platform for all conditional cash transfer programs to facilitate the monitoring of potential overlaps and cross-checking across other administrative databases. The Single Registry of Beneficiaries will improve the transparency and equity of the social assistance system by improving program targeting, minimizing inclusion and exclusion errors, eliminating registry duplications, allowing the application of eligibility criteria and recertification on new and existing beneficiaries, improving programs monitoring and evaluation and its efficiency. The institutionalization of a single platform for payments allows to streamline, rationalize, audit and monitor payments centrally.

5. **As part of the restructuring, MIDES has started a process of recertification of existing beneficiaries**. The recertification process is of particular importance as it represents an effort to update records (there has not been a continuous process of recertification) as well as the first implementation of the new proxy means test. It is expected that the new recertification process will reduce the number of beneficiaries. First, the lack of a continuous re-certification process means that there may be many households that are no longer eligible for the program but remain on the rolls. Second, the re-certification efforts are being targeted to areas with lower poverty rates

and where recertification has lagged the most, in short, areas where one would expect the greatest changes in eligibility.

6. **The recertification process is focusing on results**. Recertification requirements vary by program. Beneficiaries of *RdO* and *Angel Guardian* must be recertified every 5 years. For those in the *120 a los 65* program the recertification is every 5 years if the person is extremely poor and every 3 years if the person is considered moderately poor. Each year MIDES creates a Re-certification Plan. For 2017, the goal was to re-certify 20 percent of those who are determined to be up for re-certification based on the time they have been in the program and the rules of each program. The recertification process started with those beneficiaries that had been in the program for longer periods of time (more than 5 years) and who live in districts with lower levels of poverty (below 70 percent). The new Proxy Means Test (PMT) is used for determining continued eligibility although the cutoff level varies by urban and rural area and program. The *RdO* in rural areas has the lowest cutoff while the *120 a los 65* in urban areas has the highest. In addition to this mechanism, cross-checking of beneficiary data with other administrative data bases is used to determine continued eligibility.

7. **As expected, the recertification process has led to exclusion of significant numbers of beneficiaries in the main social programs.** During the 2016-2017 period (up to the 3rd payment in September) a total of 33,688 re-certifications have been conducted using the new Unique Registry form (*Ficha Unica de Protección Social* – FUPS). The Unique Form is used to recollect information from existing and potential beneficiaries of all MIDES conditional cash transfers programs and to determine eligibility of existing and new beneficiaries. The use of the new proxy was expected to improve the program targeting. The proxy has been applied to 14,715 existing beneficiaries of which 11,263 were determined to be ineligible (77 percent). For the RdO, 72 percent of the beneficiaries (8,615) that were checked were determined to be ineligible and for the *120 a los 65* program this figure was 98 percent (2,263 beneficiaries). The main reasons of beneficiaries being dropped were: (i) cleaning of the registers, (ii) applying eligibility criteria established in the Operating Manuals (that had not been applied for 10 years), (ii) the process of recertification and; (iv) database cross-checking with other institutions.

8. **It is important to note that the recertification findings are not because the new proxy means test is more stringent than the old one.** The high share of ineligible beneficiaries found raised questions about the new proxy means test. Although the recertification effort was expected to identify and exclude ineligible households and individuals the rate of ineligible beneficiaries found raised the question of whether the quest for minimizing inclusion errors is coming at the cost of an unacceptable rise in exclusion errors. To assess this, an analysis was done using the household survey data from the 2016 *Encuesta de propositos multiples.* A simple comparison of actual and potential (under the new proxy means test) was carried out, looking at the differences in the coverage of the poor and leakage to the non-poor between the two targeting options. As always when using a household survey to do such analysis, there are concerns about representativeness. However, unlike many surveys, the Panama survey data appears to capture well the receipt of social assistance payments. Nonetheless, the results are indicative only.

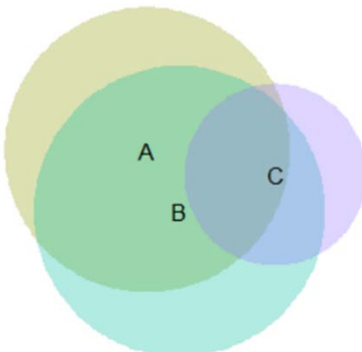
Table A.1. New beneficiaries of social transfers in 2017

Program	1st Payment	2nd Payment	3rd Payment	4th Payment	Total
120 a los 65	2,988	4,033	918	26	7,965
Angel Guardian	391	702	530	592	2,215
Red de Oportunidades	7	8	54	79	148
Total	3,386	4,743	1,502	697	10,328

9. **The new proxy means test provides fairly similar results when compared to the existing system.** In parallel with the efforts to clear the programs of individuals no longer eligible for inclusion, the new proxy means test is being applied to determine the eligibility of new applicants. Previously, the eligibility criteria for *120 a los 65* were (i) be 65 or older, (ii) be vulnerable based on the information evaluated using *Encuesta de Vulnerabilidad Social*, and (iii) not be in receipt of other pensions from the contributory system. Despite some additional criteria being added (not owning property) and co-responsibilities (seminars, workshops and annual health checkups), and the re-certification exercise, the program continued to expand its coverage in 2017, reaching 127,230 beneficiaries. (Beneficiaries in corregimientos where poverty is above 70 percent according to the last poverty map are exempt from these rules.) The analysis of the survey data shows that, in 2016, the *120 a los 65* program covered 54 percent of the poor elderly and 37 percent of the extremely poor elderly. Using the same household survey data to estimate the impact of the new proxy means test, shows that the application of the proxy formula plus the condition that the beneficiary cannot receive a contributory pension would lead to very similar levels of coverage of *120 a los 65* compared with the current situation. (Figure A.4) The new PMT would lead to a small expansion of coverage among the poor elderly (36 percent of the poor elderly compared to the present 34 percent). The expansion of coverage among the poor elderly implies a 28 percent exclusion error, compared to the present 50 percent exclusion error and smaller leakage to the non-poor (30 percent inclusion error, compared with the current 32 percent). In fact, given the data source, there is probably no change.

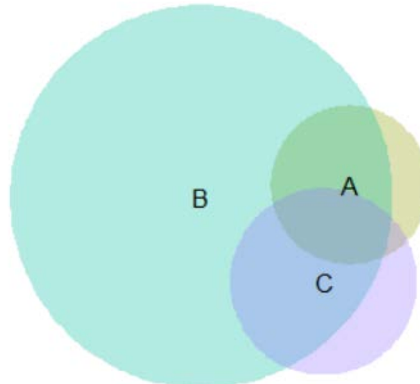
10. **The new proxy means test results in an expansion of the pool of eligible households for the *RdO* program**. In this case, its application also leads to an expansion of coverage among the extremely poor and a reduction of the exclusion error of the targeting (from 72 percent to 28 percent) (Figure A.5). From a welfare perspective this is a very significant finding. There may, however, be scope for refining the new Proxy Means Test as this increase in coverage of the poor comes at the cost of increased leakage. The inclusion error would rise from 3 percent to 25 percent. This has fiscal implications. While some of the leakage goes to the moderate poor, a number of non-poor households would appear eligible with the new PMT.

Figure A.4: Overlap between current beneficiaries, poor and eligible beneficiaries under PMT for *120 a los 65*



Note: A= Present Beneficiaries; B=Eligible under the new Proxy Means Test and C= Poor

Figure A.5: Overlap between current selected beneficiaries, extreme poor and eligible beneficiaries under PMT for *Red Oportunidades*



Note: A= Present Beneficiaries; B=Eligible under the new Proxy Means Test and C= Extreme Poor

Source: WB staff estimates, based on *Encuesta de Propósitos Múltiples, 2016*.

11. **It is imperative to have the most accurate PMT possible**. The new recertification program will result in a substantial number of households and individuals no longer receiving public assistance. At the same time, a new pool of households is becoming eligible. The fairness of all the changes will be the subject of debate: it will be important for the programs to be able to demonstrate the accuracy of their targeting tool. There may be an opportunity to improve the ability of the new PMT to distinguish among groups by poverty status. The *Encuesta de propositos muitples* -- the main data source for the PMT calculations—was revised in 2017 and now collects data on many more covariates of poverty. This provides new inputs that might enhance the accuracy of the tool and ensure that coverage increases remain while lowering costs associated with program leakage.

Education

12. **The proposed education reform which established the *Panama Bilingüe* program, and which requires the MEDUCA to create mechanisms for monitoring, certification and recertification for English language teachers, is likely to yield improvements in the quality of educational services over the medium- to long-term.** There is a strong and growing demand for highly educated workers: over the 2000-2010 decade, the number of jobs grew by almost 40 percent. Job growth was, however, linked to higher levels of education as one-third of all new jobs required a completed secondary education while one-half required tertiary education. Success in improving the English language skills of young people attending public schools can help to promote equality of opportunities and reduce the mismatch between demand and supply in the labor market (especially in the areas of logistics, commerce and tourism), and the increasing demand in the future in a context of technological change, globalization and automation.

13. **The extensive training program for current and future English language teachers would improve teacher competencies and performance in the classroom.** These results of the *Panama Bilingüe* Program are positive to date. The program has carried out 7 phases of teacher training, 218 primary schools have been incorporated into the KIDS program, and 115 middle

schools to the After School program, nationwide. This means that 6,867 teachers have been trained locally and internationally, 159,151 primary school children have received instruction in English and 13,826 high school students have received 12 hours of English. In 2027, the system will be graduating 30,000 young people from an education system in English who will enter the universities of Panama with a solid academic training and sufficient command of English to continue his studies at a university abroad.[26]

14. **The national expansion of the *ProJoven* program under its current design and scope is expected to have a neutral effect on poverty.** According to the Ministry of Labor the *ProJoven* program, created in 2014, was recently expanded to the whole country. The program provides orientation and socio-emotional training to youth graduated from technical and vocational public middle schools. Youth are then selected based on strengths, abilities and a performance evaluation to be part of an internship in different firms that are part of the program. MITRADEL offers a three-to-four days training[27] on socio-emotional abilities for those selected who are invited to participate in mentorships and internships in the firms. The MITRADEL pays a minimum of B/.300 monthly and the firm pays the difference between this amount and the minimum wage in each economic sector and geographical zone and life insurance. The internship is not considered a labor relationship and has a duration of 3 months. After this period the firm can opt to incorporate the youth into their payroll. In the last 3 years, around 360 young people have been inserted in the labor market through this program. A total of 1,147 have been inserted since the beginning of the program, 50 percent of these have been hired by the firms in which they interned. Those that do not stay in the firm receive intermediation services and are offered to participate in job fairs to connect them to the labor market. Some provinces, like Darien, still have low coverage as no firms are available to register into the program (currently there are a total of 123 firm participating).

15. **The program facilitates education to job transition of graduates from vocational schools**. The current poverty impact is assessed at being low for two reasons: 1) the reduced number of beneficiaries per year included in the program and 2) the fact that vocational and technical training take-up is low among the poor. According to the *Encuesta de Mercado Laboral* of 2016, 90 percent of those from 18-25 that report having had vocational training degree are non-poor and none of them are considered extremely poor. There is a recent agreement between MITRADEL and MIDES to include social transfer recipients as potential beneficiaries of the program. If this initiative is materialized the short run poverty reduction incidence of the program could be increased. In the case that it is decided to include these young people as part of the target population of the program, the level of education required should be considered lower, perhaps to complete primary education.

[26] Law project 486, Comisión de Educación, Cultura y Deportes (April, 2017).
[27] These training are performed during the second semester of the year unless there is enough demand to open a course.

Pillar 3: Enhancing the Regulatory and Financial Sustainability Framework of Service Delivery in the Energy and Water Sectors

Prior Action 9: The Borrower: (i) through the National Secretary of Energy, has issued energy efficiency standards for the construction of new public and private buildings, as evidenced by the adoption of the Sustainable Construction Guidelines for Saving Energy in Buildings dated November 17, 2016 and published in the Borrower's Official Gazette on November 24, 2016; and (ii) through the Ministry of Commerce and Industries, has publicly disclosed the energy efficiency technical standards for air conditioners, making them binding, as evidenced by Resolutions No. 65, No. 67 and No. 69 dated July 11, 2017, published in the Borrower's Official Gazette dated July 21, 2017.

16. The adoption of the Sustainable Construction Guidelines is not expected to have an impact on poverty. As the take-up of the measure has a one-year lag there will would be no immediate impact on poverty. Social housing, the government program to provide low-income housing, is excluded from the new construction guidelines. Thus, cost savings on energy that would accrue to the new construction techniques would not be available to the beneficiaries of social housing. As the poor spend a greater proportion of their income on energy services than middle and upper classes, the potential energy savings might have been important. However, the decision not force the Social Housing program to incorporate the Sustainable Construction Guidelines was based on an explicit tradeoff between raising the costs of housing due to incorporation of the SCGs and thus providing less housing, or exempting the program and ensuring greater coverage of housing. The Government's assessment was the loss of access to housing would have been a greater cost. It is also the case that indirect and more medium-term effects of the SCGs could be positive for the poor. On the one hand, lowering the overall demand for energy in country could decrease upward pressures on energy prices thus saving the poor money on energy expenditures and/or allowing them to consume more as needed. Secondly, the poor, along with the rest of the population, will benefit from the lower emissions of greenhouse gases that result from the application of the guidelines.

17. **The impact of energy efficiency standards is substantial, although the direct impact on poverty is limited.** The projected impact up to 2030 is estimated to be: (i) annual national savings of electricity of more than 370 GHW, representing a 14 percent savings in residential energy use compared to 2015, (ii) savings of US$300 million or MW 70 in investments for electricity generation, and (iii) a reduction in greenhouse gas emissions of 1.6 m+Co2e (equal to the emissions of 30,00 vehicles over 11 years). Again, as many of those living in extreme poverty do not have access to electricity and, even when they do, have much lower levels of electro-domestic goods ownership, the effect of savings is expected to be minimal. Given the fact that air conditioning units are not owned by the extremely poor nor even the bulk of the poor in Panama; it is unlikely that the introduction of the energy efficiency standards will have any appreciable impact on poverty, especially in rural and indigenous areas. Among indigenous people and rural areas less than 2% and 3% respectively have access to AC at home according to the 2010 Census (Figure A.6). Access to refrigerators is also low in indigenous and rural areas, 20 percent and 40 percent, respectively (see Figure A.7). Certainly, for those who do have access to such goods, there will be a benefit of lowered energy costs although this will be marginal at the national level. Decreased investment needs in energy infrastructure could also translate into increased investments in other infrastructure that could directly benefit greater groups of the poor. Improvements in air quality will benefit the poor, especially in urban area. along with the rest of the populations.

Figure A.6: Access to Air Conditioners is low in rural areas and for indigenous people
Access to Air Conditioners (% or population), by Area, 2010

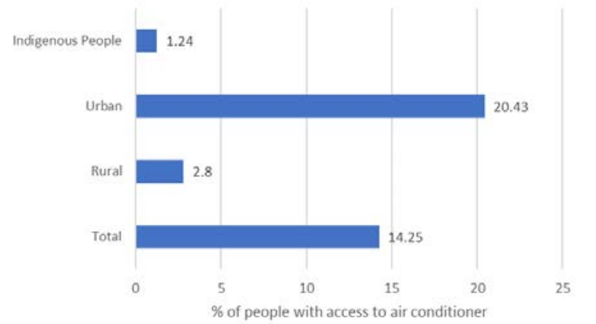
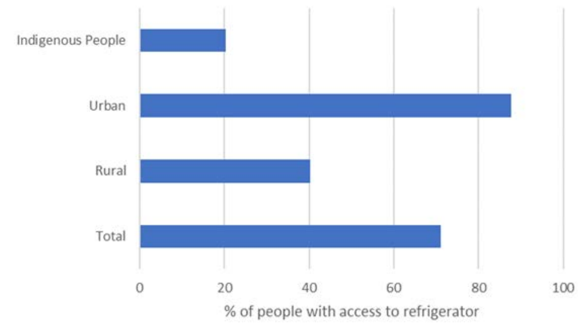


Figure A.7: Access to Refrigerators is low in rural areas and for indigenous people
Access to Refrigerators (% or population), by Area, 2010



Source: WB staff estimates, based on *Census, 2010*.

ANNEX 6: COMPARISON OF THE DPF 3 TRIGGERS AND DPF 3 PRIOR ACTIONS

DPF 3 Indicative Triggers	DPF 3 Prior Actions	Notes
Pillar 1: Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management		
Trigger 1: The Government has enacted legislation in line with its commitment to adhere to the Common Reporting Standards for Automatic Exchange of Financial Account Information in Tax Matters.	**Prior Action 1:** The Borrower has established the legal framework for the implementation of the Common Reporting Standards for the Automatic Exchange of Information in Tax Matters, as evidenced by Law No. 51, dated October 27, 2016 and published in the Borrower's Official Gazette on October 28, 2016; and Executive Decree No. 124, dated May 12, 2017 and published in the Borrower's Official Gazette on May 12, 2017.	**Unchanged**. Language was adjusted to reflect the legal nature of the policy measures.
	Prior Action 2. The Borrower has: (i) approved the Convention on Mutual Administrative Assistance in Tax Matters, as evidenced by Law No. 5, dated February 21, 2017 and published in the Borrower's Official Gazette on February 23, 2017; and (ii) signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, as evidenced by the OECD's list of signatories; all to complement its legal framework for the automatic exchange of financial information in tax matters.	**New prior action.**
Trigger 2: The Superintendence of Banks has completed a semi-annual report on the implementation of the new supervision procedures on bearer shares and beneficial owners (beyond the custodian) in alignment with the amended anti-money laundering legislation.	**Prior Action 3:** The Borrower, through its Superintendence of Banks, has adopted internal supervision procedures on bearer shares and beneficial owners on banks and fiduciaries, and started implementation of the internal supervision procedures, as evidenced by letter SBP-DPC-N-0652-2018 of the Superintendent of Banks dated February 8, 2018.	**Unchanged**. Language adjusted to reflect the essence of the PA focused on the implementation of supervision procedures.
	Prior Action 4. The Borrower, through MEF, has submitted to the National Assembly a draft bill to establish tax evasion as a predicate offense for money laundering, as evidenced by the Draft Bill No. 591 submitted on January 18, 2018 to the National Assembly.	**New prior action.**
Trigger 3: A Law for Public Investment Management has been enacted, which establishes rules for planning, allocation, and implementation of public investments.		**Dropped** due to changes in Government reform priorities.

DPF 3 Indicative Triggers	DPF 3 Prior Actions	Notes
Trigger 4: The Government has regulated the operational functions of the State Insurance Technical Committee to foster development of the insurance market.		**Dropped** due to changes in Government's timetable. The regulation of the State Insurance Technical Committee is now supported by the IFC.
Trigger 5: The Government, through MEF, has (a) completed the integration of all budgetary accounts of central government entities under the Treasury Single Account; and (b) rolled out the ISTMO system in all central government entities.	**Prior Action 5:** The Borrower, through MEF, has completed the integration of all budgetary accounts of central government entities under the Treasury Single Account, with links to ISTMO as evidenced by MEF Letter 2018-29601 dated April 25, 2018.	**Adjusted.** The scope of the prior action was adjusted as the rolling out of ISTMO is being supported by an alternative, focused, Bank project.
Pillar 2: Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education		
Trigger 6: A Law for Social Programs has been enacted, which (i) creates a master/single registry of beneficiaries of conditional cash transfer programs; (ii) establishes procedures for a re-certification of beneficiaries, and (iii) creates a Unique Registry Form for social assistance programs that specifies ethnicity information.	**Prior Action 6:** The Borrower has: (i) created a Single Registry of Beneficiaries and a Single Payment Platform, and mandated periodical recertification of beneficiaries of, *inter alia*, the *Red de Oportunidades, 120 a los 65* and *Angel Guardián* conditional cash transfers programs, as evidenced by Law No. 54, dated November 8, 2016, published in the Borrower's Official Gazette dated November 11, 2016; and (ii) approved and adopted a Unique Registry Form for Social Protection, as evidenced by Resolution No. 285, dated July 28, 2017 and published in the Borrower's Official Gazette on September 7, 2017.	**Unchanged**. Language was adjusted to reflect the legal nature of the policy measures.
Trigger 7: The Government, through MIDES, has established proxy means testing to improve the targeting of the *120 a los 65* program.	**Prior Action 7:** The Borrower, through MIDES, has established: (i) a proxy-means test to target the beneficiaries of *Red de Oportunidades*, *120 a los 65* and *Angel Guardián* conditional cash transfers programs, and (ii) criteria for recertification of beneficiaries of the *Red de Oportunidades*, *120 a los 65* and *Angel Guardián* conditional cash transfers programs; all as evidenced by Resolution No. 544, dated November 14, 2016 and published in the Borrower's Official Gazette on November 29, 2016.	**Strengthened.** The scope of the prior action was broadened to reflect all CCT programs subject to proxy means testing and criteria for recertification of beneficiaries.
Trigger 8: The Government, through MIDES, has introduced a new payment modality (e-Wallet) to facilitate payments of *Red de Oportunidades* for beneficiaries in remote areas.		**Dropped** due to changes in Government reform priorities.

DPF 3 Indicative Triggers	DPF 3 Prior Actions	Notes
Trigger 9: The Government, through MEDUCA, has completed an evaluation of *Beca Universal* program and approved a corresponding resolution to implement its recommendations.		**Dropped** due to Government's revised timeline for the completion of the evaluation.
Trigger 10: The Government, through MITRADEL, has (a) initiated the implementation of the social assistance program *ProJoven* nationally; and (b) through MEDUCA, has rolled out *Panama Bilingüe* nationally and completed an evaluation of the program.	**Prior Action 8:** The Borrower has: (i) institutionalized the *Panama Bilingüe* Program, including the obligation of MEDUCA to establish mechanisms for monitoring, certification and recertification for English language teachers, as evidenced by Law No. 18, dated May 10, 2017 and published in the Borrower's Official Gazette on May 10, 2017; and through MITRADEL; and (ii) through MITRADEL, rolled out and implemented the *ProJoven* program across the country, as evidenced by MITRADEL Letter No. 0377 D.M, dated April 13, 2018.	**Strengthened.** The scope of the prior action was broadened to reflect the Government's progress in institutionalizing *Panama Bilingüe* Program.
Pillar 3: Enhancing the Regulatory and Sustainability Framework in the Energy and Water Sectors		
Trigger 11: The Government has (a) regulated energy efficiency standards for residential and commercial construction through the adoption of a Construction Code; and (b) regulated energy efficiency labeling standards for consumer products.	**Prior Action 9:** The Borrower: (i) through the National Secretary of Energy, has issued energy efficiency standards for the construction of new public and private buildings, as evidenced by the adoption of the Sustainable Construction Guidelines for Saving Energy in Buildings dated November 17, 2016 and published in the Borrower's Official Gazette on November 24, 2016; and (ii) through the Ministry of Commerce and Industries, has publicly disclosed the energy efficiency technical standards for air conditioners, making them binding, as evidenced by Resolutions No. 65, No. 67 and No. 69 dated July 11, 2017, published in the Borrower's Official Gazette dated July 21, 2017.	**Unchanged**. Language was adjusted to reflect the legal nature of the policy measures
Trigger 12: (a) A decree that approves an institutional action plan to strengthen IDAAN has been issued; (b) a decree that establishes operational guidelines for the Inter-institutional Committee for Water and Sanitation has been issued.		**Dropped** due to the fact that IDAAN reforms are currently supported by the IADB program.