**PROGRAM INFORMATION DOCUMENT (PID)**

**CONCEPT STAGE**

September 26, 2013

Report No.: 87555

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| **Operation Name** | Third Programmatic Fiscal Management and Efficiency of Expenditures Development Policy Loan |
| **Region** | LATIN AMERICA AND CARIBBEAN |
| **Country** | Panama |
| **Sector** | General public administration sector (80%); Public administration - Other social services (20%) |
| **Operation ID** | P146942 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | REPUBLIC OF PANAMA |
| **Implementing Agency** | Ministry of Finance  Via España y Calle 52, Edificio Ogawa  4to Piso  Panama  Tel: (507) 507-7202 Fax: (507) 507-7200  amendez@mef.gob.pa; crpmp@bloomberg.net |
| **Date PID Prepared** | September 26, 2013 |
| **Estimated Date of Appraisal** | November 5, 2013 |
| **Estimated Date of Board Approval** | December 19, 2013 |
| **Corporate Review Decision** | TBD |

1. **Key Development Issues and Rationale for Bank Involvement**

**Panama has made important strides in its economic and social development in recent years.** Panama’s economic growth has been one of the fastest in Latin America over the past decade. The country has done well in integrating into the global economy and has leveraged its geographical position, turning itself into a well-connected logistics hub. Strong economic growth and government transfers have translated into increased welfare. As a result, the overall income poverty rate fell from 45.8 percent in 2002 to 26.2 percent in 2012, while extreme poverty fell from 21 to 11.3 percent. The country has also done particularly well in terms of shared prosperity. Income growth of households in the bottom 40 percent of the income distribution reached 8.9 percent between 2003 and 2011, far exceeding the average income growth of 6.6 percent over the same period.

**Despite these important achievements, inequality remains in the mid-range for Latin American countries and challenges persist in the public provision of social services.** The Gini coefficient for income inequality dropped from 0.56 in 2003 to 0.53 in 2011, but is still in the mid-range for Latin America countries. In addition, ample scope remains for improving the public provision of social services across the country. For example, children in indigenous communities still have significantly less access to basic services than children in rural or urban areas.

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

1. **Proposed Objective(s)**

**The Program Development Objective of the proposed DPL series is to support the Government of Panama in creating fiscal space and strengthening social transfer programs.** The operation supports four key policy areas: (i) tax reforms, (ii) procurement, (iii) debt management, and (iv) social transfer programs. The DPL series is an important component of the Bank lending program to support Government designated programs under three objectives of the CPS: economic growth that supports competitive advantages, greater opportunities for all, and enhanced public sector transparency, effectiveness and efficiency.

1. **Preliminary Description**

**The proposed third Programmatic Fiscal Management and Efficiency of Expenditures DPL completes the reforms under the first and second loans in the series**. The first DPL supported the legislative approval of important reforms in public financial management and social protection with an emphasis on coverage, such as broadening the tax base and increasing the number of social protection beneficiaries. The second DPL supported the sustained implementation of these reforms and questions of efficiency, for example a focus on large taxpayers and improved targeting of social transfer programs. The third DPL completes these reforms and ensure the achievement of medium-term results indicators and program objectives.

**The four components are the following:** The first component supports the Government’s tax policy and administration reforms and improvements in international tax information sharing. Together, these reforms are expected to mobilize tax revenue and facilitate the international exchange of tax information. The second component supports the Government’s efforts to modernize public procurement practices and transparency. This component is expected to provide the foundation for increased accountability and transparency in the public sector. The third component supports the Government’s efforts in increasing the efficiency of debt management. This component will help to prepare a medium-term debt management strategy and the development of the domestic debt market. The fourth component supports the expansion and improvement in targeting of social transfer programs with a focus on the poorest families, the elderly, school-age children and more recently on people with disabilities, with programs like the *Red de Oportunidades* program, the *100 a los 70* program, the *Beca Universal* program and more recently the *Angel Guardian* program.

1. **Poverty and Social Impacts and Environment Aspects**

**Poverty and Social Impacts**

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

**The supported tax reform is expected to have an indirect positive effect on Panamanians at the low end of the income distribution as more space is created for social spending.** Increased tax compliance for large corporations or increased transparency through international tax information sharing could generate fiscal space for increased social spending. The Government has increased social spending with the introduction of a new social protection program for persons with severe disabilities.

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

**Measures related to social protection programs are expected to generate significant, positive impacts for indigenous, rural and extremely poor Panamanians.** The development of tools to implement the recertification of the *100 a los 70* program is important in order for the program to have a positive distributional impact. A universal, untargeted program is regressive, since poorer people tend to have lower life expectancies. For instance, people over 70 make up 3.5 percent of the lowest decile, but 8.7 percent of the top decile. Focusing the program according to economic need greatly improves its progressive nature. The untargeted program has a small impact on national poverty rates but halves the poverty rate among those 70 and older, and almost eradicates extreme poverty. Increasing the benefit by 20 percent will decrease even further the poverty rates among the elderly indigenous (by almost 7 percentage points) although it has a very limited impact on other groups and overall poverty (around one percentage point). However, increasing the monetary benefit makes the need to recertify and improve targeting even more important.

**Environment Aspects**

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

1. **Tentative financing**

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| Source: | ($m.) |
| Borrower | 0 |
| International Bank for Reconstruction and Development | 200 |
| Borrower/Recipient |  |
| IBRD  Others (specify) |  |
| Total | 200 |

1. **Contact point**

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