

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**REFORMULATION OF THE SANITATION PROGRAM FOR THE DISTRICTS OF
ARRAIJÁN AND LA CHORRERA, STAGE I
(3799/OC-PN),**

**TO PROVIDE SUPPORT FOR VULNERABLE POPULATIONS AFFECTED BY
CORONAVIRUS IN PANAMA
(PN-L1121)**

REFORMULATION PROPOSAL

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ABBREVIATIONS

AECID	Spanish Agency for International Development Coordination
AIG	Autoridad de Innovación Gubernamental [Government Innovation Authority]
BEI	European Investment Bank
CABEI	Central American Bank for Economic Integration
CAF	Development Bank of Latin America/Andean Development Corporation
CCTPs	Conditional cash transfer programs
DISAPAS	Dirección del Subsector de Agua Potable y Alcantarillado Sanitario [Water and Sewer Subsector Directorate]
ECLAC	Economic Commission for Latin America and the Caribbean
EOP	End of period
IDAAN	Instituto de Acueductos y Alcantarillado Nacionales [National Water and Sewer Institute]
IMF	International Monetary Fund
INEC	National Statistics and Census Institute
ISTMO	Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa [operations management model technological solutions and integration]
MEF	Ministry of Economy and Finance
MIDES	Ministry of Social Development
MINSA	Ministry of Health
MITRADEL	Ministry of Employment and Labor Development
NCB	National Competitive bidding
PIIB	Integrated IT Platform for Beneficiaries
MSMEs	Micro, small, and medium-sized enterprises
NPV	Net present value
O&M	Operations and maintenance
PAHO	Pan American Health Organization
PSACH	Sanitation Program for the Districts of Arraiján and La Chorrera
RdO	Red de Oportunidades [Opportunities Network]
SIG	Geographical information system
UCPSP	Panama Sanitation Program Coordination Unit
UEAF	Administrative and Financial Liaison Unit
WHO	World Health Organization

I. PROGRAM BACKGROUND AND PROGRESS

A. Document purpose and borrower request

- 1.1 The purpose of this document is to request the Board of Executive Directors of the Inter-American Development Bank to approve the reformulation of the Sanitation Program for the Districts of Arraiján and La Chorrera (PSACH) (operation 3799/OC-PN) in order to use the uncommitted funds to finance support for vulnerable populations affected by COVID-19 in Panama as explained herein.
- 1.2 **Government request.** In communication MEF-2020-44701 dated 6 October 2020 ([optional link 1](#)), the Ministry of Economy and Finance (MEF), on behalf of the borrower, asked the IDB to use the uncommitted PSACH funds in the amount of US\$123,474,032 to support the social protection measures for vulnerable groups affected by COVID-19 in Panama.
- 1.3 **Description of the proposed changes.** With this reformulation, the aforementioned funds would be used to support minimum levels of consumption by vulnerable persons in the face of the crisis caused by COVID-19 in Panama.

Table 1: Use of proceeds of loan 3799/OC-PN to support vulnerable persons in Panama (US\$)

Loan name	Loan number	Amount approved	Amount approved for reformulation
Sanitation Program for the Districts of Arraiján and La Chorrera (PSACH)	3799/OC-PN	150,000,000	123,474,032
Total		150,000,000	123,474,032

B. Background, progress, and changes to the Sanitation Program for the Districts of Arraiján and La Chorrera (PSACH)

- 1.4 The loan proposal for the PSACH was approved by the Board of Executive Directors on 16 November 2016, via Resolution DE-95/16. The loan contract for the operation was signed on 31 March 2017 and entered into effect on 8 June of that year. The cost of the program was US\$640,123,158, of which the Bank was to finance 23.4%, equivalent to US\$150,000,000; the Development Bank of Latin America (CAF), 7.8%; the European Investment Bank (BEI), 7.8%; the Spanish Agency for International Development Cooperation (AECID), 7.8%; the Central American Bank for Economic Integration (CABEI), 15.6%; and the Panamanian government as counterpart, 37.6%, as follows:

Table 2: PSACH financing structure

Category or component	IDB	Local Contribution					TOTAL
		AECID	CAF	CABEI	BEI	Borrower contribution	
1. Program administration	4,087,851	2,000,000	2,000,000	2,000,000	2,000,000	846,150	12,934,000
1.1 Administration and monitoring	3,200,000	2,000,000	2,000,000	2,000,000	2,000,000	784,000	11,984,000
1.2 Audits and evaluation	887,851	-	-	-	-	62,150	950,000
2. Direct costs	145,912,150	48,000,000	48,000,000	98,000,000	48,000,000	239,277,008	627,189,158
Component I. Priority investments	135,851,386	48,000,000	45,000,000	98,000,000	48,000,000	238,362,755	613,214,140
2.1 Designs and works	112,998,516	48,000,000	45,000,000	98,000,000	48,000,000	201,903,459	553,901,975
2.2 Supervision and management	22,852,870	-	-	-	-	21,459,295	44,312,165
2.3 Operations and maintenance	-	-	-	-	-	15,000,000	15,000,000
Component II. Institutional strengthening	7,428,731	-	2,141,379	-	-	669,908	10,240,018
Component III. Complementary studies and actions	2,632,033	-	858,621	-	-	244,346	3,735,000
3. Total cost	150,000,000	50,000,000	50,000,000	100,000,000	50,000,000	240,123,158	640,123,158

- 1.5 Pursuant to the borrower's request, US\$123,474,032 would be used to support vulnerable populations affected by COVID-19. This is the program's uncommitted balance. The committed balance is to be used for the US\$26-million-dollar contract governing project management, technical assistance, and supervision for the design, construction, operation and maintenance of the system for the collection, conveyance, and treatment of wastewater for the districts of Arraiján and La Chorrera¹ (see Table 3).
- 1.6 **PSACH objective and components.** The program's general objective was to help improve sanitary conditions and reduce pollution in urban waterways and rivers in the districts of Arraiján and La Chorrera. The specific objectives were to: (i) increase sewer and wastewater treatment coverage in the program's area of intervention; (ii) help build capacity for the management of works and the sustainability of the sector; and (iii) promote the proper operation of the sewer system through comprehensive environmental and health education interventions.² To achieve these objectives, the program was designed with the following components:
- 1.7 **Component I. Priority investments.** The proceeds of the Bank loan and local counterpart contribution were to finance studies, designs, and supervision of the program works. The Bank, along with local counterpart resources from parallel

¹ The executing agency is in the process of renegotiating contract CC-SP-01-2016 with the consulting firm to redirect the funds towards financing the final design preparation activities and to eliminate the supervision of the works. The final contract amount will be disclosed once the renegotiation has been settled. In the event that the renegotiation results in resources over and above the original amount, the Panamanian government will cover the difference with its own resources.

² Sole Annex – Loan contract 3799/OC-PN.

- financing, will finance the Prudente, Aguacate, Bernardino, Martín Sánchez 1 and 2, Caimito 1 and 2, and Rodeo sewer mains, for a total of 65 kilometers; the construction of a 6.6 kilometer interceptor tunnel measuring 1.8 meters in diameter; and the final design and construction of the first module of the Caimito Sewage Treatment Plant, with the capacity to treat 1,3516 cubic meters per second. The sewer laterals, including retrofits (sewage and greywater) and indoor connections, were to be financed by the various sources that make up the program's financing structure (paragraph 1.5).
- 1.8 **Component II. Institutional strengthening.** The following actions were to be financed, in conjunction with the different sources that make up the financing structure (paragraph 1.5): (i) support for the management and operations and maintenance (O&M) capacity of the Panama Sanitation Program Coordination Unit (UCPSP), completion of installation of the geographical information system (SIG), and training activities; (ii) support for the sector sustainability committee in interagency coordination of the sector (consulting services were to be financed to provide technical support); (iii) strengthening of the Water and Sewer Subsector Directorate (DISAPAS) as the sector's lead agency (an institutional strengthening plan was to be prepared, and key actions arising from that plan were to be implemented, including training, equipment, and consulting services to provide technical support); (iv) water quality monitoring program for rivers in the Arraiján and La Chorrera sanitation area; (v) technical cadaster of existing sanitary and storm sewers in the Arraiján and La Chorrera area; (vi) regulation of the agreement between the National Water and Sewer Institute (IDAAN) and the UCPSP; (vii) actions to strengthen IDAAN and the UCPSP's roles and responsibilities as proposed in the institutional arrangement arising from the study on strengthening the sanitation subsector, being prepared by CAF with technical-cooperation funds; and (viii) preparation of a proposal to adjust and update the rate schedule for sanitary sewer and wastewater treatment services in the country.
- 1.9 **Component III Complementary studies and actions.** Pursuant to the program financing structure (paragraph 1.5), financing was to be provided for studies and interventions associated with: (i) developing pilot recreational areas along the banks of the rivers whose water quality was to be improved (identification of the area, feasibility study, and final design, including walking trails, reforested areas, and rest areas; and supervision and construction); (ii) conducting public sanitation campaigns including awareness-raising and education for proper handling of solid waste, which were to be executed in coordination with Panama's Urban and Residential Sanitation Authority, the municipios, and the communities.
- 1.10 **Program administration.** Resources from all the lenders were to be used to contract personnel for the UCPSP, as well as for program audit, evaluation, and monitoring activities.
- 1.11 This program was a joint proposal (with the same objectives and components) among the institutions that make up its financing structure (paragraph 1.5) and the UCPSP. The bidding processes were to adhere to the Bank's procurement policies, which, together with the disbursement conditions, are reflected in the program Operating Regulations, where the reporting and monitoring requirements of all the entities providing financing are harmonized.

- 1.12 The program was declared eligible on 22 March 2018. One of the special contractual conditions of execution established that prior to the start of each of the works identified in Component I, the UCPSP would submit evidence of the signing and entry into effect of the contract with the management companies. The UCPSP signed contract CC-SP-01-2016 for US\$26,525,967.85 with the Ayesa México S.A. de C.V. - Ayesa Ingeniería y Arquitectura S.A. consortium for project management, technical assistance, and supervision for the design, construction, operation and maintenance of the system for the collection, conveyance, and treatment of wastewater for the districts of Arraiján and La Chorrera, Stage 1C. This contract was countersigned by the Office of the Comptroller General on 30 September 2019. The consortium is presently working to obtain the first results of the designs of the networks, mains, interceptors, and wastewater treatment plants, with consulting services progress of 7%.
- 1.13 The program plans called for executing the respective studies in the first two years, and therefore did not provide for any significant disbursements in that time. To date, US\$2.4 million have been disbursed (1.61% of the approved amount). Furthermore, 17.68% of the Bank-approved funds (4.14% of the total program cost) have been committed, all for contract CC-SP-01-2016. To date, no parallel lending funds have been disbursed, and there are no ongoing bidding processes. These delays are due to three important factors: (i) the delay in the Comptroller General's countersigning of the project management contract; (ii) Executive Decree 506 of 24 March 2020, through which the Panamanian government suspended construction industry activities for over six months due to COVID-19, making it impossible to carry out the field activities necessary for developing the designs; and (iii) cost containment, which limited the budget allocation needed for the project to be executed as scheduled.
- 1.14 **Proposed changes.** The reformulation of US\$123,474,032 will reduce the IDB contribution budget by 82.3% and the total original PSACH budget by 19.2%, affecting all program components. The reformulation involves completely changing the program's general and specific objectives given that none of the original components will be executed, except for investment category 2.2, supervision and management of Component I, Priority investments, which will be partially executed. Likewise, none of the outputs established for the operation will be fulfilled, except for the final designs to be prepared under contract CC-SP-01-2016, which will be fully completed, as agreed ([optional link 3](#)). The remaining proceeds will be allocated to covering the expenses of the reformulated program of support to vulnerable populations affected by the coronavirus in Panama. With these changes, the budget will have to be modified as shown in the table below:

Table 3: Budget available to finance the Support for Vulnerable Populations Program (US\$)

Category or component	IDB approved amount (original)	IDB committed amount	Reduced budget
1. Program administration	4,087,850	0	4,087,850
1.1 Administration and monitoring	3,200,000	0	3,200,000
1.2 Audits and evaluation	887,850	0	887,850
2. Direct costs	145,912,150	26,525,968	119,386,182
Component I. Priority investments	135,851,386	26,525,968	109,325,418
2.1 Designs and works	112,998,516	0.00	112,998,516
2.2 Supervision and management	22,852,870	26,525,968	0
2.3 O&M	0	0	0
Component II. Institution-strengthening	7,428,731	0	7,428,731
Component III. Complementary studies and actions	2,632,033	0	2,632,033
Total cost	150,000,000	26,525,968	123,474,032

- 1.15 Although the challenges that gave rise to the original operation (3799/OC-PN) still remain, the Panamanian government has requested this reformulation due to the urgency of redirecting the funds to address the needs of the population most affected by the health and economic crisis, except for the funds allotted for contract CC-SP-01-2016, which will provide the government with the final designs of the works, allowing it to resume the project in the coming years. With regard to the local counterpart contribution to the loan, the Panamanian government, through the MEF, formally notified the Bank via official letter dated 23 November 2020 to the financing agencies of the process and scope of the reformulation. The Panamanian government also said it intended to continue the works, subject to the availability of budget resources in the coming years and the prioritization of the works in the Government's Strategic Plan.0
- 1.16 **Changes to the original results matrix.** The operation was designed as a specific-works program. As a result of the reformulation, 13 of the operation's 14 planned outputs; only output 1.5, Package of completed studies and designs,³ which reports the progress of contract CC-SP-01-2016, currently in execution, will remain unchanged ([optional link 3](#)).
- 1.17 **Environmental and social risks resulting from the reformulation.** In accordance with Directive B.3 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), the program was classified as a category "B" operation. In compliance with Directive B.5 of the policy, the operation included two environmental and social impact assessments, the first for the Caimito Sewage Treatment Plant project and the second for the system of networks and mains. With the approval of both environmental and social impact assessments in 2018, the project obtained the environmental permits for building and operating the works.
- 1.18 An environmental and social management report was prepared based on the environmental and social impact assessments, in order to establish specific

³ This output was added during execution in 2017. It was originally named "Designs, bidding documents, and supervision," but then renamed "Package of completed studies and designs," since only contract CC-SP-01-2016 was to remain in effect with the reformulation, which eliminated the supervision of works and expanded the studies of the final designs.

requirements associated with program execution and ensure compliance with the Bank's safeguards policies. Furthermore, two public consultations were held during the preparation of the environmental and social impact assessments, thereby fulfilling Directive B.6 of Operational Policy OP-703.

- 1.19 Notably, both environmental and social impact assessments included an environmental and social management plan compatible with the environmental and social management report requirements. Since none of the operation's planned construction activities were started, the program will not involve environmental and/or social impacts. The scope of the reformulation will be disclosed through public communications to the interested community, especially to the individuals who participated in the public consultations on the original program.
- 1.20 **Execution mechanisms and financial terms and conditions.** The only contract that will be maintained will continue to be executed by the Ministry of Health (MINSa), through the UCPSP, as originally planned. Furthermore, the financial terms and conditions of loan contract 3799/OC-PN will not be modified.

II. PROPOSED MODIFICATIONS AND RATIONALE

A. Background, problem addressed, and rationale

- 2.1 **Background.** On 11 March 2020, the World Health Organization (WHO) characterized the disease COVID-19, caused by the coronavirus, as a pandemic. As of 25 November 2020, there have been 59,915,529 cases confirmed worldwide, resulting in 1,412,556 deaths.⁴ The first cases in Latin America and the Caribbean were reported in late February, and since then the case count there has rapidly increased, to 12,607,035 confirmed cases and 437,979 deaths.⁵ In Panama, the first confirmed COVID-19 case and death was registered on 9 March.⁶ As of 25 November, there were 156,930 confirmed cases and a total of 2,986 deaths in Panama.⁷
- 2.2 **Macroeconomic and social context.** Latin America and the Caribbean have made notable progress in reducing poverty over the last 30 years, having achieved percentages on the order of 30% as of year-end 2019. Nevertheless, in the transition from poverty to greater levels of well-being, 37% of the population is facing income vulnerability, namely a high probability of falling into poverty in the event of major economic shocks. In the past ten years, Panama has been one of the fastest growing economies in the region, with average annual growth of 6.2% in real terms, compared to 1.6% in Latin America and the Caribbean overall.⁸ From 2014 to 2017, the poverty rate in the country dropped from 25.8% to 20.7%, and extreme poverty fell from 11% to 9.8%.⁹ Despite this positive trend, significant social gaps remain among urban, rural, and indigenous areas. The poverty rate in

⁴ IDB-SPH. COVID-19: Situation report as of 25 November 2020.

⁵ Ibid.

⁶ PAHO. [Panamá confirma primer caso de COVID-19](#).

⁷ IDB-SPH. COVID-19: Situation report as of 25 November 2020.

⁸ Authors' calculations based on IMF data.

⁹ INEC. Multipurpose Survey 2014-2018.

the rural population (40.8%) is nearly double the rate in the country as a whole, and among the indigenous population, it is four times higher (82%). With a Gini index of 49.0, Panama has the second highest levels of income inequality of the Central American countries.¹⁰

- 2.3 **The problem.** The incidence and mortality rate of COVID-19 increased rapidly in Panama, reaching their peak in July, with an average of 1,023 new cases and 25 deaths each day.¹¹ Despite the gradual decrease in cases since August,¹² the country maintains the highest rate of infection in Latin America and the Caribbean (3,695 cases per 100,000 inhabitants) and the highest mortality rate in Central America (67.8 per 100,000 population).¹³ The Panamanian government implemented a strong public health response to address the pandemic, including the declaration of a national state of emergency,¹⁴ measures to restrict mobility, and the temporary closure of schools, commercial establishments, and nonessential businesses.¹⁵ In line with the National Health System Operational Plan to Prevent and Control the Novel Coronavirus,¹⁶ the Panamanian government bolstered the health response by: (i) expanding hospital capacity; (ii) equipping 11 hotels for patient quarantining; (iii) hiring 500 health professionals; (iv) installing regional centers for nasal swab testing and contact tracing; and (v) developing computerized systems for reporting and monitoring cases, among other measures.¹⁷
- 2.4 Even though Panama began reopening its economy and restoring citizen mobility in May, the measures taken to contain the spread of COVID-19 led to a significant reduction in economic activity. In the first nine months of the year, the Panamanian government's current revenue fell 34% below forecasts.¹⁸ According to International Monetary Fund (IMF), Panama's gross domestic product will drop 9%,¹⁹ thus surpassing the IMF's 8.1% reduction for Latin America and the Caribbean. This, in turn, will adversely impact the population's income, especially that of the poorest population segments, which depend on their work activities, mostly informal, to sustain their consumption. Workers in the formal and informal sectors are finding it difficult to maintain the levels of employment and income they had before the crisis. As of 8 October, 20,220 companies had terminated the contracts and salaries of 282,184 formal sector workers upon being forced to

¹⁰ Ministry of Economy and Finance, 2015.

¹¹ PAHO. COVID-19: Panama situation report No. 38 of 18 October 2020.

¹² According to the IDB-SPH situation report, the average monthly number of cases dropped from 940 in August to 660 in September and 668 in October.

¹³ IDB-SPH. COVID-19: Situation report as of 25 November 2020.

¹⁴ Official Gazette. [Cabinet Resolution 11 of 13 March 2020](#).

¹⁵ The measures established included border closures (Executive Decree 472 of 2020), a national 24-hour curfew (Executive Decree 490 of 17 March and 507 of 24 March), restriction of mobility by gender and ID card, for six months (Executive Decree 1078 of 11 September), and the temporary closure of commercial establishments and nonessential businesses (Executive Decree No. 500 of 19 March).

¹⁶ MINSA. [National Health System Operational Plan to Prevent and Control the Novel Coronavirus](#).

¹⁷ The complete list of measures to strengthen the health response are contained in the log of MINSA's COVID-19 pandemic event (first quarter, 2020).

¹⁸ General Revenue Service: [De enero a septiembre de 2020, los ingresos corrientes del Gobierno Central cayeron B/.1,795.2 millones respecto a lo presupuestado y B/.1,533.0 millones respecto al 2019](#).

¹⁹ IMF. [World Economic Outlook](#), October 2020: A long and Difficult Ascent.

temporarily shut down.²⁰ According the Ministry of Employment and Labor Development (MITRADEL), the unemployment rate could increase 17.9 percentage points this year (from 7.1% to 25% between 2019 and 2020).²¹ In turn, workers in the informal sector, who make up 44.9% of the economically active population,²² are highly vulnerable to economic shocks. Due to the current situation, the IDB projects that the number of Panamanians living in poverty (extreme and moderate) will increase by up to 311,300 (7.6 percentage points).²³

- 2.5 Women, persons with disabilities, and indigenous peoples are the most vulnerable to adverse impacts, as they face greater difficulties in the labor market, since even before the crisis. On the one hand, women's labor market participation rate is lower than men's (51% versus 72%), meaning that 750,000 working-age women are absent from the labor market.²⁴ On the other, Panama's pre-pandemic unemployment rate was already higher for women (8.8%) than it was for men (5.8%); the unemployment rate for women was also higher than the national average.²⁵ Lastly, there is a gender wage gap of approximately 11%.²⁶ Persons with disabilities have a greater risk of developing complications from COVID-19 due to underlying health conditions,²⁷ and they may also be more affected economically since they are overrepresented in the population living in poverty.²⁸ In the indigenous territories, the incidence of informality is 84.9% versus 44.9% nationwide.²⁹
- 2.6 **Government response.** To mitigate the socioeconomic impact of the pandemic and support consumption among the most vulnerable groups, the Panamanian government has maintained the existing conditional cash transfer programs (CCTPs) and has launched the Panamá Solidario temporary social assistance plan.
- 2.7 The CCTPs administered by the Ministry of Social Development (MIDES), which together will reach around 315,000 individuals living in poverty and extreme poverty, are the: (i) *Red de Oportunidades* [Opportunities Network] (RdO); (ii) *Bono Alimentario* [food voucher]; and (iii) *120 a los 65* [US\$120 monthly cash

²⁰ Via Executive Decree 81 of 20 March 2020, MITRADEL allowed companies whose operations had been shut down under the measures adopted by the Panamanian government to terminate employment contracts. See [Decreto Ejecutivo No. 81 de 20 de marzo de 2020](#). The figures on terminated contracts can be consulted at: [MITRADEL. Dirección de Planificación. Contratos de trabajo suspendidos y reactivados por la pandemia por COVID-19.](#)

²¹ See [La Prensa. 2020 cerrará con más de 500,000 desempleados.](#)

²² INEC, 2019.

²³ IDB. Implicaciones sociales del COVID-19: estimaciones y alternativas para ALC. Discussion paper IDB-DP-820 of October 2020.

²⁴ INEC, 2018.

²⁵ INEC, 2019. According to Acevedo, et al., women are highly concentrated in the occupations and sectors that are more affected by the crisis, e.g. hospitality, food industries, and retail trade. See IDB. Implicaciones sociales del COVID-19. Discussion paper IDB-DP-820 of October 2020.

²⁶ IDB, World Economic Forum, and the national government. *Diagnóstico y plan de acción de la Iniciativa de Paridad de Género en Panamá*. July 2018.

²⁷ See [Centers for Disease Control and Prevention. Morbidity and Mortality Weekly Report.](#)

²⁸ IDB. Key Measures to Address the Impacts of COVID-19 on People with Disabilities: The Importance of a Differentiated Approach, 2020.

²⁹ INEC, 2018.

transfer to persons age 65 and older]; and (iv) *Ángel Guardián* [Guardian Angel]. During the state of emergency, the Panamanian government has disbursed a total of US\$114 million in two payment cycles to maintain the CCTPs.³⁰ All told, 82% of the beneficiaries receive the transfers through the “social key” card, while 18%, located in difficult-to-access areas, receive them in cash due their limited connectivity and geographic isolation.³¹

- 2.8 The RdO is a US\$50 monthly transfer to households living in extreme poverty, regardless of their makeup. Payments are quarterly and are conditional on compliance with health and educational responsibilities.³² Following the recommendations made for the CCTPs during the pandemic, MIDES temporarily suspended verification of compliance with these requirements for the duration of the state of emergency,³³ and the population is being informed that the requirements must be fulfilled once the state of emergency has been lifted.³⁴ In some areas of the indigenous regions, the food voucher is provided as an alternative to the RdO. The food voucher is a monthly coupon worth US\$50 that can only be used to purchase food at authorized stores. In 2019, the RdO and the food voucher benefited 40,814 and 8,495 households, respectively. The programs geographically target *corregimientos* (district subdivisions) with an incidence of extreme poverty of over 70%; all of the households residing in these *corregimientos* are eligible. In the rest of the country, the beneficiaries are selected based on an estimate of the level of household consumption per capita, obtained through a proxy means test.³⁵
- 2.9 The *120 a los 65* program is a transfer of US\$120 to individuals age 65 and older who do not receive a contributory pension and are living in poverty.³⁶ Payments are quarterly and are conditioned on the beneficiary getting an annual medical checkup. In 2019, the program had 125,569 beneficiaries. Meanwhile, the Guardian Angel program targets the severely disabled living in conditions of dependency and extreme poverty.³⁷ The transfer amount is US\$80 per month, paid out to the beneficiaries through their legal representatives. The transfer is conditioned on the beneficiary attending annual health checkups. In 2019, the program had a total of 19,254 beneficiaries.

³⁰ MIDES, National Registry of Beneficiaries.

³¹ CCTP deposits are made through Panama’s national bank into the beneficiaries’ simplified bank accounts. Each beneficiary withdraws the amount of the transfer using the “social key” card at any ATM machine in the national network.

³² For health, children under 5 and pregnant women are required to attend regular growth and development checkups. Children ages 5 to 17 must enroll in school and attend at least 85% of their classes.

³³ MIDES Ministerial Resolution 128 of 29 July 2020. Once the state of emergency has ended, MIDES will apply the regulations for verifying the requirements established in the respective programs’ operating manuals.

³⁴ The Bank and MIDES have worked to strengthen the processes for the provision and verification of the requirements, and will continue to stress this agenda once the health emergency has been overcome.

³⁵ The IDB supports the strengthening of the CCTPs targeting tools through a programmatic series (operations 3485/OC-PN, 3724/OC-PN, and 4594/OC-PN) and the Social Inclusion and Development Program (operation 3512/OC-PN).

³⁶ The *120 a los 65* program was created through Law 44 of 2009.

³⁷ The Guardian Angel program was created through Law 39 of 2012.

- 2.10 *Panamá Solidario* [United Panama], created through [Decree 400 of 27 March](#), is a large-scale temporary social assistance program whose objective is to cover the basic needs of citizens affected by the economic crisis caused by the COVID-19 pandemic, for the duration of the state of emergency.³⁸ Execution of the plan is the responsibility of an interagency committee chaired by the Ministry of the Presidency and made up of the Ministries of Health; Economy and Finance; Agricultural Development; Social Development; Employment and Labor Development; and the local governments. To be eligible, individuals must belong to one of the following groups: (i) persons living in multidimensional poverty; (ii) persons who live in areas that are difficult to access; (iii) vulnerable families; and (iv) self-employed persons.³⁹ The eligibility criteria do not exclude CCTPs beneficiaries from receiving any of the three Panamá Solidario plan modalities, discussed below.
- 2.11 Panamá Solidario provides the following three forms of relief: (i) bags of food delivered every two weeks or once a month to households located in difficult-to-access rural areas; (ii) the *bono solidario* [solidarity voucher], equivalent to US\$80 for the purchase of basic necessities, delivered monthly to the households through a checking account; and (iii) the digital voucher, which provides the beneficiaries with a total credit of US\$100 once a month for the purchase of food and medication at authorized establishments.⁴⁰ As of 18 October, Panamá Solidario had distributed a total of 3,721,676 bags of food and 1,998,263 solidarity vouchers, and had invested a total of US\$355,172,940 in digital vouchers for 1,106,642 persons.⁴¹
- 2.12 The digital voucher is a temporary consumption-support measure that includes among its beneficiaries the population groups established in Decree 400 as well as the formal workers whose contracts have been temporarily suspended because of the temporary closure of businesses.⁴² Of the 871,347 active beneficiaries in October, 20% had been employed in the formal sector.⁴³ The digital voucher beneficiary register is consolidated and administered by the Government Innovation Authority (AIG), which cross-references information with government databases to ensure that only individuals eligible for the program are included and that beneficiaries do not receive duplicate payments. For example, to ensure that public officials, retirees and pensioners, and individuals whose annual income exceeds US\$11,000 are excluded, the AIG cross-references the digital voucher database with data from the Social Security Fund and the General Revenue

³⁸ The *Panamá Solidario* plan was created via [Executive Decree 400 of 27 March 2020](#) and it is governed by the Panamá Solidario Operating Regulations adopted via Resolution 001 of 26 May 2020.

³⁹ The Plan excludes public servants, active salaried workers, retirees and pensioners, and taxpayers whose most recent income declaration was over US\$11,000.00. The beneficiaries must be Panamanian citizens or foreign residents of Panama.

⁴⁰ The original digital voucher amount was US\$80. In July it was raised to US\$100. The program is governed by the Manual of Procedures for the Digital Voucher Modality, approved by the Office of the Comptroller General in Resolution 740-2020 of 3 June.

⁴¹ The Panamá Solidario outcomes are disclosed by the Interagency Committee on the following public link: [Panamá Solidario. Entrega de bolsas y bonos.](#)

⁴² [Law 152 of 4 May 2020](#) establishes that persons or entities whose jobs have been temporarily suspended should receive a solidarity voucher.

⁴³ AIG. Digital voucher database report as of 20 October 2020.

Service. The AIG is also responsible for excluding formal workers from the digital voucher upon MITRADEL notification that their employment contracts have resumed or their economic sector has been reactivated. In fact, as of 8 October, a total of 75,525 formal workers whose jobs have resumed (26% of all the contracts suspended starting on 20 March)⁴⁴ no longer receive program benefits. Informal sector workers who are identified in the Panamanian government databases, like the databases of the Panama Tourism Authority, the municipios, or the Ministry of Trade and Industry, are excluded from the program when the sections of the economic sectors to which they belong are reopened. For the other beneficiaries, their participation in the program will end when the state of emergency is declared over. The digital voucher's limited duration, low amount compared to the minimum wage,⁴⁵ and strict controls through data cross-referencing ensure that it incentivizes jobs recovery and formal employment.

- 2.13 The digital voucher works through the beneficiaries' ID cards, with the card number serving as a means of electronic payment that can only be used in authorized stores to purchase food and medications, as if it were a debit card. Every month, the Interagency Committee announces in the media the dates on which the digital voucher will be credited. On those dates, the beneficiaries can check their program status and voucher balance on the program's website.
- 2.14 In addition to the measures to shore up consumption by vulnerable groups, the Panamanian government pandemic response includes implementation of an economic recovery plan designed to safeguard employment.⁴⁶ This plan offers the following tools to micro, small, and medium-sized enterprises (MSMEs)—which account for 90% of Panama's companies and generate 70% of its jobs—in order to expand the availability of financing in view of the COVID-19 crisis: (i) a US\$20 million fund for loans of between US\$2,000 and US\$5,000; (ii) a US\$150 million fund financed by the IDB (operation 5040/OC-PN) for soft loans to support the agricultural sector and MSMEs; and (iii) a US\$50 million guarantee fund for MSMEs to negotiate loans with banks of their choice. Through the Instituto Técnico Superior Especializado [Specialized Higher Technical Institute], the Panamanian government has activated 250,000 free accounts on the online education platform Coursera, with priority for informal workers and formal-sector workers whose contracts have been terminated,⁴⁷ to foster new job opportunities.
- 2.15 **Rationale and strategy.** Large-scale compensatory policies are needed to offset the loss of income resulting from the COVID-19 response measures. Experience shows that it is possible to temporarily increase cash transfer program amounts and coverage, but requires clear communication and transparent milestones. This program is designed to support implementation of: (i) the existing transfer arrangements, specifically the CCTPs of MIDES, in an effort to protect minimum income levels for households and individuals who were living in poverty or extreme poverty before the COVID-19 crisis, including women heads of household, persons

⁴⁴ MITRADEL. Dirección de Planificación. Contratos de trabajo suspendidos y reactivados por la pandemia por COVID-19.

⁴⁵ The digital voucher amount is equivalent to 17% of the monthly minimum wage.

⁴⁶ National government. Economic Recovery Plan.

⁴⁷ Students can enroll online through [Coursera](#).

with disabilities, and the elderly;⁴⁸ and (ii) new transfers, specifically the digital voucher, a temporary, large-scale intervention targeting workers in the formal and informal sectors.

- 2.16 **Bank experience and lessons learned.** The project's strategy for protecting the vulnerable population is based on various assessments that have shown cash transfers to be the most effective tool for redistributing income and supporting consumption in Latin America and the Caribbean. These experiences include satisfactory emergency responses, like the introduction of the food component to the Mexican *Oportunidades* program during the 2009 financial crisis (operation 2103/OC-ME approved on 1 January 2009, operation 2140/OC-ME approved on 21 May 2009, and operation 2425/OC-ME approved on 18 October 2010). The Bank has accumulated extensive experience in the design, execution, and evaluation of cash transfer programs in 18 countries of Latin America and the Caribbean.⁴⁹ The lessons learned and best practices of the past 20 years show that beneficiary enrollment and payments take time and extensive field work (operation 2937/BL-HO), as well as technical assistance and political dialogue (*Más Familias en Acción* in Colombia). In the current context, such an approach would prevent a rapid response and run the risk of encouraging people to gather, which could contribute to the spread of COVID-19. The recent work performed in response to the COVID-19 crisis highlights the importance of expanding the scale of the electronic payments to support social distancing, as in the Reformulation of the Fiscal Strengthening to Support Economic Growth Program for the Financing of Support to Safety Nets for Vulnerable Populations Affected by Coronavirus in Suriname (operation 4112/OC-SU), which supports Suriname's expansion of its digital payment system. Through the Social Inclusion and Development Program (operation 3512/OC-PN approved on 5 August 2015), the IDB has provided support for Panama's MIDES to facilitate the enrollment and digital payment of CCTP beneficiaries through the Integrated IT Platform for Beneficiaries (PIIB). The lessons from these programs guided the design of this reformulation, which: (i) uses the existing CCTPs to support the income levels of the population living in poverty and extreme poverty, without requiring new registrations of residency or additional field operatives for transfer payments (Component I); (ii) finances the digital voucher transfers, which support the income levels of the vulnerable populations who have lost their incomes from informal or formal jobs; the electronic mechanisms used to register and pay out the transfers minimize the risks of crowding (in Components II and III); and (iii) uses electronic mechanisms like the PIIB and the digital voucher platform to verify beneficiary eligibility and payment.
- 2.17 **Coordination with other Bank projects.** The IDB has directed a total of US\$558 million in proceeds from loans in execution to support for the Panamanian government's pandemic response ([optional link 4](#)). From the Integrated Health Service Networks Strengthening Program (operation 3615/OC-PN), it redirected US\$6.5 million to support MINSA in purchasing personal protective equipment,

⁴⁸ As noted in paragraph 2.4, government revenue fell over 30%, demonstrating the need to protect spending for the most vulnerable populations. According to ECLAC, "The crisis will put additional pressure on countries with limited fiscal space, endangering social spending, which is already strained after seven years of sluggish economic growth." See ECLAC. [América Latina y el Caribe ante la pandemia del COVID-19: Efectos económicos y sociales](#).

⁴⁹ Ibarrarán et al. 2017. IDB. [How Conditional Cash Transfers Work](#).

medical equipment and inputs, and COVID-19 tests, and expanding health services in the country's indigenous regions. It also redirected US\$583,000 from the Social Inclusion and Development Program (operation 3512/OC-PN), executed by MIDES, to the purchase of personal protective equipment to maximize safety measures during payment of the CCTPs, the adaptation of early childhood care services in rural, difficult-to-access areas, and the physical adaptation and equipping of temporary shelters for the COVID-19 high-risk population in the provinces. This Social and Inclusion Development Program also disbursed US\$20 million for RdO payments in the context of the pandemic. Furthermore, US\$1.5 million were redirected from the Program to Improve Efficiency and Quality in the Education Sector (operation 4357/OC-PN) to develop virtual education platforms, purchase technological equipment, and distribute school supplies and textbooks to difficult-to-access areas in support of the Ministry of Education. On 1 June, the Bank approved the Global Credit Program for Safeguarding the Productive Fabric and Employment (operation 5040/OC-PN) for US\$150 million, with the objective of supporting the sustainability of MSMEs as employment providers in Panama amid the COVID-19 crisis. The program has disbursed US\$125 million (83% of the proceeds) through 21 financial institutions, including banks, microfinance institutions, and credit unions. As of end-October, the program has benefited some 1,000 MSMEs, supplementing the compensation provided by the program for the loss of income of the vulnerable population. Likewise, on 19 June the Bank approved the Emergency Program for Macroeconomic and Fiscal Sustainability (operation 5055/OC-PN) for US\$400 million, to support the actions pursued by the Panamanian government to restore the country's macroeconomic stability and fiscal sustainability.

- 2.18 **Coordination with other multilateral organizations and/or cooperation agencies.** The Bank has coordinated the COVID-19 crisis response with other multilateral organizations. Through a US\$20 million investment loan, the World Bank is supporting the procurement of laboratory supplies for diagnosing COVID-19, hospital equipment, and rapid response teams.⁵⁰ The World Bank finances support for vulnerable populations through its funding of the MIDES CCTPs in the third payment cycle of 2020, for US\$54.6 million through an investment loan (Strengthening Social Protection and Inclusion System Project). In addition, the program set forth herein provides support for financing the fourth CCTL payment cycle. Furthermore, CAF is supporting the health response with the purchase and installation of ventilators for hospitals and other supplies, through a US\$50 million loan and a US\$400,000 technical-cooperation operation.
- 2.19 **Strategic alignment.** The program is consistent with the Second Update to the Institutional Strategy of the IDB (document AB-3190-2) and aligns with the challenge of social inclusion and equality, by protecting minimum levels of income for the vulnerable population amid COVID-19. It also aligns with the crosscutting area of gender equality and diversity, by prioritizing and supporting transfer programs targeting persons with disabilities who benefit from the Guardian Angel program, and the indigenous population and women, who respectively account for 48% and 67% of the beneficiaries of the programs targeting households living in extreme poverty. The program contributes to the Corporate Results Framework

⁵⁰ [The World Bank](#).

2020-2023 (document GN-2727-12) through the indicator “Beneficiaries of targeted anti-poverty programs.” It is also consistent with the Social Protection and Poverty Sector Framework Document (document GN-2784-7), which underscores the importance of supporting vulnerable populations through social protection policies, in particular in the face of external shocks. The program is consistent with the Proposal for the IDB Group’s Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), since one of its priorities is to protect the incomes of the vulnerable populations that have been affected.

B. Objectives, components, and cost

- 2.20 **Objectives.** The general objective of the reformulated program is to help support minimum levels of consumption by individuals living in poverty, extreme poverty, and in vulnerable situations amid the crisis caused by COVID-19 in Panama. The specific objective is to support minimum levels of income for individuals affected by COVID-19 in the immediate period and during the recovery.
- 2.21 **Component I. Protection through the use of existing cash transfer programs (US\$54,746,020).** This component will finance cash transfers through the country’s current social protection network transfer programs: (i) RdO; (ii) 120 to the 65s; (iii) Guardian Angel; and the (iv) food voucher. The beneficiaries are the households and individuals that are currently participating in the programs. The transfers will be delivered through the existing channels. MIDES will promote the use of social-distancing protocols during the payments in difficult-to-access areas, including but not limited to: (i) implementation of a clear payment schedule; (ii) communications strategy; and (iii) distribution of personal protective equipment to MIDES staff and masks to the beneficiaries.
- 2.22 **Component II. Protection for the vulnerable population that works in the informal sector and is not on the transfer program rolls (US\$54,942,410).** This component will finance the digital voucher program for the vulnerable population of individuals who previously worked as informal or self-employed workers. The transfers will be targeted according to the inclusion criteria established by the Panamá Solidario plan for the digital voucher. The program’s online, staggered payment system will help prevent crowding.⁵¹
- 2.23 **Component III. Protection for the vulnerable population that no longer works in the formal sector and is not on the transfer program rolls (US\$13,735,602).** This component will finance the digital voucher program, targeting the vulnerable population that was previously employed in the formal sector whose contracts have been temporarily suspended. The beneficiaries are identified using the MITRADEL registries. The payment method will be the same as in Component II.
- 2.24 **Audit and evaluation (US\$50,000).** The program’s financial audits and evaluation will also be financed.
- 2.25 **Beneficiaries.** The transfers financed with this project will benefit vulnerable persons amid the crisis caused by COVID-19. Specifically: (i) 169,285 beneficiaries of the country’s social protection network transfer programs, including 19,107 persons with disabilities who participate in the Guardian Angel program, 107,270 women (63% of all beneficiaries), and 23,217 beneficiaries in

⁵¹ Payment of the digital voucher will be phased over five days to avoid crowding in establishments.

the indigenous territories (22% of all beneficiaries); (ii) 549,424 individuals who are self-employed or work in the informal sector; and (iii) 137,356 individuals previously employed in the formal sector who have involuntarily had their employment contracts temporarily suspended.

C. Key results indicators

- 2.26 **Expected outcomes.** The program aims to help vulnerable individuals whose capacity for generating income has been affected by COVID-19 maintain their standard of living in the immediate period and during the recovery from the COVID-19 crisis (Annex II). To that end, the program will help support household income. The main outcomes expected are that the country's social protection system transfer programs will cover the population living in poverty and extreme poverty, as well as the vulnerable population in the formal and informal sectors who have lost their capacity to generate income due to the COVID-19 crisis and will benefit from the digital voucher.
- 2.27 **Economic viability.** Income support for poor and vulnerable individuals affected by the economic crisis caused by COVID-19 will help families maintain minimum consumption levels and reinforce health measures. A cost-benefit analysis was performed with these elements. The base case scenario yielded a net present value (NPV) of US\$43.79 million and uses a discount rate of 5%; the internal rate of return is 36.4%. With a discount rate of 12%, NPV is US\$40.56 million. The 5% discount rate is consistent with the practice for evaluating social programs as discussed in [optional link 2](#), which also presents scenarios on the effectiveness of the transfers. The general analysis also presents the benefits associated with the reduced spread of the illness resulting from the social-distancing policies.

D. Costs

- 2.28 The total redirected amount is US\$123,474,032, to be financed with funds from specific investment loan 3799/OC-PN. The disbursement period for this loan ends on 8 June 2023. The funds for supporting the vulnerable populations affected by COVID-19 should be disbursed in 12 months, and they are distributed among the three components as follows: for Component I, for the entire fourth payment cycle of the MIDES cash transfers; for Components II and III, based on the proportion of each group in the registry of the active beneficiaries of the digital voucher, with 20% of the beneficiaries from the formal sector and the remainder from the informal sector.

Table 5: Estimated cost of supporting the vulnerable populations (US\$)

Components	IDB Total	%
Component I. Protection through the use of existing cash transfer programs	54,746,020	44%
Component II. Protection for the vulnerable population that works in the informal sector and is not on the transfer program rolls	54,942,410	44%
Component III. Protection for the vulnerable population that no longer works in the formal sector and is not on the transfer program rolls	13,735,602	12%
Audits and evaluations	50,000	0%
Total	123,474,032	100%

Table 6: Projected disbursements (US\$)

	2020	2021	Total
IDB	54,746,020	68,728,012	123,474,032
%	44%	56%	100%

E. Environmental and social safeguard risks

- 2.29 In accordance with Directive B.3 of the Bank Environment and Safeguards Compliance Policy (Operational Policy OP-703), the reformulation has been classified as a category “C” operation since it is not expected to have negative environmental and social impacts, or its environmental and social impacts will be minimal or positive. Specifically, none of the reformulation components involve construction works or the physical modification of the environment. Notably, according to Directive B.5 of Operational Policy OP-703, category “C” operations do not require an environmental and social analysis beyond the screening and scoping analysis for determining the classification.

F. Fiduciary risks

- 2.30 A medium level of risk has been identified regarding the fiduciary (procurement, financial, and accounting) management capacity for program execution. To mitigate this risk, the Bank fiduciary team will provide close support to MIDES’ Administrative and Financial Liaison Unit (UEAF), focusing on streamlining processes and strengthening internal/external controls and financial reports. Supervision support will be provided from the start of program execution.

G. Other risks and key issues

- 2.31 One risk inherent to implementing the CCTPs that require cash payments during the pandemic is the potential for outbreaks due to crowding. Over 80% of the country’s social protection network transfer beneficiary population receives their payments through the “social key” card, a mechanism that reduces the risk of crowding. To mitigate the possible risks of infection during CCTP payments in difficult-to-access areas, MIDES has implemented mitigation measures during the cash payment events, such as: (i) support for the local police authorities to guarantee enforcement of physical distancing and hygiene protocols; and (ii) provision of personal protective equipment for the institutional staff. The digital voucher has established electronic processes that allow beneficiaries to remotely identify themselves, register, and receive the benefit through the program’s website and electronic platform. Use of the ID card number to identify and register beneficiaries is one of the region’s most innovative mechanisms, designed to minimize crowding. Furthermore, the program staggers the benefits over five days, and is currently expanding the network of establishments by including grocery stores.
- 2.32 Implementation of large-scale transfer programs like the digital voucher poses public management risks, since its coverage is several times larger than that of the regular transfer programs. During the digital voucher program design, steps were taken to mitigate this risk. The program is administered and coordinated by the Interagency Committee coordinated by the Ministry of the Presidency. This committee approves the crediting of the voucher to the beneficiaries. Furthermore,

the Office of the Comptroller General of the Republic designed and approved the “Manual of Procedures for the Execution and Distribution of Charitable Support, ‘Digital Voucher’ Modality of the Panamá Solidario Plan,” which defines the legal framework, control and accountability measures, and the procedures and units responsible for each process.⁵² There is also an electronic platform specifically designed for the program, which assigns, administers, and guarantees the effective crediting and use of the transfer. The platform makes it possible to identify each beneficiary, the number and amount of purchases made, and the store where they were purchased.

- 2.33 **Sustainability.** This reformulation supports Panama’s efforts to address the pandemic and mitigate the economic impacts on the most vulnerable population. The financing represents only a fraction of the financial and social efforts being made by the country, which is determined to take on the necessary economic costs to save lives and stimulate an inclusive recovery. The country will maintain operation of the MIDES-administered CCTPs once the crisis has been overcome. Since the digital voucher is a temporary measure, it will be discontinued once the state of emergency has been lifted. However, the electronic platform created for managing that voucher will serve to strengthen implementation and management of social programs, as will the Interagency Committee. This strengthening will better prepare Panama’s institutions to handle other health emergencies and natural disasters and events.

H. Summary implementation arrangements

- 2.34 **Borrower and executing agency.** The borrower continues to be the Republic of Panama. MIDES will be the executing agency for the redirected funds and will act through the Administrative and Financial Liaison Unit (UEAF). The UEAF will engage a coordinator and financial, procurement, monitoring, and evaluation specialists who will coordinate and supervise the program. The UCPSF will continue to be in charge of executing the remaining PSACH funds.
- 2.35 **Execution and administration.** The UEAF’s responsibilities include: (i) preparation of the implementation plan; (ii) financial administration, accounting, and preparation of budgets and disbursement requests; (iii) preparation of the procurement plan, to include the selection and contracting of an audit firm; (iv) preparation of technical and financial reports; and (v) preparation of monitoring reports.
- 2.36 **Interagency coordination.** To achieve efficient implementation of the operation, the intervention will leverage the Panamá Solidario plan’s Interagency Committee as a mechanism to coordinate the agencies that identify the vulnerable populations and execute the transfers. MIDES is responsible for identifying and payments made to the population that participates in the existing CCTPs. For purposes of identifying the digital voucher beneficiary population, MIDES must coordinate with the Ministries of the Presidency and Employment and Labor Development, as well as the AIG, since the latter consolidates the final roll of beneficiaries and maintains the registry of benefits paid. Coordination will also be needed between MIDES and the National Bank of Panama, since the latter, prior to MIDES’ review and

⁵² Resolution 740-2020-DNMySC of 3 June 2020.

- approval, executes the payments to the authorized businesses which correspond to the total consumption of digital voucher beneficiaries.
- 2.37 **Special contractual conditions precedent to the first disbursement of the loan to support vulnerable populations affected by the coronavirus.** The following are special contractual conditions precedent to disbursement of the financing in support of vulnerable populations affected by the coronavirus: **the approval and entry into effect of the program Operations Manual ([optional link 5](#)), developed by MIDES, in the terms previously agreed upon with the Bank.** The manual is required in order to establish the mechanisms of execution, tracking, verification, monitoring and evaluation for the operation.
- 2.38 **Procurement and contracting.** Procurement processes partially or fully financed with Bank resources will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), or the policies in effect at the time of execution, and with the Financial Management Guidelines for IDB-financed Projects (document OP-273-12). The procurement plan ([required link 2](#)) lists the planned procurement processes.
- 2.39 **Disbursements.** Disbursements will be made primarily according to the advance of funds methodology, based on liquidity needs; and accountability for the advance payments will be ensured as set forth in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) and the Fiduciary Agreements and Requirements (Annex III).
- 2.40 The Bank may disburse, through reimbursements of expenditures, the cash transfer program payments made in December 2020 provided for in Component I, for up to US\$55,746,020, 44% of the redirected loan amount. The reimbursement would correspond to the fourth payment cycle of the cash transfer programs designed to ensure minimum income levels for households and individuals that were living in poverty or extreme poverty before the COVID-19 crisis, including the groups most vulnerable to the crisis, such as women heads of household, persons with disabilities, and the elderly.
- 2.41 **Audit.** During the loan disbursement period, within the 120 days following the close of the fiscal year, MIDES will submit the support for vulnerable populations program's annual audited financial statements to the Bank. The audit must certify the MIDES payments made to the current CCTPs beneficiaries through certification of the Panama National Bank deposits to the "social key" cards held by the beneficiaries who are paid through bank transfers, and of the payment lists for the beneficiaries in difficult-to-access areas. It will also certify the reimbursements made to the stores participating in the digital voucher program, and cross-reference them with the list of eligible beneficiaries according to the program Operations Manual. The audit is to be performed by a Bank-eligible independent audit firm. The scope and other related considerations will be governed by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) and the Guide for Financial Reports and Management of External Audits. Audit costs will be financed with the loan proceeds.

I. Summary of arrangements for monitoring results

- 2.42 **Monitoring.** MIDES, through the UEAF, will be responsible for implementing the monitoring plan. Given the emergency context, the primary monitoring instruments will be the results matrix and procurement plan. The principal source for monitoring the impact, outcome, and output indicators will be the PIIB, administered by MIDES, and the digital voucher program electronic platform administered by the AIG, especially the management of payments modules. The multipurpose survey will also be used; it is taken twice a year (March and August) with a sample of the country's households. The main reporting tool will be the progress monitoring report, which will use the program's semiannual progress reports as its source of information. MIDES will prepare a multiyear execution plan and annual work plan once execution of the operation has begun. Notably, MIDES, through the UEAF, has experience executing Bank operations, giving it the capacity to execute this loan operation in the time required. The arrangements for monitoring the remaining PSACH funds will follow the original contract.
- 2.43 **Evaluation.** Given the nature of this operation, a before-and-after analysis will be performed, using the time series information available on the outcome indicators, specifically the coverage of the existing MIDES-administered CCTPs and of the consumption records of the individuals who use the digital voucher to purchase products in stores ([required link 1](#)). To establish attribution of program results, the quantitative analysis will be supplemented with qualitative evidence and a review of the theory of change backed by relevant evidence of the effectiveness of similar interventions in comparable contexts. The evaluation costs will be financed with the loan proceeds, as well as additional supervision funds. Since the remaining PSACH output is associated with the preparation of studies and designs, the evaluation planned in the original contract is eliminated.

III. RECOMMENDATION

- 3.1 Based on the information and analysis presented in this document, the Board of Executive Directors is advised to approve the reformulation proposal in the terms and conditions described herein, via short procedure, as established in paragraph 6 of document CS-3953-4 (List of matters to be considered by the Board via Short Procedure).

Development Effectiveness Matrix		
Summary		PN-L1121
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Gender Equality and Diversity	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Beneficiaries of targeted anti-poverty programs (#)	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		The intervention is not included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		Section II. A. Paragraph 2.15
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.6
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		3.6
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		1.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		7.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		4.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Identified risks have been rated for magnitude and likelihood		
Mitigation measures have been identified for major risks		
Mitigation measures have indicators for tracking their implementation		
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note:

The Government Panama requested the Bank to reorient a total amount of US\$123.47 millions of uncommitted balances from the "Sanitation Program for the Districts of Arraiján and La Chorrera" (3799/OC-PN) currently in execution. This reorientation allows financing the country's response to the COVID-19 pandemic "Support for Vulnerable Populations Affected by Coronavirus in Panama." The general objective of the reformulation is to contribute to support minimum levels of consumption of people in poverty, extreme poverty and in a situation of vulnerability in the face of the crisis caused by COVID-19 in Panama. The specific objective is to support minimum income for those affected by COVID-19 in the immediate period and during the recovery. The reformulation proposal presents a clear diagnosis of the problem, as well as a review of international evidence. The proposed solutions are appropriate to respond to the identified problems and their contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of impacts and results. The proposal clearly explains the changes to the reformulated operation and presents adjusted result matrices that are appropriate.

The economic evaluation shows that the operation is efficient with a net present value of \$US43.79 million and an internal rate of return of 36.4%. Sensitivity analyses are appropriate.

The monitoring and evaluation plan proposes to carry out a reflective analysis of the outcome indicators included in the result matrix as well as an analysis of the theory of change to establish the attribution of the observed results to the program's interventions.

RESULTS MATRIX

Program objective:	The specific objective is to support minimum levels of income for individuals affected by COVID-19 in the immediate period and during the recovery. Achievement of this objective will contribute to the general objective of helping to support minimum levels of consumption by individuals living in poverty, extreme poverty, and in vulnerable situations amid the crisis caused by COVID-19 in Panama.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline	Baseline year	Expected year of achievement	Target ¹	Means of verification	Comments
General development objective: Help support minimum levels of consumption for individuals living in poverty, extreme poverty, and in vulnerable situations amid the crisis caused by COVID-19 in Panama.							
Income level of vulnerable families (lower six deciles of household income) compared to the income level of nonvulnerable families (upper four household income deciles) 12 months after the start of the crisis	Percentage	23	2017	2021	23	Multipurpose Survey	The vulnerable population is considered to be the six lower income deciles of the total household income variable, and the nonvulnerable population is considered to be the highest four income deciles. The average income of the lower six income deciles is divided by the average income of the four upper income deciles.

¹ The program targets are not incremental, inasmuch as both the financing and existing conditional cash transfer programs (CCTPs), such as digital voucher programs are designed to support minimal income levels of population segments that are vulnerable to COVID-19. These population segments (i.e. people living in poverty and extreme poverty and those with incomes below the rest of the economically active population) were vulnerable even before the pandemic, owing to their high level of participation in the informal sector of the economy. The impact indicator, therefore, is not based on the population's level of income but rather its ability to sustain itself. With regard to the outcome and output indicators, their targets are not incremental, since, owing to current fiscal limitations, no expansion in the number of CCTP beneficiaries of existing CCTPs is sought, but rather seek to sustain consumption support for the current beneficiaries.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Baseline year	Final target	End of project	Means of verification	Comments
Specific development objective: Support minimum levels of income for individuals affected by COVID-19 in the immediate period and during the recovery.							
The populations living in poverty and extreme poverty that receive project-financed cash transfers through the country's social protection network programs (Opportunities Network, <i>120 a los 65</i> , Guardian Angel, and food voucher)	Percentage	20	2020	15	2021	Integrated IT Platform for Beneficiaries (PIIB) and poverty data reported in the 2017 Multipurpose Survey	<p>Numerator: Number of beneficiaries of the country's social protection network cash transfer programs (Opportunities Network, <i>120 a los 65</i>, Guardian Angel, and food voucher) who receive transfers during the period in which the program is supported with loan proceeds (169,285 beneficiaries)</p> <p>Denominator: Number of persons living in poverty or extreme poverty. Poverty data reported in the 2017 Multipurpose Survey. For the final target, an expected 7.6-percentage point increase in poverty due to the COVID-19 pandemic is calculated.² Total number of persons living in poverty or extreme poverty for the baseline = 848,314. Total number of persons living in poverty or extreme poverty for the final target = 848,314 + 311,300 = 1,159,614.</p> <p>Data will be disaggregated by gender.</p>

² Acevedo, I., F. Castellani, I Flores, G. Lotti, and M. Székely, 2020. [Implicaciones sociales del COVID-19: Estimaciones y alternativas para América Latina y El Caribe](#). IDB, Discussion paper IDB-DP-820.

Indicators	Unit of measure	Baseline	Baseline year	Final target	End of project	Means of verification	Comments
Digital voucher beneficiary population that makes at least one purchase during the period in which the program is being supported with loan proceeds (active beneficiaries).	Percentage	79	September 2020	79	2021	Digital voucher electronic platform	<p>Numerator: Number of digital voucher beneficiaries that make at least one purchase during the period in which the program is being supported with loan proceeds (active beneficiaries). (Total baseline = 871,347).</p> <p>Denominator: Number of digital voucher program beneficiaries who receive the voucher during the period in which the program is being supported with loan proceeds. (Total baseline = 1,106,642).</p> <p>Data will be disaggregated by gender.</p>

OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	2020	2021	Final target (cumulative)	Means of verification	Comments
Component I. Protection through the use of existing cash transfer programs								
Women beneficiaries of existing cash transfer programs (Opportunities Network, <i>120 a los 65</i> , and food voucher) who receive regular transfers during the immediate period and during the recovery from the crisis caused by the coronavirus	Women	107,270	2020	107,270	0	107,270	PIIB	<p>This refers to transfers paid to households and individuals eligible for receiving cash transfers according to the Operations Manual in effect for each program (Opportunities Network, <i>120 a los 65</i>, Guardian Angel, and food voucher)..</p> <p>The baseline is the number of beneficiaries reported for the third payment of 2020.</p>
Men beneficiaries of existing cash transfer programs (Opportunities Network, <i>120 a los 65</i> , and food voucher) who receive regular transfers during the immediate period and during the recovery from the crisis caused by the coronavirus	Men	62,015	2020	62,015	0	62,015	PIIB	<p>This refers to transfers paid to households and individuals eligible for receiving cash transfers according to the Operations Manual in effect for each program.</p>

Outputs	Unit of measure	Baseline	Baseline year	2020	2021	Final target (cumulative)	Means of verification	Comments
								The baseline is the number of beneficiaries reported for the third payment of 2020.
Persons with disabilities benefiting from the Guardian Angel program who receive regular transfers during the months of the health emergency or recovery	Persons	19,107	2020	19,107	0	19,107	PIIB	This refers to transfers paid to households and individuals eligible to receive cash transfers according to the Operations Manual in effect for the program. The baseline is the number of beneficiaries reported for the third payment of 2020. Data will be disaggregated by gender.
Component II. Protection for the vulnerable population that works in the informal sector and is not on the transfer program rolls								
Individuals in the informal sector or self-employed workers participating in the digital voucher program who make at least one project-financed purchase during the immediate period and during the recovery from the crisis caused by the coronavirus	Persons	549,424	2020	0	549,424	549,424	Digital voucher electronic platform	This refers to purchases made by individuals in the informal sector participating in the digital voucher program who shop at participating stores according to the Operations Manual in force for the program. The beneficiaries may make more than one purchase, up to the allotted benefit amount. Data will be disaggregated by gender.
Component III. Protection for the vulnerable population that no longer works in the formal sector and is not on the transfer program rolls								
Individuals in the formal sector participating in the digital voucher program who make at least one project-financed purchase during the immediate period and during the recovery from the crisis caused by the coronavirus	Persons	137,356	2020	0	137,356	137,356	Digital voucher electronic platform	This refers to purchases made by individuals in the formal sector participating in the digital voucher program who shop at participating stores according to the Operations Manual in force for the program. The beneficiaries may make more than one purchase, up to the allotted benefit amount. Data will be disaggregated by gender.

Country: Panama **Sector:** Social **Project number:** PN-L1121 **Year:** 2020
Cofinancing: None **Co-execution:** MINSA, UCPSP (US\$27 million); and MIDES (US\$123 million)

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Ministry of Social Development (MIDES)

Project name: Proposal for the Reformulation of the Sanitation Program for the Districts of Arraiján and La Chorrera (operation 3799/OC-PN) to Provide Support for Vulnerable Populations Affected by the Coronavirus in Panama

I. Fiduciary Context of the Executing Agency

1. Use of country systems in the project¹

Budget <input checked="" type="checkbox"/>	Reports <input checked="" type="checkbox"/>	Information system <input checked="" type="checkbox"/>	NCB <input type="checkbox"/>
Cash management <input checked="" type="checkbox"/>	Internal audit <input type="checkbox"/>	Shopping <input checked="" type="checkbox"/>	Advanced NCB <input type="checkbox"/>
Accounting <input checked="" type="checkbox"/>	External control <input type="checkbox"/>	Individual consultants <input type="checkbox"/>	Consulting firm <input type="checkbox"/>

Applicable laws/regulations:

2. Fiduciary capacity of the executing agency

Evaluation of executing agency fiduciary capacity:

The program executing agency will be the Ministry of Social Development (MIDES), which is currently executing the Social Inclusion and Development Program (operation 3512/OC-PN), and therefore has experience in fiduciary matters.

3. Fiduciary risks and mitigation measures

Fiduciary risk: High ☐; Medium ☒; Low ☐

Risk	Risk level	Mitigation plan
A medium level of fiduciary management (procurement, financial, and accounting) capacity risk has been identified for program execution.	Medium	The Bank fiduciary team will provide close support to the Administrative and Financial Liaison Unit (UEAF) during execution of the operation.

II. Considerations for the Special Provisions of the Contract

Conditions precedent to the first disbursement: There are no fiduciary conditions.

Exchange rate: The legal currency in Panama is the balboa, which is equivalent and freely exchanged with the United States dollar.

Program audited financial statements: Each executing agency will submit the annual audited financial statements for its respective portion of the loan within 120 days after the close of each fiscal year and during the original disbursement period and any extensions thereof, and within 120 days after the date of the final disbursement of its portion of the loan. The financial reports will be audited by an independent auditing firm acceptable to the Bank.

¹ Any system or subsystem approved subsequently could be used for the operation, under the terms of the Bank's validation.

III. Agreements and Requirements for Procurement Execution

Exceptions to policies and guidelines

<ul style="list-style-type: none"> No exceptions are envisaged.
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Retroactive financing and/or advance procurement²	<ul style="list-style-type: none"> Not applicable
Expenses incurred before the modified contract enters into force	<ul style="list-style-type: none"> MIDES will make the cash transfer payments corresponding to the fourth payment cycle in December 2020. If the modified contract has not yet entered into effect the borrower will make the payment and then submit a disbursement request to the Bank in accordance with the reimbursement of expenditure method. The amount is expected to be US\$54,746,020 million, or 44% of the reformulated loan.
Additional procurement support	<ul style="list-style-type: none"> Not applicable
Alternative procurement arrangements	<ul style="list-style-type: none"> Not applicable
Projects with financial intermediaries	<ul style="list-style-type: none"> Not applicable
Procurement agents	<ul style="list-style-type: none"> Not applicable
Direct contracting	<ul style="list-style-type: none"> Not applicable

Operating expenses: <input type="checkbox"/> Not applicable	Domestic preference: <input type="checkbox"/> Not applicable
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General project procurement supervision method: Not applicable, since the program involves the payment of transfers.

Country thresholds: <https://www.iadb.org/en/projects/project-procurement>

IV. Financial Management Agreements and Requirements

Programming and budget	<ul style="list-style-type: none"> The budget act for 2021 will create the National Public Investment System codes and lines for the IDB financing. The project will be executed using a special budget line of the Emergency Act.
Treasury and disbursement management	<ul style="list-style-type: none"> The disbursement mechanism will be manual. The IDB will transfer the resources to an exclusive account for the program in the treasury single account. This exclusive account will be requested by MIDES and opened by the Ministry of Economy and Finance. Disbursements will be made primarily as advances to cover liquidity needs, pursuant to the respective financial plan, for a period of up to 180 days. A fresh advance may be requested when 80% of the cumulative resources pending

² Pursuant to the policy on retroactive financing, recognition of expenditures, and advance procurement (document GN-2259-1) or the equivalent policy in force at the time of the operation.

	<p>justification have been accounted for. Disbursements may also be made as reimbursements for expenses incurred for the cash transfers and the digital voucher, or as direct payments to suppliers.</p> <ul style="list-style-type: none"> Financial reporting for the digital voucher: The Government Innovation Authority prepares the list of beneficiaries, uploads the information to the portal, and informs the beneficiaries of the availability. The beneficiaries shop at the affiliated stores using the allocated amount. The stores deduct the purchase amount from the available balance in the system and then request payment from the National Bank of Panama. After MIDES review and approval, the National Bank of Panama pays the stores. Once the stores have been paid, MIDES prepares the financial reports and submits them to the Bank.
Accounting, information systems, and reporting	<ul style="list-style-type: none"> The project execution unit will take the necessary steps with the National Accounting Department to identify the respective users of the ISTMO financial management system and subsequently train them. In addition, it will coordinate configuration of the system so that it can be used to manage the budget, commit expenses, and make payments. Accounting will be governed by the regulations issued by the Office of the Comptroller General, which are based on the International Public Sector Accounting Standards. The accounting report will be prepared using the ISTMO system. Accounting will be on an accrual basis, using the balboa, which is pegged to and freely exchanged with the United States dollar.
External control	<ul style="list-style-type: none"> The Office of the Comptroller General has focused its activities on ex ante checks on disposal of State assets, its audit function being weak. Moreover, as it participates in administrative processes through its ex ante control, it does not have the necessary independence to perform audits. The project's audited financial statements, prepared by an independent auditing firm acceptable to the Bank, must be delivered annually within 120 days after the close of each fiscal year or the date of the last disbursement.
Project financial supervision	<ul style="list-style-type: none"> Financial supervision will focus on the reports mentioned in the Financial Management Guidelines for IDB-finance projects (document OP-273-12), and supporting documentation for disbursements will be reviewed ex post by the auditors when conducting their audits or during financial inspection visits.

V. Relevant Information for the Operation

Policies and guidelines applicable to the operation

Financial management	Procurement
<ul style="list-style-type: none"> Document GN-2811 [OP-273-12] 	<ul style="list-style-type: none"> Document GN-2349-15 [ES] Document GN-2350-15 [ES]

Records and files

MIDES has digital and physical files, as well as procedures and instructions that enable it to properly maintain records and files.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Panama. Reformulation of the Sanitation Program for
the Districts of Arraiján and La Chorrera-PSACH Stage I
Loan Contract No. 3799/OC-PN

(To Provide Support for Vulnerable Populations Affected by Coronavirus in Panama)

The Board of Executive Directors

RESOLVES:

1. To approve the reformulation of the Sanitation Program for the Districts of Arraiján and La Chorrera-PSACH Stage I (Loan Contract No. 3799/OC-PN), authorized by Resolution DE-95/16, in order to use the uncommitted resources to finance the Support for Vulnerable Populations Affected by Coronavirus in Panama, as described in Document PR-_____.
2. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as Borrower, to amend Loan Contract No. 3799/OC-PN for the purposes described in this Resolution.

(Adopted on ____ 2020)