

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PANAMA**

**PROGRAM FOR TRANSPARENCY AND EQUITY IN SPENDING  
ON SOCIAL PROTECTION III**

**(PN-L1152)**

**LOAN PROPOSAL**

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## ABBREVIATIONS

BNA	Bono Nutricional Alimenticio [food voucher] program
CAIPI	Centros de Atención Integral a la Primera Infancia [Comprehensive Early Childhood Care Centers]
CCT	Conditional cash transfer
COIF	Centros de Orientación Infantil y Familiar [Child and Family Guidance Centers]
CONAIP	Consejo Nacional de Atención Integral a la Primera Infancia [National Council for the Comprehensive Care of Early Childhood]
DIDS	Dirección de Inclusión y Desarrollo Social [Social Development and Inclusion Division]
ECG	Evaluation Cooperation Group
FUPS	Ficha Única de Protección Social [single social protection file]
IFARHU	Instituto para la Formación y Aprovechamiento de Recursos Humanos [Institute for Human Resources Training and Development]
IMF	International Monetary Fund
INEC	Instituto Nacional de Estadística y Censo [National Statistics and Census Bureau]
LIBOR	London interbank offered rate
MEDUCA	Ministry of Education
MEF	Ministry of Economy and Finance
MIDES	Ministry of Social Development
MINSA	Ministry of Health
PBP	Programmatic policy-based loan
RAIPI	Ruta de Atención Integral a la Primera Infancia [Integrated Early Childhood Care Pathway]
RENAB	Registro Nacional de Beneficiarios [National Beneficiary Registry]

## PROJECT SUMMARY

### PANAMA PROGRAM FOR TRANSPARENCY AND EQUITY IN SPENDING ON SOCIAL PROTECTION III (PN-L1152)

Financial Terms and Conditions				
<b>Borrower:</b> Republic of Panama			Flexible Financing Facility <sup>(a)</sup>	
			<b>Amortization period:</b>	20 years
<b>Executing agency:</b> Ministry of Economy and Finance (MEF)			<b>Disbursement period:</b>	12 months
			<b>Grace period:</b>	2 years <sup>(b)</sup>
Source	Amount (US\$)	%	<b>Interest rate:</b>	LIBOR-based
			<b>Credit fee:</b>	(c)
<b>IDB (Ordinary Capital):</b>	200,000,000	100	<b>Inspection and supervision fee:</b>	(c)
			<b>Weighted average life (WAL):</b>	11 years
<b>Total:</b>	200,000,000	100	<b>Approval currency:</b>	U.S. dollars from the Ordinary Capital
Project at a Glance				
<b>Project objectives/description:</b> The objective of this operation and the programmatic series is to make social protection spending for the poor more transparent, equitable, and efficient and to enhance its ability to foster human capital accumulation. This operation is the third and last in a series of three programmatic policy-based loans (PBPs).				
<b>Special contractual conditions precedent to the single disbursement:</b> The single disbursement is contingent on fulfillment of the policy reform measures described in the Policy Matrix (Annex II), the <a href="#">Policy Letter</a> and the conditions established in the loan contract (see paragraph 3.3).				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
<b>Challenges:</b> <sup>(d)</sup>		SI <input checked="" type="checkbox"/>	PI <input type="checkbox"/>	EI <input type="checkbox"/>
<b>Crosscutting issues:</b> <sup>(e)</sup>		GD <input checked="" type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

(a) Under the Flexible Financing Facility (document FN-655-1) the borrower has the option of requesting changes to the amortization schedule and currency and interest rate conversions. When considering such requests, the Bank will take operational and risk management considerations into account.

(b) Under the flexible repayment options of the Flexible Financing Facility (FFF), changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life (WAL) of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the relevant policies.

(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problems to be addressed, and rationale

- 1.1 This operation is the third and last of a series of operations in the programmatic policy-based loan (PBP) modality. The objective of the programmatic series is to make social protection spending for the poor more transparent, equitable, and efficient and to enhance its ability to foster human capital accumulation. These overall objectives are being pursued along two broad lines of reform. The first aims to reform the targeting system for the government's conditional cash transfer (CCT) programs to improve coverage of the poorest and reduce leakage to the nonpoor; and the second aims to strengthen the supply of comprehensive early childhood care services and enhance the impact of CCT programs on beneficiaries' human capital accumulation. In the first two operations under the Program for Transparency and Equity in Spending on Social Protection (PN-L1103, loan 3485/OC-PN and PN-L1118, loan 3724/OC-PN), the design and approval of the legal framework for government CCT programs and the national beneficiary registry (RENAB) was supported; the institutional structure of the Ministry of Social Development (MIDES) was reformed, with the creation of a Social Development and Inclusion Division (DIDS); a per capita financing and results-based payment mechanism was approved for the Comprehensive Early Childhood Care Centers (CAIPs; formerly Childhood and Family Guidance Centers, COIFs); and the Children's Record Booklet was implemented, as a way to verify compliance with rights and fulfillment of the care and services to which all children under 5 are entitled under the Integrated Early Childhood Care Pathway (RAIPI). This third operation completes the process of reforming the legal and regulatory framework and supports the actual implementation and initial evaluations of policies, strategies, and instruments adopted by the Government of Panama under the preceding operations.

#### 1. Macroeconomic situation and poverty

- 1.2 **Macroeconomic context.** Panama is maintaining steady growth levels. Its gross domestic product (GDP) rose at an average rate of 6.6% from 2008 to 2017, compared with a regional average of 2.0%. The GDP growth rate in 2017 was 5.4%, 0.4 points higher than the previous year (World Economic Outlook Database, April 2018. International Monetary Fund—IMF). The past decade's high growth rates have placed Panama in the upper-middle per capita income country bracket. GDP per capita climbed at an average annual rate of 6.5% (in purchasing power parity terms) from 2008 to 2017, reaching US\$25,351 in 2017 (World Economic Outlook Database, April 2018. IMF).
- 1.3 The nonfinancial public sector (NFPS) deficit was 1.6% of GDP in 2017, continuing the downward trend begun in 2015. This is attributable to the government's medium-term fiscal consolidation strategy, executed within the parameters of the Fiscal and Social Responsibility Law. As at 2017, the public debt amounted to 37.6% of GDP (calculation based on Ministry of Economy and Finance (MEF) and National Statistics and Census Bureau (INEC) data).
- 1.4 Average annual inflation in 2017 was 0.9%, slightly higher than in the previous year (0.7%) (World Economic Outlook Database, April 2018. IMF). Panama's economy is oriented toward services production and exports, so it relies heavily on agriculture, energy, and manufactured imports to meet the productive sector's demand for

inputs and satisfy household consumption needs. This situation was reflected in a current account deficit of 4.9% of GDP in 2017, 0.6 points lower than in 2016, which was mainly financed by foreign direct investment flows (INEC).

- 1.5 **Poverty and inequality.** Between March 2014 and March 2016, the rate of poverty fell from 25.8% to 22.1% and extreme poverty from 11% to 9.9% (MEF). Despite this positive trend, wide social gaps among urban and rural areas and the indigenous *comarcas* persist.<sup>1</sup> Poverty and extreme poverty rates in rural areas were 46% and 25.3% in 2015, as opposed to 11.8% and 2.9% in urban areas. According to estimates from the 2015 poverty map, the poverty rate in the three indigenous *comarcas* was in the range of 68.5% to 85.8%, and the extreme poverty rate was in the 38.7% to 67.8% range (the highest rates being in the Ngäbe Buglé *comarca*).
- 1.6 Panama's first multidimensional poverty study took place in 2017 and found that the incidence of this type of poverty reached 19.1% nationally, exceeding 90% in the Guna Yala and Ngäbe Buglé *comarcas*. Seven indicators accounted for 60.2% of the value of the index: "insufficient educational attainment (12.4%), lack of job security (11.9%), inadequate waste treatment (8.4%), unemployed or family worker (7.7%), availability/lack of improved water sources (7.1%), access to health services (6.4%), and repeat school years (6.4%)".<sup>2</sup>
- 1.7 Exposure to resource deprivation is more acute among children, particularly in early childhood, and is associated with delays in human capital accumulation, resulting in a vicious circle of growing intergenerational poverty and inequality. More specifically, in 2015, the rates of poverty and extreme poverty in children under 5 were 37.0% and 19.2%, compared with 16.3% and 6.7% among the 30-to-59 year age group.<sup>3</sup> Among children under 5, 19% suffer from chronic malnutrition. The incidence of chronic malnutrition in this age group is higher among the extremely poor, reaching 56% in the *comarcas* of Guna Yala and Emberá-Wounaan.<sup>4</sup>
- 1.8 **Social protection policy for the poor.** MIDES is the apex agency of Panama's social protection system. It is responsible for setting, coordinating, and monitoring social policy for priority groups, as well as for managing the major social programs. MIDES implements three conditional cash transfer (CCT) programs: (i) *Red de Oportunidades* [Opportunities Network] for extremely poor families; (ii) *120 a los 65*, for older adults with no contributory pension and who are poor; and (iii) *Ángel Guardián* [Guardian Angel] for extremely poor individuals with a severe disability in a situation of dependency. Between 2014 and 2017, in parallel with the introduction of rigorous targeting criteria to enhance efficiency and transparency, expenditure on these CCT programs rose from US\$181.2 million to US\$235.3 million (in 2017, spending was US\$35.1 million for *Red de Oportunidades*, US\$181.1 million for

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<sup>1</sup> The estimated urban and rural poverty rates are from the MEF and are based on multipurpose survey data: March 2015. This survey is representative at the urban and rural level, but not at province level (or therefore at the *comarca* level). Estimates for indigenous *comarcas* come from the most recent poverty map available (MEF and World Bank. 2017. *Pobreza y Desigualdad en Panamá. Mapas a Nivel de Distritos y Corregimientos: Año 2015*), based on information from the 2010 Population and Housing Survey and the March 2015 multipurpose survey.

<sup>2</sup> Government of Panama (2017). *Índice de pobreza multidimensional de Panamá: año 2017*, page 28.

<sup>3</sup> Calculations by the authors based on data from the multipurpose survey (March 2015).

<sup>4</sup> Salud Mesoamérica Initiative 2015. Baseline results, 2013.

120 a los 65, and US\$19.1 million for *Ángel Guardián*). In 2017, this expenditure came to 0.59% of GDP. MIDES, through the National Secretariat for the Food and Nutrition Security Plan (SENAPAN), is also implementing the Bono Nutricional Alimenticio [food voucher] (BNA) program for families in extreme poverty. BNA provides vouchers that may be used solely to purchase food from authorized stores.<sup>5</sup>

- 1.9 Like other CCT programs targeting households in the region, the *Red de Oportunidades* program preferably selects women to represent the households and receive transfers. In this way, “CCT programs help reduce gender disparities, enhancing women’s autonomy in the management of household resources, and their power to negotiate decisions about their lives and those of their children (Alemann et al., 2016), reducing the likelihood of their suffering physical violence from their partner (although there can be an increase in emotional violence and controlling behaviors), delaying early marriage, reducing beneficiaries’ fertility, and increasing the use of contraceptives (Bastagli et al., 2016)” (Social Protection and Poverty Sector Framework Document 2017 (document GN-2784-7, p. 25). As at May 2018, women accounted for 96.6% of *Red de Oportunidades* recipients. The percentage is smaller in the case of the *120 a los 65* (40.6%) and *Ángel Guardián* (44.4%) programs, as they target individuals and were not designed for the transfer to be paid to the woman of the household. In all, women account for 54.8% of the recipients of MIDES’s three CCT programs.

## 2. Progress and challenges of the reform process

- 1.10 **Improved equity and efficiency of social protection spending.** The first two operations in this programmatic series supported reforms to make social protection spending more equitable and efficient. As described in the following paragraphs, the series supported far-reaching reforms including, among others, the approval of a legal framework for a single registry of CCT program beneficiaries, approval and implementation of the legal framework for CCT programs (including their targeting), a change in the targeting rules in one of these programs (*120 a los 65*), and the definition of quality standards for early childhood care at the Comprehensive Early Childhood Care Centers (CAIPIs) complemented by results-based-payment mechanisms.
- 1.11 **National beneficiary registry and single payments platform.** Design and approval of the legal framework for national beneficiary registry (RENAB) and the single payments platform (Law 54 of 2016, published in the Official Gazette on 11 November 2016) was supported. RENAB’s objective is to harmonize and improve the targeting<sup>6</sup> of government CCT programs and the programs run by

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<sup>5</sup> In 2016, the annual budget for BNA transfers totaled US\$5.5 million (General Treasury Account Report for fiscal year 2017). For a more detailed description of MIDES’s transfer programs, see [optional link 2](#), paragraphs 1.8-1.13.

<sup>6</sup> As explained in the loan proposal for the first operation in the programmatic series, although *Red de Oportunidades* was the best targeted program, it benefited only 48% of extremely poor people living in households with children. Likewise, *120 a los 65* reached only 52% of poor people living in households with adults over 65 in which nobody received an old-age pension. Low coverage coexisted with leakage. Thus, 53% of the people benefiting from *120 a los 65* were not poor. It was also estimated that only 12% of the electricity subsidy and 20% of the liquefied gas subsidy reached the poor (see [optional link 2](#), paragraph 1.22).



SENAPAN. RENAB will enable program overlaps to be monitored and audits conducted based on cross-checking with other administrative databases to potentially ensure that government transfers reach the poorest (expanding their coverage) while minimizing leakage to the nonpoor. The objective of the single payments platform is to centralize the government cash transfer payment process. The third operation in the series aims to support the implementation of the registry of beneficiaries and the platform.

- 1.12 **Legal framework for CCT programs.** The design and approval of the legal framework for CCT programs (Law 54 of 2016) was supported. This legal framework establishes, *inter alia*: (i) the power of MIDES, as the apex agency for social policy, to regulate the mechanisms for identifying the population living in poverty and extreme poverty, as well as the criteria and intervals for the recertification of beneficiaries; (ii) that such identification and recertification mechanisms are to be applied to current CCT programs and those implemented in the future; (iii) the definition of prioritization criteria for universal programs; and (iv) recognition of *Red de Oportunidades* as a government CCT program. This same law amended the eligibility criteria for the *120 a los 65* program to target older adults without a contributory pension who are living in poverty. It was previously targeted on older adults without a contributory pension living in poverty or facing vulnerability, marginalization, or social risk. This change represented a harmonization of eligibility criteria with those of other CCT programs, which never considered situations of vulnerability, marginalization, or social risk, and were therefore more restrictive despite being aimed at individuals or households facing greatest poverty.
- 1.13 **Targeting of CCT programs.** To implement Law 54 of 2016, the adoption by MIDES of a new single score to classify applicants and beneficiaries of *Red de Oportunidades*, *120 a los 65* and *Ángel Guardián* as poor or extremely poor, for the purposes of joining the programs or periodic recertification of eligibility, was supported.<sup>7</sup> MIDES established that CCT program beneficiaries classed as extremely poor needed to recertify their extreme poverty status every five years, whereas beneficiaries classed as moderately poor (i.e., poor but not extremely poor) needed to recertify their status of moderate poverty every three years. The shorter recertification period for the moderately poor reflects the shorter duration and greater volatility of this type of poverty.<sup>8</sup> The third operation in the series will support the evaluation of the single score for targeting and the results of its application in terms of coverage and leakage.
- 1.14 In order to gather the information needed to calculate the single score, for the purposes of admission or recertification, the programmatic series supported the design and adoption by MIDES of a single social protection file (FUPS). The single social protection file facilitates the standardization of enrollment in MIDES's CCT programs and improves coordination between these programs at the subnational

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<sup>7</sup> Law 54 and the MIDES resolutions implementing it incorporate a number of good practices in the implementation of CCT programs, as documented in Ibarrarán P., N. Medellín, F. Regalia and M. Stampini (editors). 2017. "How Conditional Cash Transfers Work: Good Practices after 20 Years of Implementation." Washington, D.C., United States: Inter-American Development Bank (IDB).

<sup>8</sup> Stampini M., M. Robles, M. Saénz, P. Ibarrarán, N. Medellín. 2016. "Poverty, vulnerability and the middle class in Latin America." *Latin American Economic Review*, 25(4): 2-44.

level. Its use in the field required the development of a transitional system allowing households' socioeconomic information to be gathered and recorded so as to determine if they were in a state of poverty or extreme poverty and whether they were eligible for CCT programs. Finally, the series supported updating of the program operating manuals to reflect the content of the legal framework and the implementing instruments described above.

- 1.15 **Recertification of CCT program beneficiaries.** In the context of the legal framework described above, the programmatic series supported the recertification by MIDES of the eligibility of 20% of potentially recertifiable program beneficiaries. Recertification began in areas with low or medium extreme poverty rates, i.e. less than 70%. It was carried out by applying the single social protection file (FUPS) and calculating the new single score for the poverty or extreme poverty classification (10,745 cases) or by cross-referencing with other government databases (10,816 cases). In 2016, the eligibility of 13,500 beneficiaries of the *Red de Oportunidades* and 8,061 beneficiaries of *120 a los 65* was recertified. Of these, 3,057 beneficiaries of *Red de Oportunidades* and 829 beneficiaries of *120 a los 65* were confirmed to be eligible. The remainder were classed as ineligible and excluded from the beneficiary rolls.<sup>9</sup> The third operation in the programmatic series will support the continuation of the recertification process and will support the evaluation of the impacts of its implementation.
- 1.16 **Prioritization of CCT program beneficiaries by universal programs.** The programmatic series supported the dialogue between MIDES and the Institute for Human Resources Training and Development (IFARHU), leading to a review of the Beca Universal [Universal Scholarship] Procedure Manual to incorporate the prioritization criteria established by MIDES. Beca Universal is a CCT program for school-aged children and youths who attend schools where the annual cost of tuition plus monthly fees does not exceed 1,000 balboas (B). It is run by IFARHU, which was created by and belongs to the Ministry of Education (MEDUCA), with a view to stemming school drop-outs and raising enrollment rates. The annual scholarship is B 270 for primary education, B 360 for presecondary education, and B 450 for secondary education. Payments are contingent upon attendance and a minimum grade-point average of 3.0 each quarter for primary education and a minimum grade of 3.0 in each subject for presecondary and secondary education. Payments are made at the end of each quarter at schools after report cards are handed out. With the aid of this programmatic series, it was established that IFARHU should:

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<sup>9</sup> Under the legal framework, beneficiaries of the *Red de Oportunidades* and *Ángel Guardián* (extremely poor) who have been on the programs for over five years, and beneficiaries of *120 a los 65* (poor) who have been on the program over three years can be recertified. Consequently, beneficiaries of *Ángel Guardián* were not recertified, as this program is too recent for there to be beneficiaries participating in it for more than five years. All the beneficiaries recertified by cross-referencing with administrative databases were classified as ineligible, because they were found to have ceased to have the demographic characteristics necessary to participate in the programs (for example, the children had left home). Meanwhile, the high percentage of beneficiaries classed as ineligible, from implementing the single social protection file (FUPS), reflects a combination of: (i) classification errors in the poverty or extreme poverty condition at the time of admission to the program (for example, beneficiaries incorrectly classified as being extremely poor); (ii) changes in the poverty or extreme poverty condition during the time they are on the program; and (iii) changes in the eligibility criteria (due to targeting of the *120 a los 65* program on people living in poverty).

- (i) guarantee access to eligible *Red de Oportunidades* beneficiaries not yet receiving the Beca Universal; and (ii) make efforts to find new beneficiaries in the areas of the country with the highest poverty rates, defined by MIDES as administrative units with an extreme poverty rate of over 70%. The third operation in the series will support the implementation of prioritization rules for the admission of *Red de Oportunidades* beneficiaries into the Beca Universal program.
- 1.17 **Retargeting of subsidies.** The programmatic series supported efforts to reallocate a portion of the resources previously assigned to nontargeted subsidies (including preferential interest, liquefied gas, public transportation, electricity subsidy, Metrobus, trunk route subsidy, and metro) onto CCT programs, whose efficiency and equity improved with the adoption of the single targeting score and the implementation of RENAB. These nontargeted subsidies were mostly directed at fossil fuel consumption. In 2014, before the first operation in this series, 61% of them incentivized the consumption of electricity and liquefied gas. It is precisely on subsidies of this type that expenditure-reduction efforts are being concentrated.
- 1.18 Between 2014 and 2015, the electrical power subsidy was reduced by B 119.9 million and the liquefied gas subsidy by B 2.1 million. Over the same period, the budget allocated to the *Red de Oportunidades*, *120 a los 65*, and *Ángel Guardián* CCT programs rose by B 31.8 million (from B 181.2 million in 2014 to B 213.0 million in 2015). The bulk of the budget increase was allocated to the *120 a los 65* program, which rose from B 126.6 million in 2014 to B 156.7 million in 2015. The third operation in the series will support subsequent efforts to retarget the budget previously allocated to nontargeted subsidies.
- 1.19 **Structure of MIDES.** Complementing the efforts to enhance targeting, the programmatic series supported improvements to MIDES's institutional structure. First, the creation and institutional launch of the Social Development and Inclusion Division (DIDS) was supported, with the appointment of its director and the allocation of the necessary human resources. DIDS is responsible for supervising the survey, the beneficiary roll, payments, monitoring and evaluation, and family support departments, and for implementing the *Red de Oportunidades*, *120 a los 65*, and *Ángel Guardián* CCT programs. The purpose of the new structure is to centralize and streamline processes common to the various programs at the central level (such as managing beneficiary rolls) and at MIDES's regional offices. Second, the programmatic series supported progress on streamlining BNA and *Red de Oportunidades* operating processes by merging the two beneficiary rolls and drafting a report proposing a road map for streamlining the two programs and achieving synergies between them. The third operation in the series will support the evaluation of the functioning of MIDES's new institutional structure and the streamlining of *Red de Oportunidades* and BNA operational processes.
- 1.20 **Human capital accumulation.** The first two operations in this programmatic series supported reforms to enhance the impact of MIDES's programs in terms of human capital accumulation among the poor and extremely poor. More specifically, the reforms, which are described in the following paragraphs, focused on: (i) improving the linkage between CCT programs and the availability of health and education services; and (ii) supporting the implementation of a comprehensive early childhood services model.

- 1.21 **Verification of fulfillment of CCT program coresponsibilities.** The programmatic series supported the development and adoption of new operating manuals for MIDES's CCT programs (initial versions were produced for the *120 a los 65* and *Ángel Guardián* programs). These manuals introduced clear-cut rules for verifying coresponsibilities. Since program inception, verification has been performed manually by MIDES outreach workers. This system worked until transfers were made via the banking system as payment in person enabled the coresponsibilities card or other means of compliance verification (such as school report cards or vaccination records) to be checked. The switch to paying via a bank counter or ATM is positive in terms of reducing beneficiaries' opportunity cost of withdrawing the transfer but removes the opportunity to verify fulfillment of coresponsibilities included in the original process. Compliance began to be checked by outreach workers at the various moments of contact with the beneficiaries, but the number of outreach workers was always insufficient to verify all beneficiaries in each payment cycle. This resulted in a significant decline in the effectiveness of the verification process.
- 1.22 Efforts have gradually been made, mainly in the *Red de Oportunidades* program, to evaluate the possibility of verifying compliance electronically, by cross-checking data with the information available in the Ministry of Health (MINSA); MEDUCA, and IFARHU computer systems. This information is still exchanged at irregular intervals on CD-ROM, i.e. it is not exchanged systematically for each payment cycle. Moreover, this information has not yet been used to suspend payment of a transfer in the event of noncompliance (this is still done by outreach workers by checking the coresponsibilities card or another means of verification). The third operation in the programmatic series will support the strengthening of the coresponsibilities verification process for *Red de Oportunidades* beneficiaries, by automating the exchange of information between MIDES, MINSA, MEDUCA and IFARHU. It will also support the use of this information for the systematic application of penalties in cases of noncompliance.
- 1.23 **Cooperation with MINSA and MEDUCA.** The programmatic series supported the signing of the first interagency agreements between MIDES and MINSA and between MIDES and MEDUCA to strengthen the supply of services for MIDES program beneficiaries and to facilitate fulfillment of the beneficiaries' coresponsibilities. These agreements set out the way in which the supply of health and education services for MIDES program beneficiaries is to be coordinated to facilitate fulfillment of the beneficiaries' coresponsibilities.
- 1.24 **Structure of *Red de Oportunidades* cash transfers.** The series supported a study of the alternatives for structuring *Red de Oportunidades* cash transfers in order to recognize the differing conditions of larger families, and/or the need, in the case of extremely poor children, to increase the incentive for school progression through secondary school. The study considered three proposed modifications: (i) adaptation for inflation; (ii) recognition of family structure of large households comprising multiple nuclear families, a situation that exists in indigenous areas, in particular; and (iii) recognition of the family structure of households with more than three dependent children. The study concluded with MIDES's decision not to shift to a variable transfer structure and made the observation that there was no room in the budget to introduce an inflation-adaptation mechanism.

- 1.25 **Children's Record Booklet.** In the area of early childhood care, the series supported the approval, by resolution, of the use of the Children's Record Booklet and the preparation of the operating regulations, and its distribution to 20,000 children and expectant mothers. The purpose of the booklet is to verify fulfillment of the comprehensive early childhood care and services defined in the Integrated Early Childhood Care Pathway (RAIPI). The third operation in the programmatic series will support the expansion of the use of the Children's Record Booklet and the operational evaluation of its functioning.
- 1.26 **Quality standards in the CAIPs.** The programmatic series supported reforms that, by Presidential Decree, conferred on MIDES the role of apex and oversight agency for Comprehensive Early Childhood Care Centers (CAIPs). In applying this provision, the preparation and approval by MIDES of quality standards for comprehensive care provided through individual, governmental, and community CAIPs was supported. These standards take a comprehensive view, including infrastructure, provisioning, human resources, health and nutrition, pedagogical content, and family and community relations, and establish the means of verification. The third operation in the series will support the gradual implementation of quality standards in community CAIPs managed by MIDES.
- 1.27 **Mechanism for results-based payment and per capita funding of the CAIPs.** The programmatic series supported the definition and approval of a comprehensive early childhood care model, strengthened with a per capita and results-based payment mechanism for community CAIPs managed by MIDES. This model envisages allocation of a fixed amount for the delivery of a comprehensive portfolio of services, together with an additional budget for CAIPs that meet the quality standards. The public health literature and international experience report promising results when per capita and results-based payments are incorporated into the fixed network of facilities, along with incentives to increase the quality and use of maternal-and-child health services.<sup>10</sup> The introduction of these funding criteria for the CAIPs should produce similar results in terms of the quality of early childhood services. The third operation in the series will support the gradual implementation of a results-based payment and per capita funding system for the CAIPs. MIDES, as the apex agency for social policy, may also use this model as guidance for privately managed CAIPs.
- 1.28 **Model of early childhood care for *comarcas* and remote rural areas.** The programmatic series supported the design and approval, by the technical committee of the National Council for the Comprehensive Care of Early Childhood (CONAIP), of the operating manual for the comprehensive early childhood care program "Cuidarte". This program follows a comprehensive care model with home visits for *comarcas* and remote rural areas and aims to expand the supply of services<sup>11</sup> in areas of the country where CAIPs have a limited presence, and centers do not

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<sup>10</sup> See examples in Argentina, with Plan Nacer, and in other countries (Basinga et al., 2011; Rusa et al., 2009).

<sup>11</sup> As documented in the first operation in the series, early childhood stimulation and care centers reach only 2.9% of the population ages 0-3, weighted more toward the 2-3 year age group (4.6% versus 1.2% for infants under 1). Moreover, there are significant differences at the provincial level. For instance, coverage rates are 12.4% and 10.4% in the province of Herrera and in the *comarca* of Guna Yala, respectively, as compared with 0% in the *comarca* of Emberá. Childcare falls mainly to women. In 2010, three in four children under 5 were cared for by their mothers. In the *comarcas*, this percentage is 90% (see [optional link 2](#), paragraph 1.26).

represent an efficient supply option. The third operation in the series will support the implementation of the supply of these services.

### **3. Relationship with other Bank operations and lessons learned**

- 1.29 This operation lends continuity to the Bank's support for the sector, helps consolidate MIDES's role as the apex and executing agency for social protection policy, and creates synergies with the Social Inclusion and Development Program (PN-L1105; loan 3512/OC-PN), an investment operation approved by the Bank in 2015. The programmatic series ensures that investments are implemented in a consistent regulatory framework so as to maximize their impact, and the interventions included under operation PN-L1105 facilitate the implementation of the reforms envisaged in the programmatic series. In particular, PN-L1105 is supporting the investments necessary to: (i) implement the targeting and recertification mechanisms; (ii) bring the national beneficiary registry (RENAB) and single payment platform into operation; (iii) upgrade the information management systems for MIDES's CCT programs; and (iv) increase the availability of early childhood development services at the CAIPs in remote rural areas and indigenous *comarcas*.
- 1.30 In parallel to the loan operations, the Bank has supported the Panamanian government through technical-cooperation operations (operations ATN/OC-13348-PN; ATN/OC-14030-PN; ATN/OC-14758-PN; ATN/OC-15865-PN; and ATN/OC-16284-PN). These technical-cooperation operations have supported efforts to: (i) enhance the targeting of CCT programs by developing a single scoring system to classify poverty and extreme poverty status; (ii) improve the management of CCT programs by developing a transitional system prior to the RENAB which can be used as an input to it; and (iii) conceptualize and develop the institutional framework for the Integrated Early Childhood Care Pathway (RAIPI) and some of its implementing instruments, such as the Children's Record Booklet and the curriculum for 0-3 year-olds.
- 1.31 In the process of reforming targeting, and primarily CCT program operating processes, the Bank supported the country with the knowledge accrued over more than 15 years of work with various programs in the region, and through its sector analytic work.<sup>12</sup> This work documents the importance of establishing modern beneficiary rolls and information management systems in order to increase transparency in the allocation and management of social protection spending. It also documents the importance of verification of coresponsibilities for human capital accumulation by CCT program beneficiaries. Similarly, on the issue of comprehensive care in early childhood, the Bank supported the country with the knowledge accrued from its analytic work and operations. This work documents the

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<sup>12</sup> See book published by Ibarrarán et al. (2017), online at: <https://www.iadb.org/transferencias-condicionadas> and the Social Protection and Poverty Sector Framework Document (<http://www.iadb.org/document.cfm?id=39211786>). See also the Policy Brief by Robles et al. (2015): <https://publications.iadb.org/handle/11319/7223>.

importance of applying quality standards for comprehensive care at centers. It also documents the basic elements of the design of parental support programs.<sup>13</sup>

- 1.32 **Lessons learned.** Important lessons were learned from the execution of loan 3512/OC-PN and the first operations in this series (loans 3485/OC-PN and 3724/OC-PN). First, strong leadership from the highest authorities (e.g. the Office of the President), together with monitoring of budget allocations and execution by the Ministry of Economy and Finance (MEF), are key to achieving progress on the reforms. Second, the combination of a programmatic series with an investment operation and technical cooperation (see paragraphs 1.29 and 1.30), and the concentration of the Policy Matrix on a limited number of high-priority reforms, have been key elements in making progress towards the programmatic objectives in an institutional context whose consolidation is ongoing. These lessons learned have been incorporated into the design of this operation, specifically: (i) in structuring the Policy Matrix, with a limited number of major conditions (e.g. implementation of the legal framework for CCT programs and the registry of beneficiaries); and (ii) in the promotion of interagency cooperation through MEF oversight.
- 1.33 **Coordination with other donors.** This operation complements and reinforces reforms promoted in the operations of other multilateral institutions that are currently in execution. In particular, the World Bank “Shared Prosperity Development Policy Loans” operations (approved in 2015 and 2016), made disbursement contingent on achievement of the recertification targets of *Red de Oportunidades* program, and the signing of an agreement for transfers to be paid by financial institutions. For this recertification, MIDES used the single social protection file (FUPS) and the poverty and extreme poverty classification score drawn up in 2015 with the support of loan 3485/OC-PN in this programmatic series.
- 1.34 **Strategic alignment of the program.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and directly aligned with the development challenge of social inclusion and equality through: (i) the expansion of the coverage of CCT programs among the poor and extremely poor; (ii) the reduction of CCT program leakage to the nonpoor; (iii) the targeting of previously nontargeted subsidies toward the poor; and (iv) the expansion of coverage of comprehensive early childhood development services.
- 1.35 The program is also aligned with the crosscutting themes of: (i) gender equality and diversity; (ii) climate change and environmental sustainability; and (iii) institutional capacity and rule of law. Alignment in the gender equality and diversity areas is achieved through support for the MIDES CCT program system and improvements in the supply of comprehensive early childhood care services in indigenous *comarcas*. As described above, the majority of CCT recipients are women (particularly in the case of *Red de Oportunidades*, where the percentage is 96.6%). Moreover, strengthening the supply of comprehensive early childhood care services in indigenous *comarcas* can mean mothers have more time available, thus supporting female labor-market participation. Lastly, over the medium term, strengthening these services can help improve indigenous children’s educational

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<sup>13</sup> See Social Protection and Poverty Sector Framework Document (<http://www.iadb.org/document.cfm?id=39211786>) and Berlinski and Schady (2015, <https://publications.iadb.org/handle/11319/7259>).



attainment and progression through school. Alignment in terms of climate change and environmental sustainability derives from the fact that approximately 6.25% of the operation's resources are associated with climate change mitigation policies, which reduce fossil fuel subsidies, according to the Multilateral Development Banks' joint methodology for climate financing tracking.<sup>14</sup> These resources contribute to the IDB Group's target of increasing the funding of climate-change-related projects to 30% of all operation approvals by the end of 2020. The alignment in terms of institutional capacity and rule of law stems from the fact that the operation aims to improve the transparency, equity, and efficiency of spending on social protection for the poor by implementing a legal framework for CCT programs, the national beneficiary registry, and the single payments platform.

- 1.36 The objectives of this operation contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the indicators "Beneficiaries of targeted anti-poverty programs (number of individuals)" and "Children receiving early childhood development services targeted to the poor", included in the results matrix. The program is consistent with the Strategy on Social Policy for Equity and Productivity (document GN-2588-4) and with the Social Protection and Poverty Sector Framework Document (document GN-2784-7) through its support for CCT programs for the extremely poor and the delivery of early childhood development services for the poor. It is also aligned with the strategic objective of improving the delivery of basic services to population segments living in poverty included in the Country Strategy with Panama 2015-2019 (document GN-2838), by improving social program efficiency. Lastly, the operation is included in the 2018 Operational Program Report (document GN-2915).
- 1.37 The operation is aligned with the country's social and economic strategy set forth in the 2015-2019 Government Strategic Plan, which seeks to improve coverage of basic needs and services (Section 5.4) and the development of human capacity (Section 5.6). It is also consistent with the equity, equality, and inclusion pillar of MIDES's 2014-2019 strategic plan.

## **B. Objectives, components, and cost**

- 1.38 The objective of this operation and the programmatic series is to make social protection spending for the poor more transparent, equitable, and efficient and to enhance its ability to foster human capital accumulation. This third and final operation in this PBP series combines conditions of a regulatory nature with others supporting the implementation and evaluation of the reforms promoted by the first two operations in the series. Overall, the PBP helps consolidate the previously fragmented social protection system, which lacked the regulations and tools to ensure optimal beneficiary targeting and monitoring. As described above, the PBP leaves the country with a master CCT program beneficiary register (and the corresponding legal framework), uniform CCT program targeting rules (including recertification), and a strengthened institutional framework from which to steer the social protection system. In turn, it contributes to consolidating public policy on early-childhood care, establishing quality standards and a results-based payment system

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<sup>14</sup> See 2016 Joint Report on Multilateral Development Banks' Climate Finance (<https://publications.iadb.org/handle/11319/8505>).



for the CAIPs, and a comprehensive care model with home visits for children under 3 in the *comarcas* and remote rural areas. The main tasks remaining to be completed include expanding interoperability of the master registry of beneficiaries with other government bodies delivering benefits to citizens and continuing to foster the expansion of quality comprehensive early childhood care services. The operation is divided into three components:

- 1.39 **Component 1. Macroeconomic context.** The objective of this component is to ensure that the macroeconomic context is consistent with the program objectives as laid out in the Policy Matrix (Annex II).
- 1.40 **Component 2. Support to improve the equity and efficiency of social protection spending.** This component seeks to better allocate spending on social protection programs targeting the poor and strengthen the tools for managing and monitoring this spending. The following paragraphs describe the reforms this component supports, in logical order starting with the broadest reform representing the biggest achievement.
- 1.41 In the third operation, the component will support the implementation and start-up of the first version of RENAB and the single payments platform (transitional national beneficiary registry system, referred to here as the Transitional System) which is to fulfill the following functions: (i) merging the beneficiary rolls of the *Red de Oportunidades*, *120 a los 65*, and *Ángel Guardián* CCT programs, including identity card information (condition 2.2a); (ii) interconnection of the databases of the Electoral Court (for the verification of beneficiaries' identities), MINSA (for verification of health coresponsibilities), and IFARHU (for verification of education coresponsibilities using information collected by the Beca Universal program) (condition 2.2b)); and (iii) interconnection with Banco Nacional de Panamá information systems to enable harmonization and automation of the three CCT programs' payment processes. This interconnection allows the beneficiary roll to integrate the first version of the single payments platform, which will be used to centralize the transfer payments process for the three MIDES CCT programs (condition 2.2c). The contract for the construction of the final version of the national beneficiary registry (RENAB) and the single payments platform, which also includes improvements to the CCT programs' management information systems, has been awarded and signed, and is being sent for endorsement by the Office of the Comptroller General of the Republic of Panama. This process, financed with the resources of loan 3512/OC-PN, guarantees the sustainability of the reforms supported by this operation.
- 1.42 The component will also support the continuation of the efforts to improve the targeting of transfer and subsidy expenditure. First, it will lend continuity to the implementation of Beca Universal prioritization criteria for beneficiaries of *Red de Oportunidades* so as to close gaps in coverage of the extremely poor (condition 2.1c). These criteria envisage IFARHU and MIDES cross-checking the Beca Universal and *Red de Oportunidades* beneficiary rolls (at the start of the school year) and that *Red de Oportunidades* beneficiaries who are not yet receiving the Beca Universal be given preferential access to the program. Second, it will help expand the recertification process, reaching 40% of recertifiable beneficiaries of the *Red de Oportunidades*, *120 a los 65*, *Ángel Guardián* CCT programs (condition 2.1b). Recertification will be performed by applying the single

- social protection file (FUPS) and calculating the single targeting score, or by cross-checking information with other government administrative databases. Third, the component will support the retargeting of nontargeted subsidies of B 30 million per year (equivalent to US\$30 million) to the MIDES CCT programs that have adopted the new single mechanism for classification of the country's poor and extremely poor (condition 2.1d). Lastly, the component will evaluate the effects of implementing the new targeting mechanism and the new recertification process on coverage and leakage of the *Red de Oportunidades*, *120 a los 65*, *Ángel Guardián* programs (condition 2.1a).
- 1.43 The component will support the evaluation of the reform of MIDES's institutional structure. In particular, it will support the evaluation of the functioning of DIDS and its impact in terms of streamlining the operating processes of the three CCT programs (condition 2.3a). It will also support evaluation of the streamlining of the operating processes of BNA and *Red de Oportunidades* (condition 2.3b), which, with the support of this operation, have: (i) merged their beneficiary rolls in the RENAB Transitional System; (ii) harmonized the tool used to evaluate applicants' eligibility (FUPS); and (iii) unified the role of outreach workers (who belong to all MIDES transfer programs rather than one specific program). Lastly, to reduce the duplication of administrative efforts by the various government institutions, it will support the use of information collected by IFAHRU to verify education coresponsibilities in *Red de Oportunidades* (condition 2.3c).
- 1.44 Most of the policy conditions set out in the Policy Matrix for this operation are the same conditions as were identified as triggers for the third operation when the second operation of the programmatic series was designed. In some instances (2.1a, 2.2a, 2.2b, 2.2c, 2.3a and 2.3c), the triggers were modified to reflect changes in the focus of the planned reforms.
- 1.45 In condition (2.1a) a phrase regarding the analysis of the targeting of nontargeted subsidies that duplicated the content of condition (2.1d) was deleted.
- 1.46 In condition (2.2a) the requirement that the single register was to contain information from its first version was eliminated, including the identity card number, for each of the members of CCT program beneficiary households. This change reflected the phased approach to the inclusion of this information. The data on household members are available for *Red de Oportunidades* beneficiaries and will be available for *120 a los 65* and *Ángel Guardián* program beneficiaries when the single social protection file (FUPS) is running. This amendment does not change the objective of having information on the members of the household as well as on the beneficiary, as this information will become available as the recertification process advances and new beneficiaries join via the application of the single social protection file.
- 1.47 In condition (2.2b) information exchange through processes of interoperability was added, with IFAHRU and the Ministry of Health to verify compliance with the education and health coresponsibilities for *Red de Oportunidades*. At the same time, the requirement to complete the exchange of information with the Social Security Fund has been eliminated. This interconnection will be left for the subsequent phase of development of the master registry (funded by operation PN-L1105), which will include interoperability with a broader group of public institutions. Condition (2.2c) requires that the process of paying transfers via the single payments platform begin. This condition is met with MIDES's sending the payment list to the banking system

electronically. The change specifies that it is not necessary to wait for the banking system to complete the payment cycle for the condition to be considered to have been met.

- 1.48 Condition (2.3a) was divided into two parts, and it was specified that the evaluation of the reorganization of MIDES focus on the functioning of the DIDS. Condition (2.3b) envisages the evaluation of the streamlining of BNA and *Red de Oportunidades* operating processes. This reform had been modified in the context of the second operation, eliminating the objective of merging the two programs to reflect the government's decision to create synergies between them to address the differing needs of extremely poor households. Lastly, the requirement that the Beca Universal condition be adopted as an education coresponsibility for *Red de Oportunidades* was eliminated from condition (2.3c). This change reflected the government's decision that it was not appropriate to make *Red de Oportunidades* payments contingent on school achievement. Nonetheless, MIDES will use the information on school attendance gathered by IFAHRU to verify education coresponsibilities in *Red de Oportunidades*. This will streamline information gathering in schools and align the requirements of the different government programs.
- 1.49 **Component 3. Human capital accumulation.** The aim of this component is to improve the linkage between CCT programs and the availability of health and education services, as well as to support the implementation of a comprehensive early childhood services model as a human capital accumulation strategy.
- 1.50 The component will support systematic verification, by means of the Transitional System (which provides management information system functions), of at least 50% of *Red de Oportunidades* beneficiaries' fulfillment of health and education coresponsibilities (condition 3.1a). It will also support application of the rule that payments be suspended in the case of partial or total noncompliance with health and/or education coresponsibilities (condition 3.1b).
- 1.51 In the first instance, IFAHRU Beca Universal information will be used to verify education coresponsibilities, as this is the most recent information available. In the second instance, MEDUCA information will be used in the case of beneficiaries who are not in the IFARHU database or for whom it is not possible to determine compliance from this database (if the information is incomplete, for instance). In the third instance, beneficiaries will be asked to submit school report cards or proof of enrollment to MIDES outreach workers to show compliance.
- 1.52 For the verification of health coresponsibilities, in the first instance information from the MINSA health statistics records system (SIREGES) will be used, as it contains the relevant information on services provided to a significant share of the poor. In the second instance, for beneficiaries not included on SIREGES, verification will use the health statistics information system (SIES) database, also belonging to MINSA. In the third instance, beneficiaries will be asked to submit the Children's Booklet to MIDES outreach workers, or health center files will be checked, to show compliance.
- 1.53 In the area of comprehensive care in early childhood, this component will support: (i) expansion of the coverage of the Children's Booklet for at least 40,000 children or expectant mothers (condition 3.2a); (ii) operational assessments of the functioning of the Children's Booklet (condition 3.2a); (iii) progressive

implementation and monitoring of the quality standards for services provided by the CAIPs (condition 3.2b); (iv) gradual implementation of the model of comprehensive early childhood care based on per capita and results-based payment (condition 3.2c); and (v) implementation of the comprehensive care model with home visits for *comarcas* and remote rural areas (condition 3.2d).

- 1.54 Quality standards and the comprehensive early childhood services model will be progressively implemented in 44 CAIPs in the treatment group to make up the context for evaluation of the impact supported by the IDB (PNL-1105). Standards will be implemented gradually starting with 15 standards addressing process areas. The literature highlights that these are the most important standards in ensuring high quality childcare.<sup>15</sup> Oversight of compliance with standards by the MIDES Social Protection Services Division will take place three times during the school year.
- 1.55 MIDES will implement the comprehensive early childhood services model at the CAIP gradually, starting with a management model based on per capita funding and results-based payment, through its own administrative systems. This system will introduce two levels of budget per child which MIDES will assign to each CAIP centrally. The fixed basis is for the provision of a comprehensive portfolio of services (comprising 14 services pointing to compliance with the four rights on the Integrated Early Childhood Care Pathway (RAIP)). The variable basis (which establishes a performance incentive) will be assigned to the CAIP which, during oversight in the previous year, was shown to fulfill three service quality criteria: (i) coverage: 85% of children under 4 in the treatment area; (ii) care: children should receive 80% of the comprehensive services portfolio according to the quality standards; and (iii) management: the CAIP delivers technical and administrative reports monthly. Implementation will be prioritized in those CAIPs that have the institutional bank account enabled.
- 1.56 An adaptation of the curriculum of the Jamaican “Reach up and Learn” model will be used for the comprehensive care model with home visits for *comarcas* and remote rural areas. This model was originally devised in Jamaica around 50 years ago. In its original form the program included weekly home visits to mothers by doctors and nurses, who brought toys and books to show them how to play with their children and enhance their development. This enabled children to learn from their mothers all the time rather than just once a week when the nurses visited. Visits took place over two years.<sup>16</sup> The model is evidence-based. It has been implemented and evaluated in various contexts (Jamaica, Colombia, India, Peru, and also among indigenous populations) and has yielded robust and sustainable outcomes. In Panama it is undergoing a careful process of adaptation and contextualization to the local culture and reality prior to implementation. The pilot will be run in the Ngäbe Buglé comarca. In parallel, progress will be made on the call for tender for the supply of community model services to 900 children in remote areas.
- 1.57 As in the case of Component 2, most of the policy conditions set out in the Policy Matrix for this operation are the same conditions as identified as triggers for

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<sup>15</sup> Berlinski and Schady (2015), editors. The Early Years: Child Well-being and the Role of Public Policy. Washington D.C., United States. IDB.

<sup>16</sup> <https://blogs.iadb.org/desarrollo-infantil/2018/05/24/intervencion-para-la-primera-infancia/>.

the third operation when the second operation in the programmatic series was designed.

- 1.58 The most significant change is in condition (3.1b), which originally envisaged the adoption of a variable structure for the transfer of the *Red de Oportunidades*. MIDES evaluated this reform in the second operation of the programmatic series, concluding that it was not appropriate to proceed. More recently, a legal assessment by MIDES found that Article 18 of Law 54 of 2016 establishes that the monetary transfer from the *Red de Oportunidades* is for a fixed monthly amount of B 50 (equivalent to US\$50). Consequently, the government confirmed its intention not to reform the structure of *Red de Oportunidades* transfers at that time. Instead of this condition, a new condition (3.1b) was included in the matrix, introducing the systematic impact of the lack of fulfillment of coresponsibilities. MIDES's decision that partial nonfulfillment of coresponsibilities determines suspension of payments (leaving a fixed transfer structure, paid in full or suspended in the case of nonfulfillment).
- 1.59 In condition (3.2a) expectant mothers were added as recipients of the Booklet, reflecting the distribution of this instrument during prenatal check-ups. The new formulation is consistent with the same condition in the second operation of the series.
- 1.60 Condition (3.2b) was reformulated to clarify that quality standards will be implemented gradually. It is not possible for quality standards to be complied with at all Comprehensive Early Childhood Care Centers (CAIPs) from the start of the reform implementation process. What is required is that: (i) a gradual implementation plan be established (with priority standards); (ii) CAIPI staff be trained to implement these standards; and (iii) compliance with the quality standards be monitored. Lastly, in condition (3.2c) the abbreviation COIF (standing for Child and Family Guidance Center) has been replaced by CAIPI (Comprehensive Early Childhood Care Center), reflecting the change in name of these centers.
- 1.61 The program's Policy Matrix (Annex II) presents the policy actions that have been agreed upon with the Panamanian government. The changes in the policy actions set out in this document and detailed in [optional link 1](#) have no impact on the objectives of the programmatic series.

### **C. Key outcome indicators**

- 1.62 The Results Matrix (see [required link 3](#)) for the programmatic series identifies the outputs and outcomes that should accompany implementation of the policy measures aimed at enhancing the transparency and equity of social protection spending. Chief among the outputs of this third operation in the programmatic series are merging of the CCT program beneficiary rolls, the interconnection of RENAB with the Electoral Court, MINSA and IFARHU databases, the harmonization of CCT program payment processes, progress on the process of recertification of CCT program beneficiaries, phased implementation of quality standards in the CAIPs, implementation of per capita financing mechanisms, and results-based payments for CAIPs, and the implementation of the comprehensive early childhood care model for *comarcas* and remote rural areas. The expected outcomes deriving from these outputs include reduced leakage of CCT programs to the nonpoor population, as well as an increase in the percentage of beneficiaries whose compliance with coresponsibilities is verified systematically. Specifically, CCT program leakage is

expected to drop to 25%. The Results Matrix includes the indicator “Beneficiaries of targeted anti-poverty programs (number of individuals)” from the Corporate Results Framework 2016-2019 (document GN-2727-6). The improved targeting of CCT programs should have an impact in terms of reducing poverty and extreme poverty.

- 1.63 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight (OVE) in its 2011 review of Bank Project Evaluability<sup>17</sup> and the results of the review of evaluation practices and standards for policy-based loans carried out by the Evaluation Cooperation Group (ECG), comprising the independent evaluation offices of the multilateral development banks,<sup>18</sup> envisaged in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-sovereign Guaranteed Operations) which, *inter alia*, indicates that it will not be necessary to include an analysis of the efficiency of the use of financial resources,<sup>19</sup> it was determined that an economic analysis will not be performed for this type of loan, as the Bank’s Board of Executive Directors was informed. This loan operation does not, therefore, include an economic analysis, so the economic analysis is not considered for the purposes of measuring the evaluability score in this program’s Development Effectiveness Matrix (DEM).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 This operation is structured as a programmatic policy-based loan. The choice of this instrument is justified for the implementation of medium-term reforms, in a context of increasing delivery capacity (stimulated by the operations within the series as well as parallel investment operations), utilizing in each phase the knowledge acquired previously. The operation’s structure follows and is consistent with the guidelines and directives set out in document CS-3633-1 (Policy-based Loans: Guidelines for Preparation and Implementation).
- 2.2 **Dimensioning of the operation.** In line with the provisions of paragraph 3.27(b) of “Policy-based Loans: Guidelines for Preparation and Implementation. New Version” (document CS-3633-1), the current operation will be for a sum of up to US\$200 million from the Bank’s Ordinary Capital, equivalent to 8.3% of the gross financing requirement of Panama’s public system. These needs are estimated at US\$12 billion over 2015-2019 or US\$2.4 billion a year.

### B. Environmental and social risks

- 2.3 This operation does not envisage activities with adverse impacts on natural resources. Accordingly, pursuant to Directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20 and Operational Policy

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<sup>17</sup> Document RE-397-1: “At present the score in the economic analysis section is calculated using the maximum value of the cost-benefit and cost-effectiveness analyses. However, these analyses cannot be applied to policy-based loans.”

<sup>18</sup> Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012

<sup>19</sup> According to the ECG, PBLs should be evaluated in terms of their relevance, effectiveness, and sustainability. Efficiency is not included as a criterion, as the dimensioning of PBLs is linked to a country’s financing gap and is independent from the project’s benefits.

OP-703) and because it involves a policy-based sector loan, it does not require classification. The social impact of the program's policy measures is expected to be positive.

**C. Other project risks**

- 2.4 The operation faces a medium-level risk in the area of public management and governance, for which mitigation measures have been identified. There is a risk of the loss of political consensus to ensure continued implementation of reforms currently being implemented. In particular, this concerns completion of the construction of RENAB and the single payments platform, currently at the contract endorsement stage, and the expansion of the comprehensive early childhood services model to *comarcas* and remote rural areas, which is currently at the pilot stage. This risk has been mitigated by strengthening MIDES. Moreover, parallel execution of operation PN-L1105 will make it possible to support the country with the investments necessary to implement the policy reforms, including finalization of RENAB and scaling up the early childhood care models at the CAIPs and in remote rural areas, increasing the sustainability of the results of the programmatic series.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

**A. Summary of implementation arrangements**

- 3.1 The borrower will be the Republic of Panama. The program's executing agency will be MEF, which, with the support of MIDES, will be responsible for monitoring fulfillment of the requirements in Annex II and fulfillment of the means of verification for each of the matrix conditions.
- 3.2 Six bodies are responsible for the execution and monitoring of the policy measures in this operation: the MEF's Public Credit Bureau, responsible for intersectoral and intergovernmental coordination for programmatic loans and fulfillment of the policy condition (2.1d); IFARHU, responsible for implementing Beca Universal prioritization criteria for the poor (condition 2.1c) and for facilitating implementation of the interconnection with the MIDES beneficiary roll (condition 2.2b); the Electoral Court, MINSA, and Banco Nacional de Panamá, responsible for facilitating implementation of the interconnection with the MIDES beneficiary roll (conditions 2.2b and 2.2c); MINSA, which is responsible for expanding coverage of the Children's Booklet (condition 3.2a); MIDES, responsible for fulfillment of the remainder of the conditions.
- 3.3 **Special contractual conditions precedent to the single disbursement.** The single disbursement is contingent on fulfillment of the policy reform measures described in the Policy Matrix, the [Policy Letter](#) and the conditions established in the loan contract.

**B. Summary of arrangements for monitoring results**

- 3.4 Program monitoring will consist of verification of the policy measures spelled out in the Results Matrix (see [required link 3](#)). The matrix differentiates between the near-term results, which are regulatory in nature, and those that will be seen in the medium term as a result of reforms. These include CCT program coverage and leakage indicators and comprehensive care service coverage indicators. The long-

term results will be associated with human capital accumulation among the poor and the resulting poverty reduction.

- 3.5 The outcomes achieved in the first two operations in the series include the recertification of over 20% of CCT program beneficiaries, a reduction of more than US\$20 million per year in nontargeted subsidies (primarily energy subsidies) and its retargeting on programs for the poor and extremely poor, and the distribution and use of the Children's Booklet among more than 20,000 children and expectant mothers. The measurement and evaluation of the majority of the results will take place in the context of this third operation in the series. In connection with evaluation, the experimental impact of the implementation of quality standards in the CAIPs stands out. The evaluation will explore to what extent the intervention has had an impact on children's physical, cognitive and socio-emotional development.

#### **IV. POLICY LETTER**

- 4.1 In a policy letter to the Bank (see [required link 1](#)) submitted by the MEF, the Government of Panama outlined its macroeconomic and sector policies, describing the main components of the government's strategy for this program, and reaffirming its commitment to undertake the agreed activities.



Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Gender Equality and Diversity -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Beneficiaries of targeted anti-poverty programs (#)* -Children receiving early childhood development services targeted to the poor (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2838	Improve the delivery of basic services to the population living in poverty.
Country Program Results Matrix	GN-2915	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	9.3	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	2.3	
4. Ex ante Economic Analysis	N/A	
5. Monitoring and Evaluation	8.6	
5.1 Monitoring Mechanisms	1.1	
5.2 Evaluation Plan	7.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.
Non-Fiduciary	Yes	Statistics National System.
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	Yes	In parallel with the loan operations, the Bank has supported the Government of Panama through technical cooperation (PN-T1094, PN-T1105, PN-T1120, PN-T1145, PN-T1180). These technical cooperations have accompanied the efforts to: (i) improve the targeting of the CCT programs through the elaboration of a unique poverty or extreme poverty classification score; (ii) improve the management of the CCT programs through the development of a transitory system prior to the RENAB and that serves as an input for it; (iii) conceptualize and institutionalize RAIPI and some of its implementation instruments such as the Children's Book and the curriculum for the population from zero to three years.

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

The objective of this third and final PBP is to improve the transparency, equity and efficiency of spending on social protection for the poor and increase their capacity to promote the accumulation of human capital. To achieve this objective, policy reforms are supported to improve the equity and efficiency of spending on social protection and the accumulation of human capital. The vertical logic presented in the POD is consistent with the policy conditions and indicators presented in the results matrix. The results matrix includes indicators for the main outputs, outcomes and impacts. Indicators in the results matrix meet SMART criteria and include baseline values and targets, as well as the sources and means of verification that will be used to measure them, with the exception of two outcome indicators related to the Angel Guardian program. The final impact indicators are the incidence of extreme poverty and the incidence of general poverty. The Ministry of Economy and Finance, the Ministry of Social Development and the Inter-American Development Bank will be in charge of monitoring the program. The project includes an experimental impact evaluation on the implementation of quality standards in children's centers (CAIPI) that will measure the impacts of improving services on the physical, cognitive and socio-emotional development of children.

## POLICY MATRIX

Component Objective	Programmatic I (2015)	Programmatic II (2016)	Programmatic III
	Policy Conditions	Policy Conditions	Policy Conditions
<b>Component 1. Macroeconomic framework</b>			
Macroeconomic framework	(1.1) A suitable macroeconomic policy framework is maintained.	(1.1) A suitable macroeconomic policy framework is maintained.	(1.1) A suitable macroeconomic policy framework is maintained.
<b>Component 2. Support to improve the equity and efficiency of social protection spending</b>			
Targeting	<p>(2.1a) Proposal of a legal framework for cash transfer programs that includes:</p> <ol style="list-style-type: none"> <li>1. The power of the Ministry of Social Development (MIDES), as the lead agency for social policy, to regulate the mechanisms for identifying the population living in poverty and extreme poverty, as well as the criteria and intervals for recertification of this population.</li> <li>2. Application of these identification and recertification mechanisms to existing cash transfer programs and any programs implemented in the future.</li> <li>3. Prioritization criteria for universal programs defined.</li> <li>4. Recognition of <i>Red de Oportunidades</i> as a government cash transfer program.</li> </ol> <p>(2.1b) Design of a single scoring system for classifying <i>Red de Oportunidades</i>, <i>120 a los 65</i>, and <i>Ángel Guardián</i> applicants and beneficiaries as poor or extremely poor, consistent with the Ministry of Economy and Finance's (MEF) definition of poverty.</p> <p>(2.1c) Development of proposed operating manuals for the <i>Red de Oportunidades</i>, <i>120 a los 65</i>, and <i>Ángel Guardián</i> programs that include targeting and recertification criteria.</p>	<p>(2.1a) Legal framework for cash transfer programs that includes:</p> <ol style="list-style-type: none"> <li>1. The power of MIDES, as the lead agency for social policy, to regulate the mechanisms for identifying the population living in poverty and extreme poverty, as well as the criteria and intervals for recertification of this population.</li> <li>2. Application of these identification and recertification mechanisms to existing cash transfer programs and any programs implemented in the future.</li> <li>3. Prioritization criteria for universal programs defined.</li> <li>4. Recognition of <i>Red de Oportunidades</i> as a government cash transfer program.</li> </ol> <p>(2.1b) The single scoring system for classifying <i>Red de Oportunidades</i>, <i>120 a los 65</i>, and <i>Ángel Guardián</i> applicants and beneficiaries as poor or extremely poor is approved, consistent with the MEF definition of poverty.</p> <p>(2.1c) Approval of <i>Red de Oportunidades</i>, <i>120 a los 65</i>, and <i>Ángel Guardián</i> operating manuals that include targeting and recertification criteria.</p> <p>(2.1d) Implementation of the mechanism for identifying the poor and extremely poor for purposes of targeting new <i>Red de Oportunidades</i>, <i>120 a los 65</i>, and <i>Ángel Guardián</i> beneficiaries.</p>	<p>(2.1a) The effects of implementing the new targeting mechanism and the new recertification process on coverage and leakage of the <i>Red de Oportunidades</i>, <i>120 a los 65</i>, and <i>Ángel Guardián</i> programs have been evaluated.</p>

Component Objective	Programmatic I (2015)	Programmatic II (2016)	Programmatic III
	Policy Conditions	Policy Conditions	Policy Conditions
		(2.1e) 20% of the beneficiaries of <i>Red de Oportunidades</i> , <i>120 a los 65</i> , and <i>Ángel Guardián</i> recertified using the new targeting mechanism.	(2.1b) 40% of the beneficiaries of <i>Red de Oportunidades</i> , <i>120 a los 65</i> , and <i>Ángel Guardián</i> recertified using the new targeting mechanism.
		(2.1f) The rules of operation of the <i>Beca Universal</i> updated to include the prioritization criteria set out in Component (2.1a).	(2.1c) Implementation of the <i>Beca Universal</i> prioritization criteria for the poor, as referred to under Component (2.1a) of the first operation.
		(2.1g) At least B 20 million (balboas) per year in nontargeted subsidies redirected to MIDES cash transfer programs that have adopted the new unified mechanism for identifying the country's poor and extremely poor.	(2.1d) At least B./ 30 million (balboas) per year in nontargeted subsidies <sup>1</sup> retargeted using the new unified mechanism for identifying the country's poor and extremely poor.
Management of beneficiary rolls	(2.2a) Design of the legal and operational framework for a master registry of beneficiaries of conditional cash transfer (CCT) programs and for a single payment platform that is integrated with that registry and with the information management systems of the <i>Red de Oportunidades</i> , <i>120 a los 65</i> , and <i>Ángel Guardián</i> programs.	(2.2a) The legal and operational framework for the master registry of beneficiaries and single payment platform exists.	(2.2a) Data on all members of beneficiary households under the <i>Red de Oportunidades</i> , <i>120 a los 65</i> , and <i>Ángel Guardián</i> programs, including the unique identification numbers, are on the registry.  (2.2b) The interface between the registry and the databases of the Electoral Court, the Institute for Human Resources Training and Development (IFAHRU), and the Ministry of Health is established.  (2.2c) The process of paying cash transfers through the single payment platform integrated with the master registry has begun.
	(2.2b) Approval and adoption of the single social protection file for determining eligibility for new and continued enrollment (recertification) in MIDES programs.	(2.2b) The single social protection file is being used for determining eligibility for new and continued enrollment of all new MIDES program applicants.	<sup>2</sup>

<sup>1</sup> Mainly the consumption of fossil fuels: electricity and liquefied gas subsidy.

<sup>2</sup> Component oversight to be performed by monitoring of the effects of implementing the new targeting mechanism and the process of recertification of coverage and leakage of the *Red de Oportunidades*, *120 a los 65*, and *Ángel Guardián* programs (condition 2.1a).

Component Objective	Programmatic I (2015)	Programmatic II (2016)	Programmatic III
	Policy Conditions	Policy Conditions	Policy Conditions
Organization of MIDES	(2.3) Approval of the institutional structure of MIDES, with a Programs Department supervising subdepartments for the beneficiary rolls, payments, monitoring and evaluation, family support, and the <i>Red de Oportunidades</i> , <i>120 a los 65</i> , and <i>Ángel Guardián</i> programs.	(2.3a) MIDES's Social Development and Inclusion Division is up and running, performing its role of managing social protection programs.  (2.3b) Progress has been made on streamlining the operating processes of <i>Bono Nutricional Alimenticio</i> (BNA) and <i>Red de Oportunidades</i> by merging the beneficiary rolls of the two programs.	(2.3a) An operational evaluation of the reorganization of MIDES has been conducted, primarily in relation to the Social Development and Inclusion Division.  (2.3b) The streamlining of the operating processes of the <i>Bono Nutricional Alimenticio</i> and <i>Red de Oportunidades</i> has been evaluated.
			(2.3c) The use of information gathered by IFAHRU to verify education coresponsibilities in <i>Red de Oportunidades</i> has been adopted.
<b>Component 3. Human capital accumulation</b>			
Conditional cash transfer (CCT) programs	(3.1) Approval of the <i>Red de Oportunidades</i> , <i>120 a los 65</i> , and <i>Ángel Guardián</i> operating manuals that include the update of the coresponsibilities verification system.	(3.1a) Agreements signed with the Ministries of Health (MINSA) and Education (MEDUCA) to enhance the availability of services for MIDES program beneficiaries and facilitate fulfillment of beneficiaries' coresponsibilities.	(3.1a) Compliance with health and education coresponsibilities is verified for at least 50% of <i>Red de Oportunidades</i> beneficiaries through the program's management information system.  (3.1b) In at least one payment cycle the following rule is applied when <i>Red de Oportunidades</i> transfers are paid: partial or total nonfulfillment of health and/or education coresponsibilities is penalized with suspension of payment.
		(3.1b) Progress made on redesigning the structure of <i>Red de Oportunidades</i> cash transfers to include at least one of the following variables: number of persons, educational cycle, and poverty level.	<sup>3</sup>
Early childhood development (ECD)	(3.2a) Approval and adoption of the <i>Libreta del Niño</i> [Children's Record Book] and development of its operating regulations.	(3.2a) The Children's Record Booklet is being used by at least 20,000 children or expectant mothers.	(3.2a) The Children's Record Booklet is being used by at least 40,000 children or expectant mothers, and an operational evaluation of its functioning has been conducted.

<sup>3</sup> This condition is not monitored in the third operation ([optional link 1](#)).

Component Objective	Programmatic I (2015)	Programmatic II (2016)	Programmatic III
	Policy Conditions	Policy Conditions	Policy Conditions
	<p>(3.2b) Definition of the mechanism for results-based payment and per capita funding of the public and private providers that operate the Child and Family Guidance Centers (COIFs).</p>	<p>(3.2b) Progress has been made on the gradual implementation of the mechanism for results-based payment and per capita funding of the public and private providers that operate the COIFs.</p> <p>(3.2c) The actions envisaged in the Integrated Early Childhood Care Pathway (RAIPI) are being implemented, including the designation of MIDES as the lead and oversight agency of the COIFs.</p> <p>(3.2d) Quality standards for the COIFs have been defined and approved.</p> <p>(3.2e) MIDES has regulated the comprehensive services model for implementation at the COIFs.</p> <p>(3.2f) The CONAIP Technical Committee has developed and approved the comprehensive care model with home visits for <i>comarcas</i> and remote rural areas.</p>	<p>(3.2b) Quality standards for comprehensive early childhood services for children served by the Comprehensive Early Childhood Care Centers (CAIPs) approved and being monitored.</p> <p>(3.2c) The CAIPs' comprehensive early childhood services model is being implemented.</p> <p>(3.2d) The comprehensive care model with home visits for <i>comarcas</i> and remote rural areas is being implemented.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Panama. Loan \_\_\_\_/OC-PN to the Republic of Panama  
Program for Transparency and Equity in Spending  
on Social Protection III

The Board of Executive Directors

RESOLVES:

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, for the purpose of granting it a financing to cooperate in the execution of the Program for Transparency and Equity in Spending on Social Protection III. Such financing will be for the amount of up to US\$200,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ 2018)