

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

SOCIAL INCLUSION AND DEVELOPMENT PROGRAM

(PN-L1105)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Leonardo Pinzón Enciso (SPH/CPN) Project Team Leader; Marco Stampini (SCL/SPH); Florencia López-Boo (SCL/SPH); Carolina Freire (SPH/CPN); Annie Smith (SPH/CPN); Cynthia Hobbs (EDU/CPN); Juan Carlos Dugand (FMP/CPN); Ezequiel Cambiasso (FMP/CPN); Cristina Landazuri (LEG/SGO); Mauricio Pérez (SCL/SPH); Ilia Nieto (CID/CPN); Claudia Pévere (SCL/SPH); and Juan Batista and Rodrigo Arim (consultants).

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ELECTRONIC LINKS	
REQUIRED	
1.	Program execution plan (PEP) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39636681
2.	Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39634273
3.	Procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39634655
4.	Environmental and social management report (ESMR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39632939
OPTIONAL	
1.	Economic analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39632927
2.	Estimated cost table http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39634431
3.	Pathway for Comprehensive Early Childhood Care (RAIPI) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39632942
4.	Per capita and results-based payment model http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39634517
5.	Community modality of comprehensive early childhood care http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39634292
6.	COIF architectural prototype http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39632933
7.	Targeting analysis for the construction of COIFs http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=39683931
8.	Institutional map of social protection http://idbdocs.iadb.org/WSDocs/getdocument.aspx?DOCNUM=39684880
9.	Bibliographic references http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39632934
10.	Safeguard screening form and safeguard policy filter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39720918

ABBREVIATIONS

AG	Ángel Guardián [Guardian Angel]
BFA	Bono Familiar Alimentario [Family Food Voucher]
BU	Beca universal [universal scholarship]
CBA	Canasta básica de alimentos [basic food basket]
CBNA	Canasta básica no alimentaria [basic nonfood basket]
CCTP	Conditional cash transfer program
CEFACEI	Centro Familiar y Comunitario de Educación Inicial [Family and Community Early Childhood Education Center]
CEIC	Centro de Educación Inicial Comunitario [Community Early Childhood Education Center]
CIS	Cartera Integral de Servicios [Comprehensive Services Portfolio]
COIF	Centro de Orientación Infantil y Familiar [Child and Family Guidance Center]
CONAIP	Consejo Nacional de Atención Integral a la Primera Infancia [National Council on Comprehensive Early Childhood Care]
DPI	Dirección de Programas de Inclusión y Desarrollo Social [Social Inclusion and Development Program Directorate]
DRMs	Direcciones regionales del MIDES [MIDES regional directorates]
DSPS	Dirección de Servicios de Protección Social [Social Protection Services Directorate]
ElH	Educación Inicial en el Hogar [Home-based Early Childhood Education]
ESMR	Environmental and social management report
IFARHU	Instituto para la Formación y Aprovechamiento de Recursos Humanos [Institute for Human Resources Training and Development]
MEDUCA	Ministry of Education
MEF	Ministry of Economy and Finance
MIDES	Ministry of Social Development
MINSA	Ministry of Health
MIS	Management information system
MRB	Master registry of beneficiaries
OC	Ordinary Capital
PBL	Policy-based loan
PEG	Plan Estratégico del Gobierno [Government Strategic Plan]
PMT	Proxy means test
RAIP	Ruta de Atención Integral a la Primera Infancia [Pathway for Comprehensive Early Childhood Care]
RdO	Red de Oportunidades [Opportunities Network]
STGS	Secretaría Técnica del Gabinete Social [Technical Secretariat of the Social Cabinet]
UEAF	Unidad de Enlace Administrativa y Financiera [Administrative and Financial Liaison Unit]

PROJECT SUMMARY

PANAMA SOCIAL INCLUSION AND DEVELOPMENT PROGRAM (PN-L1105)

Financial Terms and Conditions				
Borrower: Republic of Panama			Flexible Financing Facility^(a)	
			Amortization period:	17 years
Executing agency: Ministry of Social Development (MIDES)			Original weighted average life:	10.75 years
			Disbursement period:	4 years
			Grace period:	4.5 years
Source	Amount	%	Inspection and supervision fee:	^(b)
IDB (Ordinary Capital)	US\$50 million	83%	Interest rate:	LIBOR-based
Local	US\$10 million	17%	Credit fee:	^(b)
Other/Cofinancing			Currency:	U.S. dollars
Total	US\$60 million	100%		
Project at a Glance				
<p>Program objective: The general objective is to contribute to the reduction of poverty and extreme poverty in Panama and better enable the Social Protection System to promote human capital accumulation. The specific objectives are to: (i) strengthen the Ministry of Social Development (MIDES) at the central and regional levels in its role as apex authority and implementation agency for social policies and programs; (ii) improve the targeting and distributive efficiency of social spending in conditional cash transfer programs (CCTPs); and (iii) narrow gaps in the coverage and quality of comprehensive early childhood services.</p>				
<p>Special contractual conditions: (a) as a condition precedent to the first disbursement: the program Operations Manual will be approved and in force (see paragraph 3.2); (b) as a condition precedent to the disbursement of resources for payment of the Opportunities Network conditional cash transfers under Subcomponent 1 of Component 3: (i) interagency agreements will be signed and in force between MIDES and the Ministry of Health (MINSa), and between MIDES and the Ministry of Education (MEDUCA); and (ii) the operational audit will have been commissioned (see paragraphs 3.3 and 3.8); (c) as a condition precedent to the disbursement of resources for the per capita payment under Subcomponent 3 of Component 3: (i) the Supplier Operating Regulations governing the mechanism for making and verifying the per capita payments for the delivery of services at the Child and Family Guidance Centers (COIFs) and in the community modality, whether by the public sector or the private sector, will be approved and in force (see paragraph 3.4); (ii) MIDES will appoint a trustee to administer such resources (see paragraph 3.6); and (iii) the operational audit will have been commissioned (see paragraph 3.8).</p>				
<p>Special execution conditions: (a) prior to launching the tender for construction or rehabilitation of COIF works, evidence will be provided to the Bank of legal possession of the land where the works are to be built; (b) the allocation for maintenance of the goods, works, and equipment financed by the program in condition for proper use will be a protected line item in the MIDES budget; and (c) other social conditions established in the program's environmental and social management report (ESMR) (see paragraph 2.2).</p>				
Exceptions to Bank policies: None.				
Project qualifies as: ^(c) <div style="display: flex; justify-content: space-around; width: 100%;"> SV [X] PE [X] CC [] CI [] </div>				

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

^(b) 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 applicable policies.

^(c) SV (small and vulnerable countries); PE (poverty reduction and equity enhancement); CC (climate change, sustainable energy, and environmental sustainability); CI (regional cooperation and integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems to be addressed, and rationale

1. Poverty and childhood development

- 1.1 **Poverty and inequality.** Panama's economic growth¹ has coincided with a reduction in poverty and inequality. Between 2006 and 2014, national poverty and indigence rates declined from 38.3% to 25.8%, and from 17.6% to 11%, respectively.² Nonetheless, wide social disparities persist between urban areas, rural areas, and indigenous territories known as *comarcas*.³ In rural areas, the poverty and indigence rates in 2014 were 49.7% and 26.3%, respectively, versus 13.8% and 3.3% in urban areas. According to 2010 poverty map estimates, in the three indigenous *comarcas* with provincial status, the incidence of extreme poverty was over 40%, and poverty was 70%.⁴ Even though the Gini coefficient of income distribution declined by six percentage points between 2002 and 2012, from 0.56 to 0.51,⁵ inequality remains very high. In 2012, the richest quintile of the population possessed 78% of the country's wealth, while the lowest income quintile accounted for just 1%.
- 1.2 **Inequities in child development.** Exposure to poverty is most acute among children and relates to lags in human capital accumulation, generating a pernicious cycle of intergenerational reproduction of poverty. Among children under five years of age, the poverty and indigence rates in 2013 were 39% and 17.8%, respectively, compared to 18.8% and 7.3%, respectively, for the 30 to 59 year age group.⁶ As many as 19% of under-fives suffer from chronic malnutrition, and the rate is higher among the extreme poor, reaching 56% in the *comarca* areas of Guna Yala and Emberá Wounaan.⁷ Scientific evidence shows that malnutrition in the early years of life can stunt physical and cognitive development, which has an adverse impact on an individual's ability to learn and earn income in later life.⁸
- 1.3 Poverty in this age group is explained partly by gaps in the coverage and quality of critical early childhood services, including actions to raise standards for childraising, health, nutrition, and early stimulation. Just 2.9% of children under

¹ Panama's GDP grew at an average rate of 7.8% between 2007 and 2013, compared to a regional average of 3.1%. In 2014, GDP growth was 6.3%, putting the country in the upper-middle per capita income bracket. Ministry of Economy and Finance (MEF), 2013.

² The poverty lines are calculated in terms of the cost of the basic food basket (CBA) and the basic nonfood basket (CBNA). The value of the CBA determines the per capita income needed for a household to stay above the extreme poverty line, and the sum of the CBA and CBNA determines the per capita income threshold to stay above the (nonextreme) poverty line.

³ Panama has 411,132 indigenous inhabitants and seven indigenous groups, who represent 12% of the population.

⁴ The estimates of the incidence of poverty in urban and rural areas are from the MEF, based on data from the March 2014 Multipurpose Survey, which is representative at the urban and rural levels, but not at the provincial level. For the indigenous *comarcas*, the data are from the last available Poverty Map (2010 Census).

⁵ World Development Indicators, World Bank 2012.

⁶ IDB calculations based on data from the August 2013 Multipurpose Survey.

⁷ Meso-American Health Initiative, 2015. Baseline results, 2013.

⁸ Anthony Lake, Margaret Chan. "Putting science into practice for early child development." *The Lancet*, 20 September 2014.

three years of age attend child care centers.⁹ Preschool enrolment, encompassing four- and five-year-olds, was 50.3% and 78.6%, respectively, in 2012.¹⁰ Moreover, no standards have been set for childraising in the home or in the community, in a context where the majority of childcare falls mainly to women.¹¹

2. Progress and challenges of the social protection system

- 1.4 The apex authority of Panama's social protection system is the Ministry of Social Development (MIDES), created in 2005 by Law 29. MIDES is responsible for the formulation, coordination, and oversight of social policies for priority groups (children, young people, women, older adults, and others), as well as for running the main social projects. It also acts as technical coordinator of the Social Cabinet, which is coordination body for the national government's social agenda.
- 1.5 MIDES operates three conditional cash transfer programs (CCTPs): (i) "Red de Oportunidades" [Opportunities Network] (RdO), which includes the "Bono Familiar Alimentario" [Family Food Voucher] (BFA), for the extreme poor; (ii) "120 a los 65" [120 to the 65s], a program, for poor and vulnerable older adults; and (iii) "Ángel Guardián" [Guardian Angel] (AG), a program for the extreme poor with severe disabilities. There is also a fourth CCTP, "Beca Universal" [Universal Scholarship] (BU), administered by the Institute for Human Resources Training and Development (IFARHU), which provides monthly economic support of 30, 40, and 50 balboas to primary, middle, and high-school students, respectively. The payment is conditional on school attendance and maintaining a grade point average of 3.0 per quarter. Expenditure on CCTPs has grown over the last few years, from 0.48% of GDP in 2009 to 0.66% in 2014. Most of this went to the "120 to the 65s" and BU programs (0.27% of GDP each), followed by the RdO program (0.1% including the BFA).
- 1.6 **Opportunities Network and BFA.** The RdO is a CCTP for households in extreme poverty. The amount of the transfer is 50 balboas per month,¹² regardless of the household's membership. Payments are made every two months and designed to be conditional on the fulfillment of coresponsibilities in education and health. The BFA beneficiaries receive coupons worth 50 balboas per month that can only be used to purchase food at authorized stores. In 2014, the RdO and the BFA had 72,800 and 10,000 beneficiary households, respectively. The indigenous *comarcas* are targeted geographically, all households there are eligible for the program. In the rest of the country, beneficiaries are selected on the basis of their per capita family consumption through a proxy means test (PMT).
- 1.7 The **120 to the 65s** program is a CCTP, created in 2009 (Law 44) and operated by MIDES, for individuals over 65 years of age receiving a contributory pension who are living in conditions of vulnerability.¹³ The amount of the transfer is 120 balboas per month. Payments are made every two months and conditional on attending health checkups and psychological and medical guidance talks, courses, and

⁹ Pathway for Comprehensive Early Childhood Care (RAIPI), 2013.

¹⁰ Ministry of Education, 2012.

¹¹ Three out of every four children under five were looked after by their family (90% in indigenous families).

¹² Began in 2006 with a monthly transfer of 35 balboas, raised to 50 balboas per month in July 2008.

¹³ A person or group liable to suffer physical harm or discrimination.

seminars. The number of beneficiaries of the “120 to the 65s” program grew from 58,442 individuals in 2009 to 90,124 in 2014. This expansion in coverage was due to broadening the eligibility criteria by lowering the beneficiary age threshold from over 70 years of age to over 65.

- 1.8 **Guardian Angel.** The AG program is a CCTP, created in 2012 (Law 39) and operated by MIDES, targeting the severely disabled living in conditions of dependency and extreme poverty. The amount of the transfer is 80 balboas per month. Payments are made every two months to the beneficiary through his or her legal representative. To be admitted to the AG program, the potential beneficiary must present a diagnosis from a relevant public health institution. The extreme poverty criterion is assessed through the same PMT as used by the RdO. In 2014, the program reached 8,605 beneficiaries. The size of the target population is estimated at between 45,000 and 55,000 people (2010 Census).
- 1.9 **Challenges.** Despite gains, Panama’s social protection system faces challenges in terms of institution-strengthening and the ability to manage and target the CCTPs.¹⁴
- 1.10 **Institution-strengthening.** MIDES displays weaknesses in its role as the apex authority for social policy. Its outdated technological processes and platforms prevent it from efficiently managing and effectively overseeing its programs. At the central level, MIDES needs to rationalize and strengthen its human resources and management tools. At the local level it needs to strengthen its 14 regional offices to enhance the quality of services provided to the beneficiaries. The Technical Secretariat of the Social Cabinet (STGS), reporting to MIDES, also displays weaknesses in its role as social policy coordinator.
- 1.11 **CCTP targeting and management.** Panama has no master registry of beneficiaries to rationally allocate the benefits of the various existing CCTPs and monitor potential ones. Moreover, the CCTPs use different targeting criteria, including different poverty classification mechanisms. While the RdO and AG programs use the same PMT score, the “120 to the 65s” program targets individuals living in situations of social risk, vulnerability, exclusion, or poverty (defined very broadly). Targeting inconsistencies mean that resources are not allocated efficiently; when resources are limited, this creates an undercoverage problem. Thus, for example, even though the RdO is the best targeted program, its benefits reach only 48% of the extreme poor living in households with children; and the “120 to the 65s” program reaches only 52% of the poor living in households with older adults over age 65 in which no one receives an old-age pension.¹⁵
- 1.12 There are no processes for periodically recertifying CCTP beneficiaries. In a context of economic growth, this creates leakage problems. Thus, 53% of beneficiaries of the “120 to the 65s” program and 56% of BU beneficiaries are not poor.¹⁶ Lastly, lack of coordination entails overlaps that may be inefficient. For example, about 80% of RdO beneficiaries also benefit from the BU,¹⁷ and the two

¹⁴ The Bank is supporting the government through a programmatic policy-based loan (loan 3485/OC-PN).

¹⁵ Prepared by the IDB on the basis of the August 2013 Multipurpose Survey. The calculation method is described in the [monitoring and evaluation plan](#).

¹⁶ Ibid. See calculation method in the monitoring and evaluation plan.

¹⁷ Ibid.

programs have similar school enrollment objectives. The regional evidence shows that improvements in the targeting of CCTPs generate positive impacts on the well-being of the target population. Medeiros et al. (2008) find that the fulfillment of coresponsibilities in the Bolsa Família family subsidy program in Brazil is crucial for reducing poverty and inequality.¹⁸

- 1.13 **Human capital accumulation.** MIDES has difficulties verifying fulfillment of its programs' educational and health coresponsibilities, which could jeopardize the goal of promoting human capital accumulation. Part of this difficulty relates to management of the CCTPs in the field. For example, the RdO has a network of outreach workers to monitor the families through home visits. Nonetheless, the large number of beneficiary families assigned to each outreach worker makes it impossible to verify fulfillment of the coresponsibilities in each payment cycle.¹⁹ In practice, therefore, payment of the transfer has never been denied for nonfulfillment. The literature cited in the [Social Protection and Poverty Sector Framework Document](#) that the conditionalities explain a large part of the positive outcomes achieved by CCTPs, since they increase both school enrolment and demand for routine preventive health services, compared to what would have been the case with unconditional transfers.

3. Progress and challenges of early childhood programs

- 1.14 In 2009, Panama adopted a Public Policy on Comprehensive Early Childhood Care (PAIPI),²⁰ which seeks to ensure that all children under five years of age have access to early stimulation, education, comprehensive health, and nutrition. The policy is coordinated by the National Council on Comprehensive Early Childhood Care (CONAIPI), chaired by the Office of the First Lady. In 2011, CONAIPI prepared a "Comprehensive Early Childhood Plan of Panama," laying out the platform necessary to provide effective childhood care. Between 2012 and 2013, with support from the Bank, the government designed a Pathway for Comprehensive Early Childhood Care (RAIPI), which was adopted through Decree 106 of 2014. This document establishes the rights, care, and services that all children should receive for their comprehensive development. As part of its implementation, an official curriculum was designed for the 0- to 3-year-old population served by child care centers; and the children's record booklet, or "libreta del niño," was designed and validated as a tool for verifying the care services included in the pathway document. Recently, in March 2015, CONAIPI handed over responsibility for interagency implementation of the RAIPI to MIDES.
- 1.15 Depending on the accessibility of offerings, a child between birth and five years of age may attend: (i) a public or private Child and Family Guidance Center (COIF) regulated by MIDES; or (ii) one of the two modalities, formal or informal, of initial and preschool education provided by the Ministry of Education (MEDUCA).
- 1.16 The care provided at the COIFs encompasses food, recreation, early stimulation, and early childhood education depending on the stage of life. There are 104 public COIFs run by MIDES which have an enrolment of 3,074 children under five years

¹⁸ Medeiros, M., T. Britto, and F. Veras Soares (2008). "Targeted cash transfer programs in Brazil: BPC and the Bolsa Família." *International Poverty Center Working Paper 46*.

¹⁹ According to MIDES data, one outreach worker may monitor up to 900 families.

²⁰ Executive Decrees 201 and 216 of 2009.

- of age.²¹ There are also 133 private COIFs, supervised by MIDES but privately financed, which have a joint enrolment of 2,875 under-fives.
- 1.17 In its formal modality, MEDUCA preschool includes only four- and five-year-olds. This formal modality operates in school rooms attached to an education center, and is conducted by a qualified early childhood education teacher. The informal modality is what children under five years of age mainly attend in poorer, remote areas. Offerings consist of: (i) Family and Community Early Childhood Education Centers (CEFACEIs) serving up to 25 children each; (ii) Community Early Childhood Education Centers (CEICs) serving up to 15 children each; and (iii) Home-based Early Childhood Education (EIH). EIH provides parental support services to parents and caregivers through a weekly guidance service provided by facilitator mothers. The 384 EIHs serve a total of 4,812 children under five.²²
- 1.18 **Challenges.** Panama faces challenges in terms of low coverage, lack of service standards and tools to monitor comprehensive development in early childhood.
- 1.19 **Low coverage.** Childcare offerings at COIFs are limited. Considering the projections of the National Census, the under-five population totals 370,005 in 2015, and just 2% are covered by care centers. An analysis of the geographic distribution of coverage shows a high concentration of enrolment at the COIFs in urban areas, to the detriment of indigenous territories.²³ In fact, children in indigenous areas account for just 6% of total COIF enrolment. Offerings targeted to rural and indigenous areas, based on a community model, also face coverage challenges. Just 6% of under-fives in these areas benefit from EIH. Nationally, the CEFACEIs and CEICs also have low coverage, serving just 22,340 children under five.²⁴
- 1.20 **Integrated model and setting of standards.** Both the COIFs and EIH services lack integrated offerings of early childhood care to promote child development.²⁵ The COIFs exhibit deficiencies in infrastructure, basic services, and supplies, as well as weaknesses in unified guidelines and standards on infrastructure, equipment, pedagogy, health and nutrition, and family and community support, to guide service delivery. The training received by the teaching staff is variable, and there is a lack of supervision and oversight systems. EIH services, in turn, show weaknesses in the definition of quality standards, up-to-date pedagogic content, and training for the room mothers.²⁶
- 1.21 Although Panama has no childhood development survey to measure the level of cognitive and noncognitive development among children under five, it instituted the Multiple Indicator Cluster Surveys (MICS) in 2014. This instrument reveals a wide disparity in access to early education services between poorer and wealthier children. Whereas 67% of the child population in the highest income quintile

²¹ MIDES. COIF enrolment nationwide, 2014.

²² UNICEF. Mapping early childhood services supply and demand, Panama 2013.

²³ Public COIFs are concentrated in the least poor provinces (82%).

²⁴ UNICEF. Mapping early childhood services supply and demand, Panama 2013.

²⁵ Integrated care refers to the set of services and provisions in health, nutrition, early stimulation, early learning, upbringing, and identity received by children from the stage of gestation through to six years of age.

²⁶ RAIPI, 2013.

received early education, barely 27% of children in the lowest quintile did. The survey also shows that just 44% of children received parental support in their learning.

- 1.22 **Management and supervision model.** The funds allocated to the COIFs from MIDES do not relate to enrolment or the delivery of a defined service package.²⁷ The care service provided is not nominalized, which makes it difficult to budget and pay on the basis of the number of children served, or to assign a package of services, the delivery of which can be verified.²⁸
- 1.23 As a response to the challenges facing the social protection and early childhood care systems, this program will prioritize the following: (i) institutional strengthening of MIDES; (ii) management of CCTPs; and (iii) an increase in the quality and coverage of early childhood care services through two modalities: the COIFs²⁹ and a community care modality for the indigenous *comarcas* and remote rural areas, which will be based on the EIH experience migrated towards comprehensive care. Both modalities will be subject to quality standards and financial and management models that have not previously been used in Panama.³⁰ Other countries of the region, including Brazil (Programa Infância Melhor [Better Childhood Program]), Chile (Programa Conozca a su Hijo [Know Your Child Program]), and Mexico (Programa de Educación Inicial [Early Childhood Education Program] (CONAFE)) have chosen to provide early childhood care services through the community modality, given its proven effectiveness.³¹

4. Relationship with other Bank operations and lessons learned

- 1.24 The Bank has extensive experience with CCTPs and in rationalizing social protection systems in the region. This experience, summarized in the [Social Protection and Poverty Sector Framework Document](#), teaches that setting up a master registry of beneficiaries linked to monitoring systems can be a valuable tool for running social protection programs. Proxy means tests reduce inclusion errors but pose certain technical challenges, such as their periodic revision to reflect the changing correlation between assets and poverty.
- 1.25 The Social Protection Program, Phase I (loan 1867/OC-PN), for US\$22 million, supported MIDES in strengthening the RdO program to improve the living conditions of extremely poor families. The RdO succeeded in: (i) establishing itself as the cash transfer program with the largest population in extreme poverty; (ii) reaching 621 *corregimientos* (administrative subdivisions of districts), and promoting the use of health and education services; (iii) promoting the social

²⁷ Ibid.

²⁸ The public health literature reports promising results from the introduction of per capita and results-based payments (Health and Nutrition Sector Framework Document).

²⁹ The existing literature shows that attending a high-quality care center considerably increases earned income in adulthood. Belfield et al. (2006) estimates a 28% increase in future labor incomes (see [“Economic analysis”](#)).

³⁰ The MEDUCA formal modality will not be targeted by this operation since the focus will be on strengthening parenting skills and early childhood education in the community.

³¹ Araujo and Lopez-Boo (2013) state that periodic group meetings are better suited to the realities of scattered rural populations. Gertler et al. (2015) estimates that, in Jamaica, children who received an early stimulation program in the family and community modality, earned incomes as adults that were 25% higher than those of the control group.

inclusion of RdO beneficiary households by introducing activities to supplement the transfers; and (iv) paying the transfers regularly. Since 2012 the Bank has also provided support through technical cooperation operations in early childhood care. One of the most important outputs supported by the IDB was the design and institutionalization of the Pathway for Comprehensive Early Childhood Care (RAIPI), adopted under Decree 106 of February 2014. Other forms of direct support from the IDB are described in paragraph 1.14.

- 1.26 The lessons learned from this support included: (i) the strengthening of education and health service offerings for RdO beneficiaries was unlikely to be achievable with interagency agreements (MIDES, MEDUCA, and MINSA), without a strong mandate from the highest authorities (e.g., the Office of the President), together with MEF monitoring of budget allocations and execution; and (ii) the low management and technical capacity of MIDES affected the meeting of monitoring and supervision targets. These lessons have been incorporated into the design of this operation, specifically: (i) the agreements with MINSA and MEDUCA have been renewed and adjusted with budgets, targets, and results for each sector; (ii) a technical training plan has been added on the use of information technology and statistical tools; (iii) a master registry of beneficiaries will be financed for management of the beneficiary rolls; and (iv) the sector approach of early childhood actions can affect the comprehensive approach to early childhood development. This operation complements the Program for Transparency and Equity in Spending on Social Protection I (loan 3485/OC-PN), a programmatic policy-based loan that seeks to make social protection spending for the poor more transparent, equitable, and efficient and to enhance its ability to foster human capital accumulation. The programmatic series will ensure that the investments are implemented in a consistent regulatory framework that includes the following policy measures: (i) the law creating the master registry of beneficiaries; and (ii) the regulation of mechanisms for identifying the population living in poverty and extreme poverty, as well as the criteria and intervals for recertification of this population.
- 1.27 To sum up, this operation lends continuity to the support provided by the Bank in the social sector through loan 1867/OC-PN and the technical cooperation operations. Building on program 3485/OC-PN, it contributes to strengthening investments in human capital, particularly those targeting early childhood. This addresses the need to organize and strengthen a [Social Protection System](#) that has changed drastically since the design of operation 1867/OC-PN, adding new CCTPs and making early childhood policy a top priority.

5. Strategic alignment

- 1.28 The program is aligned with the Update to the Institutional Strategy 2010-2020: Partnering with Latin America and the Caribbean to Improve Lives (document GN-2788-5), and consistent with its lending program to reduce social exclusion and inequality, eradicate extreme poverty, make quality health and education services accessible, and invest in human capital, including early childhood. The program will contribute to the lending program priority targets of the Ninth General Increase in the Resources of the Inter-American Development Bank (document AB-2764) for (i) lending to support small and vulnerable countries and (ii) lending to support poverty reduction and equity enhancement, by protecting

households from risks and redistributing income effectively. It will also contribute to the regional goals for lowering the extreme poverty index and for the following outputs: persons receiving a targeted antipoverty program, and persons incorporated into a civil or identification registry, as established in the Results Framework. In addition, the objectives of this operation contribute to the Strategy on Social Policy for Equity and Productivity (document GN-2588-4) and are consistent with the Social Protection and Poverty Sector Framework Document (document GN-2784), since they support conditional cash transfers for the extreme poor, and early childhood service offerings for the poor.

- 1.29 The operation is aligned with the country's social and economic strategy, as laid out in the Government Strategic Plan 2015-2019, which seeks to develop human capacity (section 5.6). By increasing access to mother-child health services through improvements in the RdO, the operation is also aligned with the health pillar of the Bank's 2010-2014 country strategy with Panama (document GN-2596). It is also aligned with the strategic pillars identified in the dialogue for preparation of the 2015-2019 country strategy, particularly in relation to reducing poverty and increasing the transparency and equity of public expenditure. The operation is included in the 2015 country program (document GN-2805).

B. Objectives, components, and cost

- 1.30 **Objective and expected outcomes.** The general objective is to contribute to the reduction of poverty and extreme poverty in Panama and better enable the Social Protection System to promote human capital accumulation. The specific objectives are to: (i) strengthen the Ministry of Social Development (MIDES) at the central and regional levels in its role as apex authority and implementation agency for social policies and programs; (ii) improve the targeting and distributive efficiency of social spending in conditional cash transfer programs (CCTPs); and (iii) narrow gaps in the coverage and quality of comprehensive early childhood services.
- 1.31 The project's components seek to achieve shared development objectives. Strengthening of MIDES at the central level and of its functioning at the regional level (Components 1 and 2) will allow for better CCTP performance and the expansion of early childhood service offerings. At the same time, verification of coresponsibilities in the CCTPs and increased early childhood service offerings (Component 3) will boost the effects of better targeted CCTPs in terms of income support for the poor and extreme poor.
- 1.32 **Component 1. Strengthening of MIDES at the central and regional levels (IDB US\$9.5 million; Local contribution US\$1.8 million).** The objective is to strengthen MIDES in its dual mandate as apex authority for social policies and executing agency for social protection programs at the central and regional levels, by increasing its execution, monitoring, and supervision capacities.
- 1.33 **Subcomponent 1. Institution-strengthening at the central level.** This subcomponent will finance: (i) technical assistance to design and monitor social policies and programs by the MIDES technical directorates, and to support creation of the program directorate for administration, supervision, and monitoring of the CCTPs; and (ii) training for the STGS in its role as facilitator of interagency agreements to promote service offerings and the fulfillment of CCTP health and education coresponsibilities; (iii) contracting of consultants for the MIDES Early

Childhood Unit (see paragraph 3.1); and (iv) procurement of furniture and computer hardware for the central MIDES.

- 1.34 **Subcomponent 2. Improvement of MIDES regional and local management.** This subcomponent will finance: (i) training services to enhance knowledge of CCTP management among regional personnel; (ii) technical assistance for the design of the MIDES unified outreach scheme; (iii) payments to outreach workers and for training services to better enable them to support the CCTP beneficiary families; (iv) physical upgrading and procurements of technological hardware, furniture, and vehicles for the 14 MIDES Regional Directorates (DRMs); and (v) services to design and implement a system for interconnecting the DRMs with MIDES headquarters.
- 1.35 **Component 2. Efficient management of CCTPs (IDB US\$13.9 million; Local contribution US\$1.5 million).** The objective is to effectively target CCTP beneficiaries and administer CCTPs more efficiently through dynamic management of the beneficiary rolls, creation of the master registry of beneficiaries, and development of automated payment platforms.
- 1.36 **Subcomponent 1. Beneficiary targeting.** This subcomponent will finance: (i) technical assistance to revise criteria and tools for CCTP beneficiary eligibility, targeting, prioritization, and recertification, based on a single poverty definition; (ii) services for implementing the unified social protection form to be used by the different CCTPs; and (iii) services to implement beneficiary targeting and recertification.
- 1.37 **Subcomponent 2. Dynamic management of the beneficiary roll.** This subcomponent will finance: (i) services for restructuring the management information system (MIS) for the CCTPs; (ii) services for the design and development of a master registry of beneficiaries and a single payment platform; (iii) procurement of technological hardware and hosting services for the MIS, master registry of beneficiaries, and the single payments platform; and (iv) training services for MIDES staff in the management of the MIS and master registry of beneficiaries.
- 1.38 **Component 3. Increase in human capital investment (IDB US\$25 million; Local contribution US\$6.6 million).** The objective is to foster human capital accumulation through effective verification of CCTP coresponsibilities and increased coverage and quality of comprehensive early childhood services.
- 1.39 **Subcomponent 1. Verification of coresponsibilities.** This subcomponent will finance: (i) technical assistance to update agreements with MINSA and MEDUCA in relation to the verification of coresponsibilities; (ii) services to create protocols, compilation of personal information, and processes for verification of CCTP coresponsibilities; and (iii) payment of the RdO transfers (see paragraph 1.7), based on the implementation and gradual verification of the health and education coresponsibilities in zones of extreme poverty.³²

³² Represents 13% of the total amount of the financing and 6.4% of the annual amount allocated in the MIDES budget to pay the transfers. The budgetary appropriations of the RdO are contained in the Government Strategic Plan, which guarantees their sustainability.

- 1.40 **Subcomponent 2. Increased coverage and quality of comprehensive early childhood services.** This subcomponent will finance: (i) services to develop pedagogic guides for the 0- to 3-year-old curriculum and the introduction of quality standards³³ at COIFs; (ii) the construction of five COIFs and rehabilitation of the COIFS under MIDES management, to be agreed upon based on the evaluation of quality and facility standards; (iii) technical assistance for the design of a community modality for comprehensive early childhood services in indigenous *comarcas* and remote rural areas; and (iv) services for implementation of the children's record booklet as part of the RAIFI.
- 1.41 **Subcomponent 3. Institutionalization of per capita and results-based payment.** This subcomponent will finance the contracting of a trustee to administer and make the per capita payment³⁴ for public and private providers of the Comprehensive Services Portfolio (CIS)³⁵ at COIFs and of the community modality (see paragraph 1.22).
- 1.42 The per capita financing will be based on the annual operating cost structure of the COIF and the community modality. The per capita amount is thus calculated as the average unit cost of funds to provide the CIS to each beneficiary for one year. The calculation of the per capita payments will include: (i) delivery of the services defined in the CIS; (ii) the costs of additional human resources engaged by the COIFs and by public or private suppliers of the community modality; and (iii) the cost of supplies, materials, mobilization, goods, and equipment purchased by the COIFs and the community modality, incurred in providing the CIS services. In addition, the calculation of the per capita payments will include the cost of the payment to the COIFs and the providers of the community modality for compliance with the results indicators established in the standards for the comprehensive care model.
- 1.43 Eligible expenses will be the per capita and results-based payments, including: (i) a fixed base equivalent to 85% of the total amount of the per capita payment, according to the number of children enrolled and minimum attendance, additional human resources to meet standards, and the number of days of operation of the COIF and the public or private providers of the community modality; and (ii) the results-based payment equivalent to 15% of the total amount of the per capita payment for compliance with the indicators established in the standards of the comprehensive services model. The payments in points (i) and (ii) will be evaluated by the MIDES Regional Directorates, validated by the Social Protection Services Directorate (DSPA), and audited on an ex post and sampling basis by the operational audit.³⁶
- 1.44 **Cost and financing.** The project will have a total cost of US\$60 million. Of that amount, US\$50 million (83%) will be financed by the Bank with Ordinary Capital

³³ The standards of care are: (i) infrastructure and equipment; (ii) health and nutrition; (iii) pedagogic; and (iv) identity, family, and relationship with the community.

³⁴ The results indicators are associated with compliance with the standards of care.

³⁵ The CIS is the package of services to be received by all children under four years of age: (i) identity, which covers birth registration and the youth identity card; (ii) health; (iii) nutrition; and (iv) early childhood education, which promotes cognitive, noncognitive, and physical development.

³⁶ A similar arrangement is being used by the Health Equity Improvement and Services Strengthening Program (loan PN-L1068; 2563/OC-PN), which is executing satisfactorily.

(OC) resources, and US\$10 million (17%) will be provided by the local counterpart (see Table I.1).

TABLE I.1: COSTS OF THE OPERATION

Component	IDB (US\$)	Local (US\$)	Total (US\$)
1. Strengthening of MIDES	9,481,660	1,806,211	11,287,871
2. Efficient management of CCTPs	13,900,000	1,503,000	15,403,000
3. Increase in human capital investment	25,018,340	6,578,789	31,597,129
Audit, supervision, and evaluation	1,600,000	112,000	1,712,000
TOTAL	50,000,000	10,000,000	60,000,000

- 1.45 The operation's [Results Matrix](#) identifies its expected impacts, outcomes, and outputs. The impacts include a reduction in the incidence of extreme and general poverty, together with an improvement in the comprehensive development of the beneficiary children.³⁷ The expected outcomes include: better targeting and less leakage of the transfers; and, in terms of output, an increase in the number of beneficiaries of antipoverty programs (CCTPs) in the target population. Outcomes in terms of increased human capital relate to measurement of the verification of coresponsibilities using the MIS, and the increase in access to health and education services as results of the operation.
- 1.46 **Economic analysis.** An economic analysis was done of the costs and benefits of the following investments: (i) the implementation of quality standards for 70% of the children served by the COIFs; (ii) the offering of comprehensive early childhood care services in the community modality for 13,000 children in remote rural areas; and (iii) targeting of the RdO to the extreme poor through implementation of the master registry of beneficiaries and strengthening of MIDES. The operation's net present value (NPV) under conservative scenarios, using a 5% discount rate, is US\$183 million (for justification of the discount rate, see footnote 1 of the "[Economic analysis](#)"). The results are robust to the sensitivity analysis. The key parameters include the discount rate and the future return on comprehensive early childhood care, and higher rates of school attendance.

II. FINANCING STRUCTURE AND RISKS

A. Financing instruments

- 2.1 This operation is structured as a specific investment loan. The financing amount of up to US\$50 million will be drawn from the Ordinary Capital (OC) resources for four years of execution (2016-2019) (see "[Disbursement flow](#)").

B. Environmental and social safeguard risks

- 2.2 The program has been classified as "Category B" under the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703). In compliance

³⁷ Measured by: Ages and Stages (ASQ-3), which is a tool for detecting retardation in the development of children of between one and 66 months old; and by the Infant and Toddler Environment Rating Scale - Revised (ITERS-R), which is a tool for measuring quality in centers receiving children from birth to 30 months old.

with that policy, an environmental and social management report (ESMR) was prepared during preparation of the operation that identifies the main potential environmental impacts and risks and the special execution conditions. No significant environmental impacts are foreseen. Before issuing invitations to bid for the construction or rehabilitation of the Child and Family Guidance Center (COIF) works, and given the risk of informal landholding in the areas where the COIFs are to be built, an inventory will be taken of their legal status, rights negotiated with the owners, and evidence requested of legal possession of the land where the works are to be built. The allocation for maintenance of the goods, works, and equipment financed by the program in condition for proper use will be a protected line item in the Ministry of Social Development (MIDES) budget. In relation to the high risk generated by the lack of social outreach workers, MIDES capacity will be strengthened to identify outreach workers, train them, and hire them for periods of at least one fiscal year. The community modality of comprehensive early childhood care will be designed on a participatory basis in a socioculturally appropriate process with the indigenous and rural communities where it will be implemented.

C. Fiduciary risks

- 2.3 A medium fiduciary risk is the model of prior fiscal oversight, which could delay contracting and payments. This will be mitigated by establishing a plan of monthly agreements with the MIDES fiscal oversight office with support under nonreimbursable technical cooperation operation PN-T1134 to support the strengthening of fiscal oversight in Panama. In the per capita payments for the COIFs, the high risk associated with the volume of small-value payments will be mitigated by MIDES engaging a trustee (see [Annex III](#)).

D. Other risks

- 2.4 The beneficiaries' perception of the programs was identified as a high risk, as a result of the recertification process. This will be mitigated through an educational communication strategy.³⁸ Given the high risk of insufficient budget appropriations and potential cuts hampering the effective execution of the project and the sustainability of the investments, MIDES will use planning tools to prioritize the allocation of resources to the project according to the financial plan and gradually reduce the financing destined for the per capita payments. MIDES will report the results of its management of budget execution to the MEF, arrange for the project outcomes to be added to the presidential targets of the Department of Targets, and receive technical and policy support through programmatic policy-based loan 3485/OC-PN.

III. IMPLEMENTATION AND ACTION PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Panama. The program executing agency will be the Ministry of Social Development (MIDES), acting through the Social Inclusion and Development Program Directorate (DPI) which will serve as the program execution unit. Actions targeting early childhood

³⁸ See Raciborska, D., D. Philipp, and I. Nieves. "Behavior change in feeding and care practices: a brief literature review." *SPH*, September 2011.

(Subcomponents 2 and 3 of Component 3) will be subject to technical coordination by the MIDES Social Protection Services Directorate (DSPS). The Social Cabinet will be strengthened as a strategic intersector coordination mechanism.

- 3.2 The program will have an Operations Manual describing institutional relationships and the program's fiduciary and execution agreements. **As a condition precedent to the first disbursement, the program Operations Manual will be approved and in force.**
- 3.3 Interagency agreements will be entered into between MIDES and MINSA, and between MIDES and MEDUCA, to support the fulfillment of coresponsibilities. As a condition precedent to the disbursement of resources for payment of the Opportunities Network (RdO) conditional cash transfers under Subcomponent 1 of Component 3: (i) these agreements will be signed and in force; and (ii) the operational audit will have been commissioned.
- 3.4 The mechanism for making and verifying the per capita payments for the delivery of services at the Child and Family Guidance Centers (COIFs) and in the community modality, whether by the public sector (MIDES) or the private sector, will be described in detail in Supplier Operating Regulations. As a condition precedent to the disbursement of resources for the per capita payments, the Supplier Operating Regulations will be approved and in force.
- 3.5 **Fiduciary agreements.** The Bank will transfer the loan proceeds in the following manner: (i) to a special program bank account for the components other than the per capita payment, based on advances of funds to cover needs for up to six months of execution, in accordance with the respective financial plan; and (ii) to a special program bank account opened by the trustee which will administer the resources of the per capita payment based on the disbursement flow, covering needs for up to six months of execution, according to the respective specific financial plan to be defined for the per capita payment specified in Subcomponent 3 of Component 3.
- 3.6 For the resources intended for the per capita payment (paragraphs 1.43 and 1.44), the trustee will open cost centers for each COIF with two lines of investment: (i) the first line will administer the fixed base of 85% through revolving funds that will be replenished against expenditures actually incurred; and (ii) the second line will administer the results-based payment of 15% to be calculated by MIDES/DSPS, based on compliance with the outcome indicators related to meeting the standards of care. The per capita payments will be accounted for in consolidated reports issued by the trustee. As a condition precedent to the disbursement of resources for the per capita payment, MIDES will have engaged the services of the trustee to administer such resources.
- 3.7 **Procurement.** The "Policies for the procurement of works and goods financed by the Inter-American Development Bank" (document GN-2349-9) and the "Policies for the selection and contracting of consultants financed by the Inter-American Development Bank" (document GN-2350-9) will be used for the procurement processes identified in the program procurement plan. The private suppliers contracted to provide the comprehensive services portfolio (CIS) at the COIFs or in the community modality will be selected according to the procedures established in the Bank's policy. In the case of the RdO conditional cash transfers and the per

capita payments, only the appropriateness of the expenditure will be verified (see paragraphs 1.33, 1.39, and 1.40). Selection and contracting processes will be subject to ex ante and ex post supervision as specified in the respective procurement plan, which will be reviewed and adjusted by MIDES once a year or as necessary. Changes to the plan will require the Bank's respective no objection.

- 3.8 **Audits.** There will be two types of audit report: (i) program financial statements audited annually by an independent audit firm acceptable to the Bank, within 120 days after the close of each fiscal period or after the date of the last disbursement; and (ii) six-monthly operational audits to determine whether the payment of the RdO transfers has met the requirements described in Subcomponent 1 of Component 3, and to verify the per capita payments under Subcomponent 3 of Component 3, within 60 days after 30 June and 31 December, starting from the first disbursement of each component. As a condition precedent to the disbursement of resources for payment of the RdO transfers and the per capita payment, this operational audit will have been commissioned.

B. Summary of arrangements for monitoring results

- 3.9 **Monitoring.** MIDES will deliver six-monthly program status reports that include monitoring of the [Results Matrix](#). The resources for payment of the RdO transfers and the per capita payment will be monitored through review of the use of funds reports filed by the trustee.
- 3.10 **Evaluation.** The experimental impact evaluation, to be financed with the loan proceeds, will measure the impact of the quality standards on child development and on quality at 90 COIFs. The findings of the impact evaluation are to be approved by MIDES six months prior to the end of the program disbursement period (see "[Monitoring and evaluation plan](#)").

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program	-Lending to small and vulnerable countries -Lending for poverty reduction and equity enhancement			
Regional Development Goals	-Extreme poverty rate			
Bank Output Contribution (as defined in Results Framework of IDB-9)	-Individuals receiving targeted anti-poverty programs -Persons incorporated into a civil or identification registry			
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix	GN-2596	Reduce health care coverage gaps in indigenous territories and in rural communities.		
Country Program Results Matrix	GN-2805	The intervention is included in the 2015 Operational Program.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Highly Evaluable	Weight	Maximum Score
		9.6		10
3. Evidence-based Assessment & Solution		9.3	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		3.6		
3.3 Results Matrix Quality		2.7		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		9.5	33.33%	10
5.1 Monitoring Mechanisms		2.0		
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		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Treasury, Accounting and Reporting, External control, Internal Audit. Procurement: Information System, Shopping Method, National Public Bidding.		
Non-Fiduciary	Yes	Strategic Planning National System.		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment				
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	Technical Cooperations PN-T1058, PN-T1094 y PN-T1105 and PN-T1133 (in approval process) have supported the improvement of management and strategic planning capacities of the government institutions in charge of implementing the reforms, as well as the development of technical abilities within these institutions. Furthermore, Technical Cooperations PN-T1120 y PN-T1133 have supported early childhood policies in Panama.		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The impact evaluations of the early childhood program will close important knowledge gaps related to the effect of implementing quality standards and measures of child development in Panama.		

The Social Inclusion and Development Program in Panama (PN-L1105) has the objective of reducing poverty and extreme poverty in the country, and promoting the accumulation of human capital through investments in early childhood development. To reach these goals the program implements activities to strengthen social protection services managed by the Social Development Ministry, improves the targeting and distributive efficiency of conditional cash transfer programs, and invests in the expansion and improvement of early childhood development services.

The project presents an economic cost-benefit analysis that underpins the economic viability of the proposed activities, with an estimated net present value of \$US183 million.

The logical framework presented in the POD is consistent, covering inputs, outputs, outcomes and impacts. The results matrix includes indicators for major outputs, outcomes and impacts of the program. The indicators in the results matrix meet SMART criteria and include baseline values and goals. Most indicators include baseline values. The final impact indicators are incidence of extreme and general poverty, and child development in COIF centers as measured by the ASQ-3 test and physical growth (height for age).

The Ministry of Social Development (through the Executive Secretary of the Social Protection System (SPES), the Conditional Cash Transfer Direction and the Unit of Administrative and Financial Contact (JAEF)) will be responsible for the monitoring and supervision activities. The monitoring and evaluation activities have been budgeted and planned. Data sources for monitoring include administrative information data systems from MIDE and other ministries (Health, Education), surveys (Multipurpose Survey, Labor Market Survey and independent surveys), and other registries and reports.

The program will implement an experimental impact evaluation to measure the effectiveness of the interventions in COIF centers on intermediate and final results. A baseline and follow-up survey will be collected in treatment and control COIFs for the purposes of the evaluation.

RESULTS MATRIX

Project objective	The general objective is to contribute to the reduction of poverty and extreme poverty in Panama and better enable the Social Protection System to promote human capital accumulation. The specific objectives are to: (i) strengthen the Ministry of Social Development (MIDES) at the central and regional levels in its role as apex authority and implementation agency for social policies and programs; (ii) improve the targeting and distributive efficiency of social spending in conditional cash transfer programs (CCTPs); and (iii) narrow gaps in the coverage and quality of comprehensive early childhood services..
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Impact indicators	Baseline (2015) ¹	Target (2019)	Source	Calculation method
Incidence of extreme poverty	11%	6.5%	National Institute of Statistics and Census (INEC): Multipurpose Survey (March); Labor Markets Survey (August). Ministry of Economy and Finance (MEF): Per capita income and extreme and general poverty lines.	To be calculated on the basis of data from the INEC Multipurpose Survey (March) or Labor Markets Survey (August). Variables for per capita income and extreme and general poverty lines to be obtained from the MEF. ² The survey data are used to calculate: (i) CCTP coverage; (ii) poverty and extreme poverty. These data will be compared with the simulated values in the event that “(i) CCTP coverage” replicates the values in the base year.
Incidence of general poverty	25.8%	16.7%		
Percentage of children at the Child and Family Guidance Centers (COIFs) with an ASQ-3 score below a critical threshold	n/d ³	-10% of children below the threshold.	Independent surveys at the COIFs.	The Ages and Stages tool (ASQ-3) is a screening test to detect developmental delays among children between one and 66 months old. ⁴ The variable is presented as a z-score, and the critical threshold is taken to be two standard deviations below the mean. The threshold value will be adjusted according to the baseline data.
Percentage of children at the COIFs with a height-for-age z-score below a critical threshold	n/d ²	-10% of children below the threshold.	Independent surveys at the COIFs.	Anthropometric measurements using a height-measure rod pursuant to international standards recommended by the World Health Organization (WHO) and the United Nations Children’s Fund (UNICEF). The critical threshold of the height-for-age z-score is defined as two standard deviations below the mean, and will be adjusted according to baseline data.

¹ The baseline values will be updated with the most recently available figures during the launch workshop.

² The poverty lines are calculated in terms of the cost of the basic food basket (CBA) and the basic nonfood basket (CBNA). The value of the CBA determines the per capita income needed for a household to stay above the extreme poverty line, and the sum of the CBA and CBNA determines the per capita income threshold to stay above the (nonextreme) general poverty line.

³ N/d: no data available. There are currently no measurements of child development in Panama, nor of the height-for-age z-value at the COIFs. The baseline will be measured in 2016 for a sample of 90 COIFs, as indicated in the monitoring and evaluation plan.

⁴ The instrument measures five development domains (communication, fine motor skills, gross motor skills, problem-solving, and personal/social).

	Outcome indicators	Baseline (2015)	Target (2019)	Source	Calculation method
1	Percentage of extreme poor in households with members under 18 years of age included in the Opportunities Network (RdO) program (coverage)	48%	80%	INEC: Multipurpose Survey (March), Labor Markets Survey (August). MEF: Per capita income and (extreme) poverty lines.	Ratio between the number of individuals living in the target population households ⁵ receiving program benefits ⁶ and the total number of individuals living in target population households.
2	Percentage of RdO beneficiaries who are not extreme poor (leakage ⁷)	42%	35%	INEC: Multipurpose Survey (March), Labor Markets Survey (August). MEF: Per capita income and (extreme) poverty lines.	Variables of per capita income and poverty lines (extreme and general) obtained from the MEF, minus the value of the transfers.
3	Percentage of beneficiaries ⁸ of the “120 to the 65s” program who are not poor (leakage)	53%	35%		
4	Percentage of beneficiaries ⁹ of the Guardian Angel (AG) program who are not poor (leakage)	n/d ¹⁰	-5 pp		
5	Number of RdO and Family Food Voucher (BFA) beneficiaries recertified	0	190,000	Reports of the management information system (MIS), the RdO, and the master registry of beneficiaries (MRB).	Includes all members of the household. The target is equivalent to 40% of the current beneficiaries.
6	Number of “120 to the 65s” beneficiaries recertified	0	44,000		
7	Number of AG beneficiaries recertified	0	22,000		
8	Percentage of RdO beneficiaries with access to health and education services	n/d ¹¹	+5 pp	MINSA and MEDUCA administrative data; MIS reports; MRB reports.	Access to health and education services is defined as the population of a community that has access to a health provider, and a school that is less than one hour’s distance from the community in question. Baseline to be estimated in 2016.

⁵ Target population defined as extreme poor households with children under 18 years of age. In 2014, the RdO had 82,800 and 10,000 beneficiary households.

⁶ Beneficiaries are defined as all members of a household where one or more persons receive the transfer.

⁷ Leakage is defined as the percentage of CCTP beneficiary individuals (counting all members of the household) who are not extreme poor (for RdO and Guardian Angel) or general poor (for “120 to the 65s”). To calculate leakage, no restrictions are applied (demographic or receiving an old-age pension). The operation is expected to replace current nonpoor beneficiaries with new extreme or moderate poor beneficiaries, without changing the total number of beneficiaries, so the denominator of the leakage indicators is held constant.

⁸ Beneficiaries are defined as all members of a household where one or more persons receive the transfer.

⁹ Beneficiaries are defined as all members of a household where one or more persons receive the transfer.

¹⁰ No data is available on extreme poor beneficiaries of the Guardian Angel program.

¹¹ The baseline will be calculated in 2016 through a cross-referencing study of MIDES-MEDUCA-MINSA administrative data.

	Outcome indicators	Baseline (2015)	Target (2019)	Source	Calculation method
9	Percentage of COIFs applying the quality standards approved by MIDES	0	60%	MIDES administrative data. Social Services Directorate report.	There are no quality standards set for the COIFs, so the baseline is 0. Quality standards for the COIFs will include the following areas: infrastructure and equipment, health and nutrition, management and administration, pedagogic and human talent component; and identity, family, and community. A checklist will be used to measure these quality areas.
10	COIF quality measured by ITERS-R	n/d ¹²	+20 pp of the COIFs with a score above 4	Independent surveys at the COIFs.	Infant and Toddler Environment Rating Scale – Revised (ITERS-R) instrument for measuring quality at child centers. The rating is on a numerical scale from 1 to 7, where 1 indicates low quality, and 7 is excellent.

	Output indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Target	Source	Comment
	Component 1. Strengthening of MIDES at the central and regional levels									
1.1	Staff of MIDES technical directorates trained	Number of staff	0	35	35	0	0	70	MIDES six-monthly report; attendance list.	Workshops and training events.
1.2	Program directorate established for the administration, supervision, and monitoring of CCTPs	Number of directorates	0	0	1	0	0	1	Ministry payroll.	Covers RdO, "120 to the 65s," and Guardian Angel programs. Establishment includes the hiring of a team with three area coordinators.
1.3	Staff of the Technical Secretariat of the Social Cabinet (STGS) trained	Number of staff	0	5	0	0	0	5	MIDES six-monthly Report; attendance list.	Training in the monitoring and supervision of social policies and programs.

¹² N/d: no data available. There are currently no quality measurements of COIFs in Panama. The baseline will be taken in 2016, according to the schedule in the monitoring and evaluation plan.

	Output indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Target	Source	Comment
1.4	Early Childhood Coordination Unit institutionalized in MIDES	Number of staff	0	0	4	0	0	4	Consulting service contracts.	Institutionalization includes the hiring of a core team of at least a coordinator and four technical staff.
1.5	MIDES central directorates equipped with furniture and technology hardware	Number of offices	0	0	6	6	0	6	Purchase order.	Furniture (office modules, filing cabinets, chairs, conference tables), and hardware and software for operation of the MIS and MRB.
1.6	Staff of the program directorates trained in CCTP management	Number of staff	0	20	20	0	0	40	MIDES six-monthly Report; attendance list.	
1.7	MIDES unified outreach scheme designed	Number of manuals	0	0	1	0	0	1	Manual validated by MIDES.	
1.8	MIDES outreach workers paid and trained in service protocols	Number of outreach workers paid	0	200	125	75	0	0	Current payroll; attendance list.	Should not be added to EOP.
1.9	Regional directorates furnished	Number of regional directorates	0	4	5	5	0	14	Delivery orders.	Furniture (office modules, filing cabinets, chairs, conference tables), a vehicle for each office, hardware and software for operation of the MRB and MIS, and physical improvements.
1.10	Interconnection system operating between the regional directorates and central headquarters	Number of systems	0	0	0	1	0	1	Reports on system operation.	

	Output indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Target	Source	Comment
Component 2. Efficient management of CCTPs										
2.1	Criteria and instruments approved for each CCTP	Operating Regulations	0	3	0	0	0	3	MIDES ministerial decree and operations manuals.	Includes new criteria and tools for eligibility, targeting, and prioritization of CCTP beneficiaries, based on the poverty definition adopted by the MEF.
2.2	Unified social protection form adopted by the CCTPs	Number of programs	0	0	2	2	0	4	Report on operation of the unified social protection form.	Programs that adopt the form.
2.3	Beneficiary recertification protocol in effect	Number of protocols	0	1	2	0	0	3	Protocol approved by MIDES.	
2.4	CCTP management information system restructured	Number of systems	1	0	0	1	0	1	System log with changes made.	Restructured includes the module for verification of coresponsibilities for payment, and interconnected with the MRB and single payments platform.
2.5	MRB and single payments platform finalized	Number of systems	0	0	0	1	0	1	Registration of the functioning of system interconnection.	Interconnection with MINSA and MEDUCA.
2.6	MIS, MRB, and a single payments platform equipped and with hosting service	Number of systems	0	0	3	2	1	6	Acceptance and installation of equipment.	4 MIS, 1 MRB, 1 payments platform. Considered equipped when computers purchased and servers installed at MIDES offices.
2.7	Staff trained to operate the MIS, MRB, and payments platform	Number of staff	0	0	0	30	0	30	Training certificates.	Includes staff of MIDES, MEDUCA, Electoral Tribunal, and Innovation Authority.

	Output indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Target	Source	Comment
2.8	Number of antipoverty program beneficiaries (RdO, “120 to the 65s”, AG) registered in the MRB	Number of beneficiaries	0	0	0	100,000	650,000	650,000	MIS reports.	Includes all members of the family.
	Component 3. Increase in human capital investment									
3.1	Interagency agreements with MINSA and MEDUCA for verification of coresponsibilities updated	Number of agreements	0	0	2	0	0	2	Agreements signed.	
3.2	Instruments created to collect data for verification of coresponsibilities	Number of instruments	0	3	0	0	0	3	Protocols and processes validated.	
3.3	Number of RdO beneficiaries receiving cash transfers based on verification of coresponsibilities through the MIS	Number of beneficiaries			5,800	17,500	23,000	25,000	MIS reports; MRB reports.	Should not be added for EOP. Includes all family members receiving transfers.
3.4	Quality standards developed for applying at COIFs, and pedagogic guides for the 0-3 year old curriculum	Number of standards and guides	0	0	5	5	0	10	Standards approved by MIDES.	
3.5	Number of COIFs built	Number of COIFs	0	0	3	2	0	5	Report of the Social Services Directorate.	Built according to MIDES quality standards.
3.6	Number of COIFs rehabilitated	Number of COIFs	0	5	20	27	0	52	MIDES six-monthly report.	Rehabilitated according to MIDES quality standards.
3.7	Community model for comprehensive early childhood care designed for indigenous <i>comarcas</i> and remote rural areas	Number of models	0	0	1	0	0	1	Program Operations Manual.	Program design includes the beneficiary profile, curriculum, costing, manuals, care protocols.
3.8	Children under five years of age who have a children’s record booklet	Number of children	0	0	13,000	13,000	13,000	40,000	MINSA beneficiary population list.	
3.9	Per capita and results-based payment model designed for the institutional and community modality	Model	0	1	0	0	0	1		Approved by MIDES.

	Output indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Target	Source	Comment
3.10	COIFs with the per capita payment model implemented	Number of COIFs	0	10	25	35	28	98	Reports on the technical and financial audit of payments to each COIF.	The indicator should not be added for EOP. Children enrolled in the institutional and community modality.
3.11	Number of children under five years of age served by COIFs.	Number of children	0	3.14	1,098	2,421	3,449	3,449	MIDES administrative data: Number of children under five years of age enrolled in COIFs.	Target based on the increase in coverage from the construction of five COIFs under Component 3, serving an average of 75 children per COIF. Served by COIFS includes coverage and the per capita payment of the child.
3.12	Number of children under five served by the community modality.	Number of children	0	1,500	2,400	3,900	3,900	3,900	MIDES administrative data: Rolls of the beneficiary population of the community modality.	Community care modality will be developed under Component 3 of this operation. Home-based Early Childhood Education (EIH) serves 4,812 children under five, but the EIH services are not comprehensive. Served by the community modality includes coverage and the per capita payment of the child.

FIDUCIARY AGREEMENTS AND REQUIREMENT

Country: Panama
Project number: PN-L1105
Name: Social Inclusion and Development Program
Executing agency: Ministry of Social Development (MIDES), acting through the Social Inclusion and Development Program Directorate (DPI)
Prepared by: Ezequiel Cambiasso and Juan Carlos Dugand (FMP/CPN)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 1.1 The executing agency will be the Ministry of Social Development (MIDES) acting through the Social Inclusion and Development Program Directorate (DPI). The DPI will have an Administrative and Financial Liaison Unit (UEAF), which is currently attached to the Opportunities Network (RdO) program, which will provide services to the MIDES conditional cash transfer programs (CCTPs). The UEAF will be responsible for undertaking procurements, maintaining accounting records and managing payments and disbursements.
- 1.2 The audit reports show that MIDES managerial, technical, and administrative capacity needs strengthening. Arrangements must be made for strengthening the ministry, as described in the Proposal for Operation Development and in fiduciary aspects, specifically in this annex.

II. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 2.1 Procurement processes pose a medium risk, owing to the delays that could occur as a result of prior controls specified by the Comptroller's Office. This risk will be mitigated by setting up a monthly plan of action with the MIDES fiscal oversight office.
- 2.2 In Component 3, Subcomponent 3, the risk in the per capita payments to the COIFs is high owing to the large number of small payments, the legal framework under which the COIFs¹ operate, and the definition of results-based payment. To mitigate this risk, a trustee will be appointed to manage the funds in question, along with an operational audit to verify the relevance of the expenses.
- 2.3 There is a risk of insufficient budgetary appropriation. If the expenditure limits set in the Social Fiscal Responsibility Law² are surpassed, budgetary appropriations

¹ Child and Family Guidance Centers.

² Law 34 of 2008, as amended.

may be cut. To mitigate this risk, MIDES will have planning tools to prioritize the allocation of resources to the project, according to the financial plan; it will report the results of budgetary execution to the Ministry of Economy and Finance (MEF); and it will incorporate the project's results into the targets of the Targets Secretariat.

III. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACTS

- 3.1 The following requirements should be considered in the special conditions of the loan contract:
- a. The Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) will be applied. In the case of the RdO conditional cash transfers and per capita payments, only the relevance of the expense will be verified.
 - b. The provisions of document OP-273-6 will be applied, and pursuant to this: (i) audited financial statements for the project will be sought annually from an independent firm of auditors acceptable to the Bank, within 120 days following the end of each fiscal year or the date of the final disbursement;³ (ii) semiannual operational audits will be performed on the RdO transfer payments of Component 3, Subcomponent 1, and on the per capita payments of Component 3, Subcomponent 3, within 60 days following 30 June and 31 December as from the first disbursement of these components; (iii) advances of funds will be requested and justified separately, one for the per capita payments and the other for the rest of the program's components (see subparagraph c. below), for financial plans for up to 180 days; and (iv) a new advance of funding can be requested when 80% of the unjustified balance of previous advances have been separately accounted for.
 - c. The per capita payments of Component 3, Subcomponent 3, for the COIFs require a trustee to be contracted, as a condition precedent to the first disbursement for these payments. In addition, the advances to be made to the trustee, will be managed separately from advances pertaining to the other components, which will require the opening of two subloans in the Bank's loan system.
 - d. There is exchange-rate parity in Panama between the U.S. dollar and the balboa, so the exchange rate is irrelevant.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 The provisions applicable for the execution of all procurement processes envisaged in the program are specified below.

³ The auditors contracted for MIDES projects that are funded by other international agencies can be accepted, provided the firm in question is acceptable to the Bank.

A. Procurement execution

4.2 The Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) will be used for the procurement processes identified in the operation's procurement plan. Private suppliers contracted to provide the Comprehensive Services Portfolio (CIS) in the Child and Family Guidance Centers (COIFs) or in the community modality will be selected according to the procedures defined in the Bank's policy. In the case of the conditional cash transfers of the RdO and the per capita payments, only the relevance of the expenditure will be verified. Selection and contracting processes will be supervised ex ante and ex post as defined in the respective procurement plan, which will be revised and adjusted by MIDES once a year or when necessary. Changes to the plan will require the Bank's no objection.

- a. **Works contracting and the procurement of goods and nonconsulting services:** procurement processes involving international competitive bidding (ICB) will be executed using the Bank's standard bidding documents (SBDs). Processes subject to national competitive bidding (NCB) and shopping, will be executed using the models defined by the Bank for this operation. The Bank's Board of Executive Directors approved (document GN-2538-11) the use of framework agreement subsystems for up to the threshold set for NCB and the use of the shopping mechanism in amounts up to US\$30,000, which could vary if the Bank approves higher levels of use.
- b. **Selection and contracting of consultants:** Consulting service contracts will be executed using the Bank's standard request for proposals.
- c. **Individual consultant selection:** Individual consultants will be selected on the basis of their qualifications for the work in question, comparing the qualifications of at least three candidates.
- d. **Domestic preference:** Not applicable.
- e. **Advance procurement and retroactive financing:** None foreseen.
- f. **Recurrent expenditures:** The payment of conditional cash transfers and per capita payments, as described in the Proposal for Operation Development (POD).
- g. **Procurement plan:** The Procurement Plan Execution System (SEPA), or the updated version of the online procurement monitoring system, will be used.

B. Table of threshold amounts (US\$)

Works			Goods			Consulting services	
ICB	NCB/ Shopping	Shopping for complex works	ICB	NCB/ Shopping	Shopping for complex works	International	National
≥US\$3,000,000	>US\$250,000 and <US\$3,000,000	<US\$250,000	≥US\$250,000	>US\$50,000 and <US\$250,000	<US\$50,000	>US\$200,000	≤US\$200,000

C. Main procurements

Activity	Type of process	Estimated amount US\$
Goods		
Furniture for MIDES regional offices	ICB	749
Transportation vehicles for MIDES regional offices	ICB	1,808
Technology systems (hardware and software) for MIDES regional offices.	ICB	1,498
Hardware, software for the creation and the implementation of the master registry of beneficiaries (MRB) and management information system (SIG).	ICB	1,605
Works		
Services for undertaking rehabilitation and physical adaptation in the 14 regional areas.	ICB	3,140
Design, construction, and habilitation of the COIFs	ICB	7,586

D. Procurement supervision

- 4.3 All ICB and direct contracting for goods, works, and nonconsulting services will be reviewed ex ante. The selection of consulting firms in amounts greater than US\$200,000, as well as single-source selections, will be reviewed ex ante. In other contracts, the type of review to the use will be determined on a case-by-case basis in the procurement plan.

E. Special provisions

- 4.4 Not applicable.

F. Records and files

- 4.5 The executing agency and the trustee will maintain up-to-date records and duly ordered files that can be reviewed by the Bank according to the following guidelines:
- The archive containing procurement documentation will be kept in a single archive or file, which is clearly distinguishable from processes financed with local counterpart funding or from non-program resources.
 - The documents will be kept and conserved duly ordered, page numbered, and sequentially referenced, to allow for their clear and immediate location and identification, and will be kept available for review by the Bank and the audit at any time.

V. FINANCIAL MANAGEMENT

A. Programming and budget

- 5.1 The MEF is responsible for formulating and controlling the budget. Before 31 July in each fiscal year, it must submit a proposal for approval by the National Assembly, along with any addition thereto. The budget is annual and includes all public sector investments, incomes and outgoings. The draft budget law for

Fiscal 2016, which MIDES submitted to the MEF on April 30, did not include resources for this program, so MIDES will have to take the necessary steps to have it included.

B. Accounting and information systems

- 5.2 In January 2015, the government started to gradually implement the new financial information system (ISTMO),⁴ developed under the SAP platform, which replaces the Integrated Financial Management System of Panama (SIAFPA). As this system needs a maturation period to overcome initial difficulties, it has not been evaluated⁵ for use in IDB-funded projects, so a parallel system is required.
- 5.3 The UEAF does not have a financial information system⁶ and is considering acquiring the PENTAGON system which includes planning, contracts, budget, and accounting modules and is used in several projects financed by the Bank in Panama.
- 5.4 Accounting will be governed by the standards issued by the Office of the Comptroller General of the Republic, which are not aligned with International Public Sector Accounting Standards (IPSAS).

C. Disbursements and cash flow

- 5.5 In the second half of 2013, Panama passed the law establishing the use of the single Treasury Account (CUT) system; and its implementation began at the end of 2014 with the accounts of the MEF and a number of other ministries. As it is recent and is closely related to the implementation of the ISTMO, the CUT will need to operate for a period before being evaluated for its use in IDB-financed projects.
- 5.6 For Subcomponent 3, of Component 3, the Bank will advance funding to meet liquidity needs for a period of up to 180 days, to the Bank account of the trustee, who will administer the per capita payments pursuant to this component's specific financial plan. The trustee will transfer the resources to revolving funds to be set up by each COIF for the fixed base of 85% of the per capita payment pursuant to the Suppliers Operating Regulation for the per capita payment model. The trustee will also pay the COIFs the results-based payment as established in the same regulation. Accounting for this component will take the form of a report on payments made by the trustee to the COIFs, without requiring details of the latter's expenses.
- 5.7 For the other components, the Bank will transfer funding to a program-exclusive account in a financial entity, which will be opened by MIDES. Disbursements will be released as advances of funds⁷ to cover liquidity needs, according to the

⁴ Integration and Technological Solutions of the Operational Management Model.

⁵ In 2011, following an evaluation of the budget, treasury, and accounting and reporting systems, the SIAFPA was only accepted for the financial management of IDB-financed projects if done through the SIAFPA-PRO projects module. With migration to the ISTMO this module is no longer operating. The ISTMO should be evaluated once the system has been operating for at least one fiscal year.

⁶ Loan 1867/OC-PN used the SAFF system available in MINSA, which was a co-executing agency.

⁷ As provided for in Guide OP-273-6.

respective financial plan, covering a period of up to 180 days. It will also be possible to reimburse payments or make direct payments to the suppliers.

- 5.8 In order to manage two funding advance mechanisms, pursuant to the foregoing paragraphs, it will be necessary to open to subloans in the Bank's lending system, to operate independently; and in both cases, it will only be possible to request a new advance of funding when 80% of the unjustified balance of previous advances have been separately accounted for. The initial financial plan indicates that no disbursements will be required from the Bank source in 2015.

D. Internal control and internal audit

- 5.9 Given the prior oversight exercised by the Office of the Comptroller General of the Republic (CGR), the internal oversight and internal audit systems of government institutions are weak, because they rely on the CGR's oversight work instead of having effective processes and controls. For that reason they are not considered adequate for exercising the oversight function required in the projects.

E. External control and reporting

- 5.10 Given its weak audit function, the CGR has focused its action on prior oversight of transactions to dispose of government assets. Moreover, as it participates in administrative processes through prior control, it does not have the independence needed to perform the audits, so it is deemed not to have the capacity to maintain external oversight of the program.
- 5.11 There will be two types of audit: (i) audited financial statements for the project will be sought annually from an independent firm of auditors acceptable to the Bank, within 120 days following the end of each fiscal year or the date of the final disbursement; and (ii) semiannual operational audits will be performed to verify that the payment of the RdO transfers fulfills the requirements described in Component 3, Subcomponent 1, and to verify the per capita payments of Component 3, Subcomponent 3, within 60 days after 30 June and 31 December as from the first disbursement of each component. A condition precedent to the disbursement of funds for the RdO cash transfers and the per capita payment will require the operational audit to have been contracted.

F. Financial supervision plan

- 5.12 Financial supervision is based on the auditors' reports mentioned in the foregoing paragraph; and documentation in support of disbursements will be reviewed ex post by the auditors when performing the audits, or during the financial inspection visits to be made.