





CASE STUDY

Programmatic Shared Prosperity Development Policy Financing Project

PANAMA

1. PROJECT HIGHLIGHTS

| Key Cross-Country Benefit | Key National Benefit |
|--|--|
|  <p><i>Increased tax transparency to improve the enforcement of international standards.</i></p> |  <p><i>Institutional capacity building to support the rapid economic growth in a sustainable and social way.</i></p> |

2. QUICK FACTS

| Categories | Project Details |
|---------------------------------------|---|
| Project Name | Programmatic Shared Prosperity Development Policy Financing Project |
| Project Description | Panama's rapid economic growth comes with domestic challenges as well as new international responsibilities. The Programmatic Shared Prosperity Development Policy Financing Project supports Panama in fulfilling these duties by creating new institutions and infrastructure that are necessary to ensure financial integrity and social fairness. |
| Global Public Good (GPG) Theme | Fair international trade systems |
| Sub-Theme | International tax cooperation |
| Sector | Banking & financial services |

Disclaimer: We based the case study on the information cited and publicly available as of May 2023. The findings – especially concerning the GPG perspective – have been concluded to our best knowledge. The views expressed are the authors' assessments and do not necessarily reflect the project stakeholders' views. Any errors that remain are our responsibility.

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|---|---|
| Country of Implementation | Panama |
| Region | Latin America and the Caribbean |
| Income Category | High-income economies |
| Implementation Period | 2015 – 2019 <ul style="list-style-type: none"> - First phase: 2015-2016 - Second phase: 2016-2018 - Third phase: 2018-2019 |
| Project Volume | US\$ 700 million |
| Financial Source | IBRD loan : US\$ 700 million <ul style="list-style-type: none"> - First Policy Loan: US\$ 300 million - Second Policy Loan: US\$ 300 million - Third Policy Loan: US\$ 100 million |
| Instruments | Development Policy Financing (DPL) |
| MDB Involved | World Bank |
| Implementing Partner | Republic of Panama |
| Link to Detailed Project Information¹ | https://documents1.worldbank.org/curated/en/679701615222895230/pdf/Panama-First-Second-Third-Programmatic-Shared-Prosperty-Development-Policy-Financing-Project.pdf |

3. WHY THIS IS A GOOD PRACTICE

This project is a good practice example for implementing the following features that promote GPG provision:

- **Ambition:** Being an open and internationally oriented economy, Panama aims to become a key player in the enforcement of international standards regarding tax transparency. The major advances in international tax transparency and financial integrity contribute to the ambitious goal of creating an assertive and comprehensive enforcement of international tax cooperation and compliance.
- **Sustainability:** Many of the project’s interventions were targeted at infrastructural improvement and institutional capacity building. As those also have a direct positive impact on Panama and are in line with the overall country development, there is a strong self-interest for the country to maintain these

¹ Unless otherwise stated, the information used in this case study can be found in this source.

structures. Based on this, the project was expected to have a sustainable impact. As later experiences have shown, sustainability and efficiency heavily depend on country ownership up to the highest political level.

- **Transformability:** International tax cooperation and transparency is crucially dependent on information sharing. This information sharing is best done by having the appropriate institutions in place. The project contributes to facilitating information exchange by establishing those institutions. This is part of a broader reform process to bring tax transparency to international standards.

4. PROJECT INFORMATION

4.1 CHALLENGES OF GPG PROVISION IN THE COUNTRY CONTEXT

In today's globalised and interconnected world, the dissemination of minimum standards is important in various fields of the economic and social realm. This is particularly true in the area of **international tax cooperation. Capital is mobile and can be fairly easily shifted to certain countries for tax evasion purposes.** Accordingly, the international standards for tax cooperation are only as good as the weakest performing countries in this field. Otherwise, they constitute loopholes and potential tax havens. However, individual countries might have incentives not to follow international tax standards and requests for transparency, as they might gain national benefits from serving as tax havens. Therefore, it might be difficult to comprehensively enforce financial integrity and, thus, the implementation of international standards requires collective action.

During the last years, Panama has gained increased importance as one of the fastest growing economies worldwide. This has been reflected in a steadily and rapidly increasing GDP as well as an increased attractiveness for foreign investments. This increased attractiveness is accompanied by a **higher responsibility to comply with the rules for those types of investments that are defined by the international community.** In addition, the rapid growth gives more room for the fight against poverty and social reforms. In general, the institutions need to be adjusted to changing demands and opportunities.

4.2 INTERVENTION

4.2.1 Project Design and Agents of Change

With the series of three **Shared Prosperity Development Policy Loans**, the World Bank supported Panama's endeavours towards a prosperous and internationally increasingly relevant economy. The project consists of a package of a wide range of activities to foster economic growth under socially acceptable conditions and to establish the country as a reputable business place.

Between 2015 and 2019, loans in the scope of overall US\$ 700 million were distributed. Those loans followed the mechanism of development policy financing. This instrument is used by the World Bank to support "borrowers in achieving sustainable, shared growth and poverty reduction through a program of policy and

institutional actions aimed at, for example, strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, and diversifying the economy”.²

In particular, the following programme development objectives and pillars that are described in Table 1 constituted the focus of the loan distributed to Panama:

TABLE 1: PROJECT'S PDOS AND PILLARS

| PDO | | Pillars |
|-------|---|---|
| DPL 1 | To support the Government of Panama's efforts to (i) expand inclusion and opportunities, (ii) improve service delivery, and (iii) modernise fiscal management. | (i) Expanding inclusion and opportunities (ii) Improving service delivery in water and energy (iii) Modernising fiscal management |
| DPL 2 | To support the Government of Panama in increasing efficiency of public policies and strengthening social transfer programmes. | (i) Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management (ii) Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education (iii) Enhancing the Regulatory and Financial Sustainability Framework of Service Delivery in the Energy and Water Sectors |
| DPL 3 | To support the Government of Panama's efforts to: (i) strengthen the frameworks for international tax transparency, financial integrity, and fiscal management; (ii) strengthen institutional arrangements to support social assistance and education; and (iii) enhance the regulatory and financial sustainability framework of service delivery in the energy sector | (i) Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management (ii) Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education (iii) Enhancing the Regulatory and Sustainability Framework in the Energy and Water Sectors |

Source: Oxford Economics based on [World Bank \(2021\)](https://www.worldbank.org/en/what-we-do/products-and-services/financing-instruments/development-policy-financing)

As the three development policy loans were distributed sequentially, there was scope for adjustments between the different series. This enabled the involved institutions to adjust the project's focus according to potential changing societal and economic conditions. In fact, **the DPL2 was more focused on anti-money laundering measures compared to DPL1 and added a new pillar that included tax transparency, financial integrity, and fiscal management.** This was not least because the leak of the Panama Papers showed the tremendous need for international tax transparency and exchange of taxpayer information. Another rather large adjustment took place: After the end of the first three DPLs, there was an endeavour for a fourth loan in the scope of US\$ 100 million. However, **this loan did not pass the concept stage, but was dropped before the implementation.** It became clear that the original intention of this project—to increase tax transparency and international reliability—faced changing political framework conditions, namely a change in the political power relations after the election in May 2019 as well as new challenges that were associated with the Covid-19 pandemic.

² World Bank (n.d.): <https://www.worldbank.org/en/what-we-do/products-and-services/financing-instruments/development-policy-financing>

Based on an updated assessment, it was expected that a fourth DPL would not live up to the standards that would be necessary to achieve the desired results. The flexible and adaptive character of development policy financing that is highly intertwined with the political dynamics and windows of opportunity for policy reforms in the respective countries proved to be an important feature to ensure a timely reaction to changing framework conditions. In turn, this needs to be considered when assessing the project's sustainability. As its impact heavily depends on country ownership and prior actions, it is susceptible to political agenda setting. The fact that changing political conditions prevent a successful continuation needs to be noted.

4.2.2 Expected Results

As the project was finished in 2019, an ex-post evaluation is possible and has already been conducted. The overall outcome of the project has been assessed as moderately satisfactory. An aspect that was assessed as highly satisfactory is the relevance of prior actions. The ambition of prior actions enabled the project to be directly linked to the country's own incentives and efforts, increasing the acceptance and institutional support. In detail, the performance of the following policy areas was rated as stated in Table 2.

TABLE 2: POLICY AREAS AND RESULT INDICATORS

| Policy Area | Result Indicator | Baseline (2014) | Target (2019) | Rating |
|--|--|-----------------|---------------|----------|
| International Tax Transparency | Panama has started sending and receiving confidential financial information for tax purposes on automated basis. GPG | No | Yes | Achieved |
| Financial Integrity | Number of banks supervised on-site on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) matter GPG | 0 | 55 | Achieved |
| | Number of money laundering investigations where tax evasion is a predicate criminal offence GPG | 0 | >1 | Achieved |
| Public Financial Management Decentralisation | Share of investments by local governments that follow SINIP (Sistema Nacional de Inversiones Públicas) norms and procedures | 0 percent | 70 percent | Achieved |
| Public Debt Service | Share of Central Government debt that is paid electronically | 0 percent | 100 percent | Achieved |
| Disaster risk management | Number of available disaster financial protection instruments of the Panama's Disaster Risk Management Strategic Framework that underwent a cost-benefit analysis | 0 | 2 | Achieved |
| Fiscal management | Percentage of Central Government and decentralised agencies expenditure payments (from both budgetary and financial accounts) channelled through the Treasury Single Account | 0 percent | 90 percent | Achieved |

| | | | | |
|--------------------------------|--|-----------------|--------------------------|--------------------------------|
| Inclusion in Social Assistance | Percentage of the extreme poor benefiting from at least one social assistance programme | 37 per cent | 60 per cent | Achieved |
| | Percentage of total funds from social assistance programmes transferred through the social card | 0 per cent | 35 per cent | Achieved |
| Education | Number of policy reports led and disseminated by MEDUCA using student assessments data at the subnational level | 0 | 2 | Partially achieved |
| | Number of teachers participating in the International Teacher Training of "Panama Bilingüe" | 0 | 3,500 | Achieved |
| Energy | Public expenditures on electricity subsidies are reduced by at least 80 percent in nominal terms relative to their level in 2014 | US\$320 million | US\$50 million (average) | Partially achieved |
| Water | Number of Rural Water Management Boards connected to the standardised information system for improving the monitoring of water management (SIASAR) | 400 | 1700 | Not achieved |
| Total Average | | | | Moderately Satisfactory |

Note: **GPG** highlights indicators that are particularly relevant from the GPG perspective.

Source: Oxford Economics based on World Bank (2021)

5. PROJECT IMPACT

5.1 NATIONAL BENEFITS

During the last years, Panama has belonged to the fastest growing economies worldwide. This growth brought new opportunities for poverty reduction, social inclusion, and institutional reforms. Through the DPL, the World Bank supported Panama in these developments and enabled the establishment of new infrastructure and institutions. This is important to make sure that the **high economic growth translates to improvements in the living conditions of the population**. For example, the development of new social assistance programmes as well as of reforms in the educational system increase the social stability on site.

Additionally, measures on financial transparency and integrity do not only benefit the international community, but further **improve Panama's attractiveness for foreign investments**, which in turn might generate additional revenue sources.



5.2 CROSS-COUNTRY BENEFITS

Universally valid standards and rules are important to ensure international transparency and tax cooperation. However, there is only so much the international community can do to actually implement those standards. **This is why there is a responsibility for the states concerned to implement and enforce them and to contribute to financial transparency.** The traceability of money flows is important to ensure an appropriate and sufficient taxation and avoid money laundering. Accordingly, an increased tax transparency in one country can contribute to the GPG of fair trade in general, as it makes sure that taxes and other capital-related rules and regulations are actually being enforced.

6. LESSONS FOR FUTURE GPG PROVISION

6.1 SUCCESS FACTORS

The Programmatic Shared Prosperity Development Policy Financing Project took place during a highly dynamic phase in Panama's development. These dynamics went along with changing macroeconomic conditions which need to be accounted for when planning an intervention. The **flexible and targeted character of the DPL enabled short-term adjustments in response to changing framework conditions and made sure that the financial sources could be spent in the most effective way.** This should be particularly emphasised because the DPL heavily relied on prior actions that by design need to be defined ex ante. However, the division into a series of three loans consisting of three subsequent project components allowed for a recurring evaluation of the prior actions needed for the next step. Accordingly, it enabled a steady and timely monitoring and evaluation.

In addition, the project **addressed the dual challenges of rapid economic growth well:** domestic improvements in infrastructure and social assistance, and the country's increased relevance in the international community, which goes along with new requirements with respect to economic transparency. Especially the latter does not yield immediate benefits for Panama itself—as it is inherent in the character as GPG. This is why the additional focus on domestic improvements, such as social assistance and educational reforms, increased the acceptance within society.

Moreover, the **focus on institutional capacity building and the strong country ownership stand out.** This aspect has been derived from experiences in other middle- to high-income countries and is particularly important to ensure sustainability and alignment with other initiatives that are conducted. The good fit between the country's own actions and the World Bank's intervention is supported through the highly satisfactory rating with regard to the prior actions.

6.2 HOW TO REPLICATE THE GOOD PRACTICE

In addition to that, the following lessons can be learnt from the project and can be used to replicate the good practice project:

- A replication of this good practice requires a comprehensive and well-designed project intervention that is aligned with the country-specific needs and demands at that certain time to make sure that a project is aligned with other initiatives.
- Especially in times of dynamic and quick growth, those needs can change within a short period of time. It makes sense to choose a **flexible project design that can be adjusted according to changing conditions**.
- In middle- to high-income countries, the **institution building** is one of the most important aspects to ensure sustainability and acceptance.
- The relevance of tax transparency and cooperation between countries increases with an increased globalisation and interconnectedness of various parts of the world.
- Panama is still perceived as a tax heaven. The lesson is that even if institutions are built up and processes are improved, there is a long way to go before all loopholes for tax evasion are closed. This is not least due to the fact that the fight against tax evasion can only be won on a concerted international level, and setbacks cannot be blamed on one country alone.
- Ownership from the highest political level and willingness to comply are indispensable for DPLs of this type.