

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

CUSTOMS LOGISTICS INTEGRATION PROGRAM

(PN-L1107)

LOAN PROPOSAL

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ABBREVIATIONS

ANA	Autoridad Nacional de Aduanas [National Customs Authority]
CBM	Coordinated Border management
CDEP	Program strategic steering committee
CGR	Contraloría General de la República [Office of the Controller General]
CMC	Control and Monitoring Center
CO ₂ e	Carbon dioxide equivalent
DNC	Dirección Nacional de Contabilidad [National Accounting Office]
EIRR	Economic internal rate of return
FMM	Fiscal and Municipal Management Division (IDB)
ICB	International competitive bidding
INEC	Instituto Nacional de Estadística y Censo [National Institute of Statistics and Censuses]
INT	Trade and Investment Unit (IDB)
IRF	Involuntary resettlement framework
LIBOR	London Interbank Offered Rate
LPI	Logistics Performance Index
MEF	Ministry of Economy and Finance
NCB	National competitive bidding
NPV	Net present value
PEU	Program execution unit
PPOTs	Planes Parciales de Ordenamiento Territorial [Partial territorial development plans]
QCBS	Quality- and cost-based selection
SIAFPA	Sistema Integrado de Administración Financiera de Panamá [integrated Financial Management System of Panama]
SIGA	Sistema Integrado de Gestión Aduanera [integrated customs management system]
TIM	Tránsito Internacional de Mercancías [International Transit of Goods]
TSA	Treasury Single Account
VUCE	Ventanilla Única de Comercio Exterior [Foreign Trade Single Window]

PROGRAM SUMMARY

PANAMA CUSTOMS LOGISTICS INTEGRATION PROGRAM (PN-L1107)

Financial Terms and Conditions				
Borrower: Republic of Panama			Flexible Financing Facility ^(a)	
			Amortization period:	25 years
Executing agency: National Customs Authority (ANA)			Original weighted average life:	15.25 years
			Disbursement period:	5 years
			Grace period:	5.5 years
			Inspection and supervision fee:	^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	75,000,000	100	Credit fee:	^(b)
Total:	75,000,000	100	Approval currency:	United States dollars from the Ordinary Capital
Program at a Glance				
<p>Program objective/description: The program's objective is to help improve Panama's logistics sector by modernizing processes, technology, infrastructure, as well as fiscal and para-fiscal control equipment, thereby ensuring traceability on Panamanian fiscal routes. The specific objectives are to: (i) improve border crossing operating efficiency by reducing operating costs and processing times for the control of people and goods; (ii) optimize the efficiency of customs multimodal management; (iii) build institutional capacities to address the victimization of vulnerable groups at border crossings; (iv) improve the perception of public service quality at border crossings; and (v) promote orderly land-use management in communities located near border crossings.</p> <p>Special contractual conditions to be fulfilled by the borrower to the Bank's satisfaction:</p> <p>I. Conditions precedent to the first disbursement of the loan: (i) signing of an interagency agreement between ANA and the borrower for transferring the loan proceeds and responsibilities for program execution, pursuant to the terms and conditions previously agreed upon with the Bank; (ii) formation of the program execution unit (PEU), comprised of a technical team with the profiles agreed upon with the Bank; (iii) establishment of a strategic steering committee for the program (CDEP), by presenting the committee's by-laws, signed by the main institutions supporting the program's execution; and (iv) approval and entry into effect of the program Operating Regulations, in accordance with the terms previously agreed upon with the Bank (paragraph 3.11).</p> <p>II. Other requirements for using the loan proceeds: (i) the borrower will comply with the special contractual conditions included in Annex B of the Environmental and Social Management Report; (ii) prior to executing "activity (i)" of Component 2 (Preparation of Authorization Catalogues for the Foreign Trade Single Window – VUCE), an interagency cooperation agreement will have been signed to operate the VUCE^(c); and (iii) prior to the start of construction works for the Río Sereno border crossing, an interagency agreement will be signed between the border control agencies operating at that crossing, incorporating the terms of agreement for the use of physical facilities and coordination of their operations (paragraph 3.13).</p> <p>Exceptions to Bank policies: None</p>				
Strategic Alignment				
Challenges: ^(d)	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

^(a) Under the terms of 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 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) The main institutions of the VUCE are: the National Customs Authority (ANA); the Ministry of Trade and Industry (MICI); the Ministry of Agricultural Development (MIDA); the Fire Department, which reports to the Interior Ministry (MINGOB); the Ministry of Environment (MIAMBIENTE); the Ministry of Economy and Finance (MEF); the Gorgas Memorial Institute for Health Studies (ICGES); the Panamanian Water Resources Authority (ARAP); the Ministry of Public Security (MINSEG); the Panamanian Food Safety Authority (AUPSA); the National Energy Department (SNE); and the National Commission for the Study and Prevention of Drug-related Crimes (CONAPRED).

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** Between 2010 and 2017, the Panamanian economy grew more than any other in Latin America and the Caribbean, reaching an average annual growth rate of 7%.¹ This growth was primarily sustained by the increase in aggregate investment, which rose from 36% of GDP in 2007 to approximately 43.4% in 2017.² The performance of its economy and actions in the fiscal, financial, and trade areas have enabled Panama to deepen its integration with the global economy³ and achieve investment grade status, consolidating its standing as an important financial and trade center with fluid access to external financing.
- 1.2 The main sectors of Panama's open economy are: transportation and communications, construction, real estate, and financial services. Panama moves 16% of the world's container cargo volume through its interoceanic canal. Nonetheless, its annual trade balance of goods ran a deficit of close to US\$6 billion⁴ (cumulative, as of the third quarter of 2017), equivalent to 10.2% of GDP. Overall, the performance of trade in services contributed to a balance of goods and services surplus of roughly 0.1% of GDP in 2017.
- 1.3 **Transport and logistics sector.** One of the three most important pillars of the Panamanian economy, this sector accounted for 13.5% of GDP in 2017.⁵ Between 2013 and 2016, it grew at an average of 2.4% per annum in real terms⁶ and will remain one of the country's main drivers of growth. The country's geographical location, quality, and connectivity are natural advantages for transport companies. The Panamanian government's main priorities include promoting economic development and improving the integration of the logistics sector through a program that uses Bank financing to support programmatic policy-based reforms.
- 1.4 Panama has five world-class ports, its expanded canal, an interoceanic railroad, a highway and road network, and the Tocumén International Airport. Important logistics zones (836.6 hectares) have been developed around the canal. These include the Colón Free Trade Zone, the Panama-Pacific Special Economic Area, and logistics zones at the ports.
- 1.5 Panama and Costa Rica share a 378-kilometer border that includes three border crossing stations (Figure 1). Paso Canoas, on the Mesoamerican Pacific Corridor, moved 956,000 tons of goods in 2014⁷ (85% of overland flows and 99% of freight

¹ Source: National Institute of Statistics and Censuses (INEC).

² [INEC: GDP by Economic Activity \(2013-2016\)](#). Since the 2017 figures were not available as the date of this proposal, the government's annual growth projection for 2017 (5.5%) was used.

³ Nevertheless, Panama's ranking in the Global Competitiveness Index has slipped from 48th to 50th.

⁴ [INEC: Normalized Components of Panama's Balance of Payments by Category \(2015, 2016, and January-September 2017\)](#).

⁵ Cumulative as of the third quarter of 2017. Source: [INEC: Quarterly GDP – 2017 Third Quarter](#).

⁶ [INEC: Percentage Annual Change in GDP by Economic Activity \(2013-2012 to 2016-2015\)](#).

⁷ For purposes of comparison, the Tocumén International Airport moved 110,789 tons that same year. Source: Georgia Institute of Technology, Panama Logistics Portal.

from the Colón Free Trade Zone bound for Central America)⁸ and 209,295 tourists (71.3% of the total entering the country by land) crossed through it. On the Caribbean, Guabito is important for the banana trade and tourism activity in the Bocas del Toro area. In 2014, 78,409 people entered the country through this border crossing—27% of the total entering by land. In the central part of the border, Río Sereno serves as a border crossing for local economic activity and traffic. [Optional electronic link 23](#) provides an overview of the main characteristics of the three border crossings.

Figure 1. Panama-Costa Rica border crossings



- 1.6 In June 2017, the two countries signed a bilateral framework agreement to establish controls under a physical integration arrangement for their border crossings.
- 1.7 Panama's Logistics Cabinet⁹ has pointed out the urgent need for the ANA to undertake a complete modernization of logistics flow controls, including its systems, with a view to their inclusion in the Logistics and Foreign Trade Technology Platform, an initiative being developed by the National Authority for Government Innovation

⁸ The flow of goods through border crossings accounts for roughly 7.3% of the country's foreign trade volume.

⁹ The Logistics Cabinet is an agency attached to the Office of the President of the Republic of Panama. It was established to formulate policies, in coordination with private sector companies, that promote Panama as an international logistics hub for global trade. The Cabinet is chaired by the Minister of Commerce and Industry and includes representatives of the Ministry of the Presidency, the MEF, the Ministry of Public Works, the Panama Canal Authority, the ANA, the Civil Aeronautics Authority, the Ground Transit and Transport Authority (ATTT), the National Secretariat for Science, Technology, and Innovation (SENACYT), and the Metro Secretariat.

(AIG) with support from the Panama Online Program (operation 3683/OC-PN), which seeks to enhance competitiveness and public services through e-government.

- 1.8 **Identification of the problem.** Panama faces a series of challenges at its border crossings that adversely impact its logistics performance¹⁰ and prevent it from leveraging the potential of its geographical comparative advantages.¹¹ Its trade costs and times are excessive, it lacks efficient processes, information systems, and equipment, and its interagency operability is practically nonexistent.
- 1.9 In Central America, transport infrastructure and border crossing deficiencies increase the costs of transporting goods by an estimated 4% to 12%,¹² thus eroding the competitiveness of their economies.¹³ According to the baseline studies ([optional electronic link 19](#)), it takes 14.6 hours on average to process export controls at the Panamanian border control facility in Paso Canoas, 13.8 hours of which are due to waits and delays, resulting in a cost of US\$148 to the carrier.¹⁴ These delays generate an increase in greenhouse gas emissions.¹⁵ On average, it takes one hour to process immigration formalities for tourists arriving by bus.
- 1.10 At the border crossings, infrastructure and equipment are insufficient and inadequate.¹⁶ Their facilities hinder the ability of control agencies to perform orderly controls and implement trade facilitation measures. Commercial activities and individuals with no role in customs processes are encroaching on the main facilities.¹⁷ Inadequate land-use planning and urban management, as well as improper use of land and public spaces, have led to a proliferation of formal and informal economic activities that are not regulated by local governments.

¹⁰ The Global Competitiveness Report 2015-2016, Box 2: *The Case for Trade and Competitiveness*, World Economic Forum, 2015.

¹¹ Panama is ranked 40th out of 160 countries on the Logistics Performance Index (LPI), based primarily on infrastructure quality (38th), and the quality and competence of logistics services (45th) (LPI Report, World Bank, 2016).

¹² *Competitive Advantage: Moving Ahead of the Global Competition*. IDB, 2013.

¹³ International evidence shows that delays impact global trade. Each additional day that a product is delayed reduces trade by at least 1% (Djankov, S., C. Freund, and C.S. Pham, 2006. *Trading on Time*. World Bank Policy Research Working Paper 3909). Moreover, improvements in customs procedures that reduced wait times by one day would be equivalent to a 0.8% reduction in ad valorem duties on manufactured goods (David Hummels, 2001. *Time as a Trade Barrier*. Purdue University).

¹⁴ In a world-class border crossing, such as the one at Laredo in the United States, it takes 8 minutes to clear imports without inspection; from 1 to 2 hours to clear imports with x-ray inspection, from 2 to 4 hours to clear imports with intrusive inspection; and 20 seconds to clear exports. See benchmarking report on crossing times at border stations ([optional electronic link 6](#)).

¹⁵ According to the baseline data ([optional electronic link 19](#)), a refrigerated transport unit carrying exports subject to sanitary inspection emits 147 kilograms of carbon dioxide equivalent (CO₂e), on average, in the time that it takes to clear the Paso Canoas-Panama border crossing.

¹⁶ According to estimates, an area of 6,332 square meters is needed to ensure that all agencies represented at the Paso Canoas border crossing operate effectively (source: [optional electronic link 14](#)). Currently, there is only one building with no more than 1,000 square meters of floor space located on the border, which is shared by customs and immigration agents, and some smaller administrative offices located nearby.

¹⁷ The operating areas of the Paso Canoas and Guabito crossings are located in urban areas, preventing the expansion necessary to accommodate the facilities required of a modern border crossing under the CBM system.

- 1.11 At present, processes are obsolete and systems lack interoperability. There are no trade single windows, integrated risk analysis systems,¹⁸ nonintrusive inspection of goods, or effective use of the International Transit of Goods (TIM) system.
- 1.12 The country also needs to strengthen interagency coordination if it is to comply with the [Agreement on Trade Facilitation](#) of the World Health Organization (WHO)¹⁹ and ensure the efficient exercise of national control.
- 1.13 Panama currently attracts many tourists and immigrants, an increasing number of women,²⁰ unaccompanied minors, individuals seeking political asylum, and indigenous people moving across this region through the border crossings, where they are particularly vulnerable to human trafficking,²¹ labor exploitation, sexual violence, and other crimes.²² The insufficient flow of information, deficient interagency coordination within Panama, and inadequate binational coordination hinder the ability to detect and prevent illegal and risk situations and offer timely and effective assistance to these vulnerable groups at border crossings.²³
- 1.14 These weaknesses and limitations are reflected in the negative findings of perception and user satisfaction surveys. At Paso Canoas, the level of freight carriers' satisfaction with the quality of services and infrastructure is just 47% and 54% for tourists ([optional electronic link 24](#)). The existing information systems are not equipped with the necessary features and many procedures are still carried out manually.
- 1.15 **Proposed interventions.** The operation seeks to improve operational efficiency with the use of advanced technologies that ensure: traceability of transit and transshipments; reduced clearance times for people and goods; and decreased operating costs. It also aims to enhance the customs management efficiency of the ANA by reengineering and automating its management processes, facilitate interoperability with a logistics platform, and through the Support for Panama's Transport and Logistics Sector Reform Program – Phase III (operation PN-L1151).
- 1.16 To monitor fiscal routes,²⁴ radio-frequency identification (RFID) equipment will be placed at the points of entry and exit of mass transit freight vehicles under customs

¹⁸ This analysis includes tax evasion, sanitation, law enforcement, immigration, and trade risks.

¹⁹ [World Trade Organization](#).

²⁰ The United Nations Office on Drugs and Crime reports that women account for 66% of Latin America's human trafficking victims (2009).

²¹ According to the international trafficking in persons indicator issued by the U.S. Department of State, Panama is on the tier 2 watch list, which includes: (i) countries that do not fully comply with the standards to address the problem; (ii) countries where the number of victims is significant or significantly increasing; (iii) countries that fail to provide evidence of efforts to combat severe forms of trafficking in persons; and/or (iv) countries that have committed to taking additional steps over the year following the year in which they were classified.

²² Source: International Organization for Migration. "Costa Rica, Panama Open Information Hubs for Migrants at Paso Canoas Border" (2015).

²³ Although Panama has a [national integrated system of criminal statistics](#), it is not used by its border control agencies.

²⁴ These are roads authorized by the ANA for vehicles transporting goods in international transit or transshipment, under customs control.

control and at strategic points along these routes. A control and monitoring center will monitor these activities in real time.

- 1.17 In accordance with the principles of Coordinated Border Management (CBM), public sector capacity will need to be strengthened to assist vulnerable groups, improve basic urban infrastructure, and propose appropriate land use in border areas through urban land-use plans.
- 1.18 By strengthening border areas with greater institutional capacity and infrastructure the perception of users and residents in areas near border crossings will improve.
- 1.19 **Government strategy.** The program is consistent with the Panamanian government's strategy set out in the [Government Strategic Plan 2015-2019](#), which establishes logistics as one of the four pillars of the strategy for diversification and productivity of the economic base. The operation is consistent with the priority actions spelled out in that plan regarding the implementation of trade facilitation measures and the retooling of land border crossing processes and infrastructure. This strategic focus is clearly stated in the policy-based lending operations that the Panamanian government has recently signed with the Bank.
- 1.20 **Regional and bilateral coordination.** The Bank has been working to implement the CBM model, which comprises a series of [parameters](#) that are internationally accepted good practices for efficient and integrated border management.
- 1.21 This operation is aligned with the regional initiatives undertaken by the Central American and Mesoamerican countries with Bank support since 2014, and with the Central American Trade Facilitation and Competitiveness Strategy with Emphasis on Coordinated Border Management ([optional electronic link 11](#)), approved by the countries in October 2015 ([optional electronic link 11](#)). This operation is also aligned with, and gives effect to, the commitments under the various economic integration treaties Panama has signed with Central America (especially the Unified Central American Customs Code ([CAUCA](#)) and its Regulations), the United States, the European Union, and other commitments it assumed as a signatory of the WTO's Trade Facilitation Agreement.
- 1.22 **The Bank's sector knowledge.** This operation has been prepared jointly by the Trade and Investment Division (INT/TIN) of the Integration and Trade Sector (INT), the Transport Division (INE/TSP) of the Infrastructure and Energy Sector (INE), the Fiscal and Municipal Management Division (IFD/FMM), and the Innovation in Citizen Services Division (IFD/ICS) of the Institutions for Development Sector (IFD). INT/TIN and INE/TSP have both led the design and/or execution of border crossing operations in Costa Rica, Ecuador, Guatemala, Nicaragua, and Peru.²⁵ The main lessons learned have been applied in the design of this operation, including: (i) the importance of having a regional framework of action for border crossings to ensure interventions using functional models that are tailored to the needs of each border crossing, but with minimum standardization of the operating model; (ii) since each border crossing is unique, proposing one-size-fits-all operating models is not viable; (iii) bilateral coordination on operating models is essential to ensure a successful

²⁵ Improvement of Border Crossings in Ecuador (3324/OC-EC); Guatemala-Mexico Border Integration Program (GU-L1086); execution of two border integration programs in Nicaragua (operation 3494/BL-NI), and in Costa Rica (operations 3488/OC-CR, 3488/OC-CR-1, and 3488/OC-CR-2); and Peru Border Crossings (operation 1836/OC-PE).

design process; (iv) deepening internal coordination of the fiscal and parafiscal control agencies is crucial, and all such agencies should participate in the validation of the operating model, which often requires leadership at the highest political level; (v) the implementation of CBM in integrated control center (ICC)²⁶ models operating with a single border control facility²⁷ requires a very clear bilateral treaty, which becomes a supranational standard for regulating the conduct of the agencies operating at border crossings; (vi) interaction with border communities is key to understanding problems and proposing appropriate actions to facilitate the program's implementation; (vii) it is important to coordinate with other donors on the scope of their programs, share information, and promote joint interventions that strengthen those of each donor; and (viii) it is essential to strengthen the VUCE as a precondition for the proper functioning of CBM.

- 1.23 Nonreimbursable resources²⁸ have been used to conduct studies on the physical and operational aspects of border crossings in the region, freight logistics, and CBM. Such studies have made it possible to identify the main problems and weaknesses at border crossings, as well as the main challenges to strengthening competitiveness and physical and trade integration. In 2010, IFD/FMM and INT/TIN prepared an integrated border control and regional development proposal for Mexico's southern border.
- 1.24 In 2013, the Bank approved a technical cooperation project²⁹ to formulate the National Logistics Plan of Panama ([optional electronic link 7](#)). This program has been the basis for creating a supply of efficient logistics support infrastructure and services to boost foreign trade and consolidate Panama as a logistics hub. In 2015, a technical cooperation project was approved to help improve the country's infrastructure and logistics services and planning systems, which could result in investment opportunities.³⁰ In addition, a technical cooperation operation³¹ was approved in 2017 to help improve Panama's logistics performance by relaxing regulatory and institutional constraints on the transport and logistics sector.
- 1.25 Based on the efforts of the Panamanian government, the Bank approved the first operation, a policy-based loan (loan 3486/OC-PN), in 2015, and the second (loan 3675/OC-PN) was approved on 11 May 2016, both with the aim of improving

²⁶ Refers to an integrated control center where the entry and exit controls of both countries are conducted under the same roof.

²⁷ Refers to an integrated control center where the entry and exit controls of both countries are conducted under the same roof.

²⁸ Support for the Costa Rica-Panama Border Integration Initiative (technical cooperation ATN/AT-13221-RG); Optimization of Border Crossing Facilities in the Pacific Corridor (technical cooperation ATN/AT-12564-RG); Multimodal International Transit of Goods (technical cooperation ATN/AT-13372-RG); Analysis of Freight Logistics and Trade in Mesoamerica (technical cooperation ATN/OC-12495-RG); Optimization of Border Crossing Facilities in the Pacific Corridor (technical cooperation ATN/OC-12019-RG); and Support to Border Crossings Improvement (technical cooperation ATN/MR-13870-RG).

²⁹ Support for the National Logistics Plan of Panama (ATN/MR-13885-PN).

³⁰ Support for Technical Strengthening and Implementation of the National Logistics Agenda (technical cooperation ATN/FG-15347-PN).

³¹ Support for Panama's Transport and Logistics Sector Reform Program – Third Phase (technical cooperation ATN/OC-16321-PN).

- Panama's logistics performance by relaxing regulatory and institutional restrictions that hinder its performance.
- 1.26 With the aim of improving the efficiency of government service-related transactions, the Bank is financing the Panama Online Program (operation 3683/OC-PN), which seeks to modernize and facilitate access to public services with the implementation of electronic payments nationwide.
- 1.27 **Strategic alignment.** The program is consistent with the Bank's strategy with Panama 2015-2019 (document GN-2838), under the objective of deepening logistics services, efficiency, and the connectivity of productive infrastructure by boosting the competitiveness of the national logistics system and increasing the number of customs declarations processed at border crossings; and is included in the Country Program Document 2018. The program is also consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and strategically aligned with the development challenges of: (i) productivity and innovation; and (ii) economic integration. Regarding the challenge of productivity and innovation, the operation focuses on the delivery of appropriate, reliable, and affordable infrastructure and public services, which will make it possible to increase productivity at the border crossings, reduce the costs and time involved in trade, and improve clearance systems and processes. The short- and medium-term outcomes sought from the proposed interventions include improved operating efficiency, more effective border crossing management and services, improved urban development conditions in border communities, and support for regional and extraregional integration agreements.
- 1.28 The operation is also defined by approaches to economic integration: (i) cross-country, in that it supports the Panamanian government's effort to expand the country's integration with the regional and/or global economy (hence, a cross-country approach); (ii) national subsidiarity, in that while the operation's investments are limited to Panama, they are linked to a program with a supranational initiative included in the regional trade facilitation strategy; (iii) compensation of coordination failures, owing to the high degree of cooperation between Panama and Costa Rica during the program's design, execution, and implementation; and (iv) regional additionality, in that the operation is one of a group³² that simultaneously seeks infrastructure improvements as well as regional and trade integration.
- 1.29 The program is strategically aligned with the crosscutting theme of institutional capacity: its interventions will help improve the quality and efficiency of public services provided to border crossing users, increase the agencies' capabilities to exercise fiscal and parafiscal controls at the borders, and eliminate obstacles to growth and productivity.
- 1.30 The program is also strategically aligned with the crosscutting theme of gender equality and diversity in that it seeks to improve the quality of public services provided to women and vulnerable groups in transit at border crossings. This will be achieved by training and raising the awareness of public officials on this issue.

³² Border Integration Program (loan 3484/BL-NI) and Border Integration Program of Costa Rica (loan 3488/OC-CR).

Moreover, a study will be conducted on shortcomings and opportunities to reduce gender inequality and promote diversity at border crossings.

- 1.31 Through the outputs and outcomes reflected in the Results Matrix (Annex II), the program is aligned with, and contributes to, the Corporate Results Framework 2016-2019 (document GN-2727-6) through the following indicators: (i) public agencies' processing times for international trade in goods and services; (ii) reduction in CO₂e emissions; and (iii) public- and private-sector professionals trained or assisted in economic integration. The operation is also aligned with the indicators: (a) regional, subregional, and extraregional integration agreements and cooperation initiatives supported; and (b) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery ([optional electronic link 3](#)). Lastly, the program is consistent with the Sustainable Infrastructure for Competitiveness and Inclusive Growth Strategy (document GN-2710-5) and the following Sector Framework Documents: Transportation (document GN-2740-7), Integration and Trade (document GN-2715-6), and Urban Development and Housing (document GN-2732-6).
- 1.32 **Program beneficiaries.** Freight transport users, carriers, and all other participants in logistics chains as well as individuals who use the border crossings will benefit most from the reduction in service times and costs for border procedures, and the improvement in the quality of border crossing services and facilities.

B. Objectives, components, and cost

- 1.33 **Program objective.** The program's objective is to help improve Panama's logistics sector by modernizing processes, technology, infrastructure, as well as fiscal and parafiscal control equipment, thereby ensuring traceability on Panamanian fiscal routes. The specific objectives are to: (i) improve border crossing operating efficiency by reducing operating costs and processing times for the control of people and goods; (ii) optimize the efficiency of customs multimodal management; (iii) build institutional capacities to address the victimization of vulnerable groups at border crossings; (iv) improve the perception of public service quality at border crossings; and (v) promote orderly land-use management in communities located near border crossings. Based on the issues identified, the program structures actions in three specific components:
- 1.34 **Component 1. Infrastructure and equipment investments (US\$44.3 million).** This component will finance construction works and equipment for three border facilities at the three crossings as well as the system and equipment needed to ensure logistics tracking activities along fiscal routes, including: (i) engineering designs; (ii) the acquisition of land for the integrated control center at Guabito and site preparation at Paso Canoas and Río Sereno; (iii) upgrading or construction of buildings, the internal road network, and parking and inspection areas; (iv) public utility infrastructure (including water, electricity, and telecommunications); (v) stationary equipment, freight-related dynamic control devices, and management stations³³ at border crossings; (vi) fiscal route control equipment; and (iv) technical and environmental supervision of works.

³³ Control points that automatically capture vehicle data and transmit it in advance to management control systems.

- 1.35 **Integrated border models.** In accordance with the bilateral framework agreement signed between Panama and Costa Rica, the investments include (i) in Paso Canoas, a dual border control facility under the integrated control center framework, with controls applied from the country of entry; (ii) in Guabito, an integrated control center with a single border control facility located in Panama; and (iii) in Río Sereno, an integrated control center with a single border control facility in Costa Rica, taking advantage of that country's existing infrastructure ([optional electronic link 23](#)).
- 1.36 **Integration with Panama's international trade and/or logistics platforms.** To facilitate secure access of users in managing foreign trade transactions, this operation will finance interconnectivity with, modification of, and/or the parameterization of data for the logistics platform being developed in the Panama Online Program (loan 3683/OC-PN), or the international trade and/or logistics platforms that are currently operating. In addition to time and cost savings, this will feed indicators for the control and monitoring center.
- 1.37 **Component 2. Efficient and effective fiscal and parafiscal control processes (US\$20.6 million).** This component seeks to improve fiscal and parafiscal control based on CBM parameters by financing: (i) development of integrated management control processes and the regulatory framework; (ii) product catalogues for the VUCE and tools to update them; (iii) development and implementation of management control, risk management, and authorized economic operator systems; (iv) modernization of the ANA's primary technology and administrative management system as well as the control and monitoring center; and (v) training and outreach activities, which include gender issues.
- 1.38 **Component 3. Urban improvement and land-use planning (US\$4.94 million).** This component seeks to support improvements to the urban environment in the vicinity of the border crossings, contributing to the effective coordination of the new control centers with neighboring communities through: (i) development of partial land management plans (PPOTs); (ii) strengthening of municipal capabilities for PPOT administration; and (iii) preinvestment studies and investments in infrastructure improvements and basic street furniture in areas adjacent to the border crossings.
- 1.39 **Program management and administration (US\$5.16 million).** Financing will be provided for: (i) the program's socioenvironmental management; (ii) services to support program execution, administration, and operation; (iii) external financial audits; and (iv) monitoring and evaluation activities.
- 1.40 **Costs and financing.** The program's estimated cost is US\$75 million, to be financed from the Bank's Ordinary Capital resources under the Flexible Financing Facility.

Table 1. Cost and financing (US\$ million)

Components and expenditures	IDB
Component 1: Infrastructure and equipment investments	44.3
Component 2: Efficient and effective fiscal and parafiscal control processes	20.6
Component 3: Urban improvement and land-use planning	4.94
Program management and administration (including technical manager)	5.16
Total	75.0

C. Key results indicators

- 1.41 Using the Results Matrix (Annex II), the program's outcome and output indicators will be directly or indirectly measured to identify: (i) improvements in the operating efficiency of Panama's border crossings, based on reductions in the operating costs of control processes and processing times for people and goods; (ii) improvements in Panama's customs management, based on the implementation of systems and technology that facilitate the exchange of information and interoperability of the control institutions' fiscal and parafiscal systems; (iii) the degree to which institutional capacity has been strengthened to deal with cases involving the victimization of vulnerable groups; (iv) the perception of infrastructure and service quality, which will be a composite indicator, based on user opinion surveys ([optional electronic link 24](#)); and (v) the increase in municipal infrastructure investments in border communities, executed in accordance with the rule contained in the PPOTs.
- 1.42 **Technical and economic viability.** For the economic evaluation of the sample project ([optional electronic link 1](#)), a cost/benefit analysis was conducted following a methodology that compared total economic costs (costs for users and for the State), both with and without the project, considering a 22-year analysis period (investment execution period and infrastructure service life). The evaluation identified the following main benefits: a decrease in user costs attributable to the time and operating cost savings that would be generated as a result of the planned interventions; and the change in costs to the State attributable to the construction and operation of the facilities.
- 1.43 Considering the net flow of economic costs for the analysis period, the following were calculated: the net present value (NPV) for a discount rate of 12%; the economic internal rate of return (EIRR); the benefit/cost ratio; and the NPV/investment ratio. A sensitivity analysis of the return indicators was performed under three different cost/benefit scenarios. The results show that, with a 10% increase in costs³⁴ and a 10% decrease in benefits, the sample project remains economically viable, since there is a high probability (95%) that the EIRR would exceed 24.4% and the NPV would exceed US\$32.3 million under these scenarios. A separate evaluation was also conducted of the variations in costs and benefits that would bring the project to the minimum economic return threshold.³⁵ The results show that this would happen in the highly unlikely event of a 64% decrease in the expected benefits or a 193% increase in costs with respect to the assumptions of the economic evaluation.

Table 1.2. Benefit/cost analysis for Paso Canoas

Scenario	Return indicators			
	NPV (US\$ million)	EIRR (%)	Benefit/cost	NPV/investment
Base case	40.5	29.8	2.6	1.7
1. Sensitivity (+10% costs and -10% benefits)	31.7	25.2	2.2	1.2
2. Change in values	NPV = 0 EIRR = 12%	<ul style="list-style-type: none"> • Decrease in benefits = 64% • Increase in costs = 193% 		

³⁴ This would be an extreme case, since the Monte Carlo simulation shows, with a 90% probability, that cost overruns for the sample project would not exceed 5%.

³⁵ This occurs when the NPV equals zero, which would mean that the EIRR equals the discount rate.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 **Modality.** This loan has been structured under the multiple works modality, since the program calls for independent border crossing modernization projects pursuant to eligibility criteria. It includes a representative sample for evaluation and execution. The disbursement period will be five years from the effective date of the loan contract.

Table 3. Disbursement schedule (US\$ million)

Year 1	Year 2	Year 3	Year 4	Year 5	Total
10.8	31.2	20.5	8.3	4.2	75.0

- 2.2 **Representative sample.** The representative sample is comprised of the investments to modernize the Paso Canoas border crossing under a dual border control facility model,³⁶ which will include the implementation—in coordination with Costa Rica—of a one-stop system for users, with the simultaneous application of controls by the agencies of both countries. The estimated cost of the intervention at this border crossing station is US\$27.8 million,³⁷ accounting for 37.07% of the operation's total cost.
- 2.3 **Eligibility conditions.** The selection criteria for Component 1 infrastructure projects to be financed with program resources, but that are not part of the representative sample of projects, will be defined in the program's Operating Regulations. Projects similar to the sample may be financed under that component (e.g. projects to upgrade or expand land border crossing infrastructure and equipment, including engineering designs and the technical and environmental supervision of works). The eligibility requirements include compliance with the required technical, environmental, and social feasibility considerations. Works classified under category "B" will be eligible for program financing and will meet the environmental and social requirements established in the environmental and social management report. As in the case of the sample projects, these works must show an economic return of 12% or more, as measured by the EIRR.

B. Environmental and social risks

- 2.4 In accordance with the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation was classified under category "B." The borrower has prepared an environmental and social assessment (ESA), including an environmental and social management plan (ESMP) associated with the program sample. The ESA includes descriptions of the physical and social environment of the area of influence. It also identifies main social and environmental risks associated with the proposed activities. The ESMP contains the mitigation measures

³⁶ This operation will finance investments on the Panamanian side of the border. A loan has been approved for Costa Rica (loan 3488/OC-CR) to finance the modernization of infrastructure and processes at its border control facility.

³⁷ Based on the estimates of the technical feasibility studies ([optional electronic link 14](#), pages 282-283) and the predesign adjustments.

- to be implemented prior to construction and operational phases of the program sample.
- 2.5 An environmental and social management framework was developed, as this is a multiple works program. In compliance with the Bank's environmental and social requirements, this framework will cover the projects that were not included in the sample. The disaster risk of one such project was identified as moderate—specifically associated with rains and potential flooding.
- 2.6 The program sample is not anticipated to give rise to any significant environmental or social impacts. The main environmental impacts are primarily associated with construction activities, increased noise levels, changes in the topography of the terrain, and changes in water quality. The main social impacts are related to health and occupational safety risks, as well as changes in land use. The site where the work will be built is far from areas of economic activity and is therefore not expected to impact them.
- 2.7 The borrower included a consultation plan in its ESA and also provided an overview of the consultation activities conducted on 22 July 2017. In all, 55 individuals participated in the consultation process. The participants were surveyed to obtain additional information (included in the ESMR). Regarding the participants in the consultation, 31% were women and 69% men. The participants included representatives of business sectors, professional and trade associations, workers, and transport companies, in keeping with the typology of interested parties set out in the ESA.

C. Fiduciary risks

- 2.8 Based on the results of the institutional capacity analysis ([optional electronic link 29](#)), carried out by the project team together with the agencies involved, it was determined that the executing agency has limited experience in the technical and fiduciary management of projects like the ones included in this program,³⁸ and little knowledge of, and a lack of personnel trained in, the implementation of financial instruments and policies, including the Bank's procurement policies. The potential for a delay in the annual budget allocation of the loan proceeds was also identified as a risk. As a mitigation measure, an execution arrangement was proposed whereby a technical manager would be engaged to provide support to the executing agency associated with technical tasks and procurement management.
- 2.9 Other medium and high risks were identified during the preparation of the operation, for which the following mitigation measures were proposed: (i) delays in acquiring the land for the Guabito border station, for which the ANA, in coordination with the MEF, has initiated negotiations with the property owners; and (ii) delays by the governments of Costa Rica and Panama in approving the implementing regulations for the instruments agreed upon to implement the scope of the CBM model. To mitigate this risk, a binational technical committee will be created, which will be based on the existing technical committees of each country.
- 2.10 Other relevant risks identified include: (i) the coordination of logistics interventions in Panama that the Bank is conducting through the Panama Online Program (loan 3683/OC-PN) and Support for Panama's Transport and Logistics Sector Reform

³⁸ More than 50% of the investments will be in border crossing infrastructure and equipment.

Program – Third Phase (technical cooperation ATN/OC-16321-PN), which will be mitigated by forming an interagency group with a comprehensive schedule and work plan for the Bank’s internal use; and (ii) lack of coordination and commitment among the institutions involved in the execution of the program and the operation of border crossing stations, which will be mitigated by approving the creation of a program strategic steering committee (CDEP) as a condition precedent to the program’s full eligibility.

- 2.11 The probability that additional costs will be incurred in the sample project was estimated, using a Monte Carlo simulation ([optional electronic link 27](#)). The findings point to a reasonable degree of probability that the project’s costs will be covered with the current budget and reserve for contingencies.
- 2.12 **Investment sustainability.** The ANA will be responsible for maintaining the border crossing stations’ infrastructure and equipment to be financed with the resources of this operation. It should therefore include the necessary resources in its annual operating budget for this purpose and coordinate with the agencies represented at the border crossings, which could also allocate budget resources to help maintain their facilities and systems.

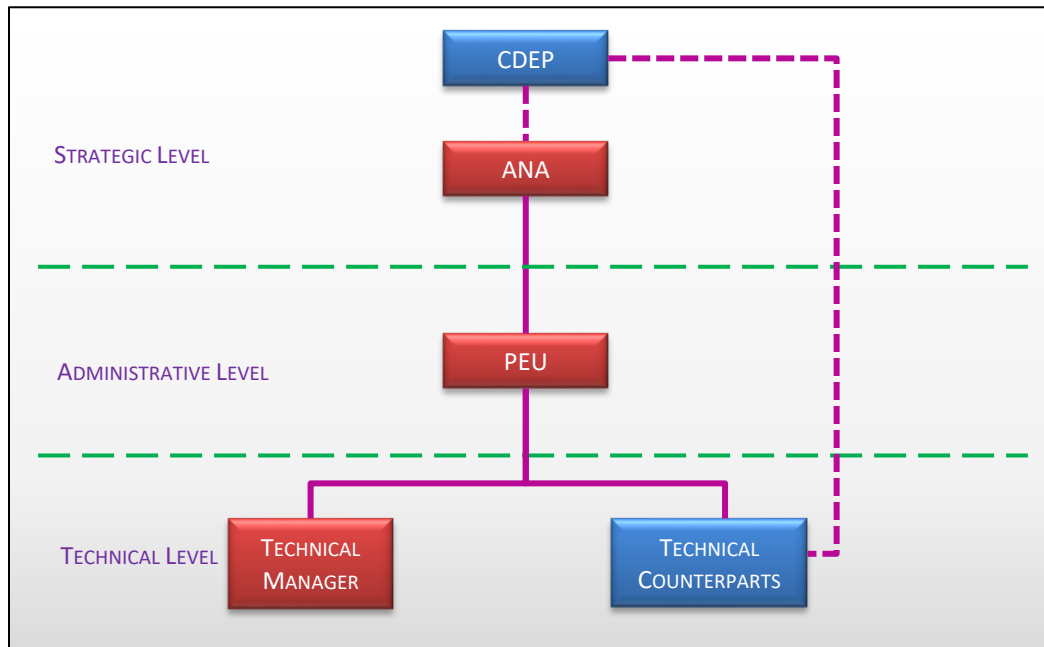
III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Panama and the executing agency will be the ANA, through the program execution unit (PEU), which will be established to that end and report to the ANA’s highest authority. It will have autonomy in planning; in technical, operational, and fiduciary management (procurement and financial management); in monitoring, and in other areas related to the program’s execution.
- 3.2 For purposes of strategic decision-making and interagency coordination, the CDEP will be established as a consultative body tasked with strategic direction and coordination. It will be comprised of high-level representatives with decision-making capacity from the key Panamanian institutions involved in program management³⁹ (i.e. the technical counterparts). The program Operating Regulations will establish the committee’s membership, responsibilities, and coordination mechanisms.

³⁹ The CDEP will be comprised of representatives of the ANA, the MEF, the Logistics Cabinet, MICI, MINSA, MIDA, SNM, AUPSA, ATP, ATTT, SENAFRONT, and DNAd.

Figure 3.1. Proposed execution arrangement



- 3.3 The CDEP will also be tasked with serving as the counterpart in the drafting of specific agreements with Costa Rica⁴⁰ that will regulate, on the basis of bilateral political decisions at the highest level, the practical arrangements for the implementation of the agreed upon integrated border models. These agreements will provide for, *inter alia*, the delegation of powers and extension of territorial jurisdiction of the neighboring country in all matters related to border control, the rights and responsibilities of the officials and institutions taking part in fiscal and parafiscal control processes, the mechanism to coordinate the logistics necessary for integrated control, and regulations governing the areas of immigration, customs, sanitary control, and security.
- 3.4 For the program's execution, the PEU will hire a technical manager for the program who will be responsible for technical management, bidding processes, contract administration, as well as social, environmental, and legal management. The ANA will sign the contracts and pay the obligations derived therefrom. The PEU will be made up of the following technical team: (i) a general coordinator; (ii) a planning and monitoring specialist; (iii) a procurement specialist; (iv) a financial-administrative specialist; (v) a manager of CBM processes; (vi) an attorney; and (vii) an environmental and social management specialist. The members of the PEU will be hired or selected by the ANA on the basis of the profiles set out in the program Operating Regulations.

⁴⁰ The Panamanian government has formed a multisector work team that acts as the counterpart to the Costa Rican Land Border Stations Council in preparing, with Bank support, agreements concerning the Bilateral Framework Agreement. This team provides a natural starting point for establishing Panama's CDEP. The first bilateral work meeting with Costa Rica was held on 15 April 2016, establishing the bilateral coordination channels in each country for drafting the Bilateral Framework Agreement.

- 3.5 A technical counterpart will also be designated for each of the institutions comprising the CDEP. They will have technical decision-making capacity regarding the projects carried out, serving as the counterpart to the ANA in project planning, hiring, and execution.
- 3.6 **Program Operating Regulations.** The program Operating Regulations will describe the criteria and procedures for implementing the program. They will establish the responsibilities of the PEU, the technical manager, and each institution comprising the CDEP, as well as the preparation of flowcharts for the mechanisms and processes to be implemented. They will also include the conditions precedent for the infrastructure projects included in Component 1, to be financed with program resources. The program Operating Regulations will include the ESMR, the program ESMF, and the ESMP for each work thereof, as well as the involuntary settlement framework, where applicable. They will also include information on the scope and format of annual environmental and social safeguards compliance reports. The program Operating Regulations and any changes thereto will require the Bank's no objection for entry into force. A preliminary version of the program Operating Regulations is available in [optional electronic link 30](#).
- 3.7 **Procurement.** The procurement of goods, works, and the selection of consulting services will be performed in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). The Bank's Board of Executive Directors approved the Strategy for Strengthening and Use of Country Systems (document GN-2538-1) up to the threshold established for national competitive bidding (US\$250,000), and the mechanism for smaller purchases of up to US\$50,000, which may change as the Bank approves higher levels of use. The procurement plan ([required electronic link 4](#)) contains a detailed description of the procurement processes to be conducted during program execution.
- 3.8 **Retroactive financing.** The Bank may retroactively finance from the loan proceeds up to US\$15 million (20% of the proposed amount of the loan) in eligible expenditures incurred by the executing agency prior to the loan approval date, provided that requirements substantially similar to those of the loan contract were met. Such expenditures will have been incurred on or after 11 February 2016, but in no case more than 18 months prior to the loan approval date.
- 3.9 **Disbursements.** The loan will be disbursed under the advance of funds modality, based on financial programming for a period of up to 180 days. The Bank may make a new advance of funds once justification has been provided for at least 80% of the funds previously disbursed. Payments may also be reimbursed, or direct payments may be made to providers.
- 3.10 **Audits.** The program's audited financial statements, prepared by an independent auditing firm acceptable to the Bank, will be requested on an annual basis within 120 days after the close of each fiscal year or the date of the last disbursement.
- 3.11 **The following special conditions precedent to the first disbursement of the loan are to be fulfilled by the borrower to the Bank's satisfaction: (i) signing of an interagency agreement between ANA and the borrower for transferring the loan proceeds and responsibilities for program execution, pursuant to the**

- terms and conditions previously agreed upon with the Bank; (ii) formation of the PEU, comprised of a technical team with the profiles agreed upon with the Bank; (iii) establishment of the CDEP, by presenting the committee's by-laws, signed by the main institutions supporting the program's execution; and (iv) approval and entry into effect of the program Operating Regulations, in accordance with the terms previously agreed upon with the Bank.
- 3.12 These conditions precedent are considered essential for ensuring that execution begins with the appropriate technical as well as operational tools. These include the legal instrument documenting the transfer of resources and obligations to the executing agency and the formation of the team within the executing agency and the program's strategic direction mechanism. In view of the ANA's limited experience, these measures—together with program Operating Regulations that include clear guidelines on all aspects of execution—are considered necessary.
- 3.13 **Other requirements for using the loan proceeds that will be special contractual conditions for execution to be fulfilled by the borrower to the Bank's satisfaction:** (i) the borrower will comply with the special contractual conditions included in Annex B of the ESMR; (ii) prior to executing "activity (i)" of Component 2 (Preparation of Authorization Catalogues for the VUCE), an interagency cooperation agreement will have been signed to operate the VUCE; and (iii) prior to the start of construction works for the Río Sereno border crossing, an interagency agreement will be signed between the border control agencies operating at that crossing, incorporating the terms of agreement for the use of physical facilities and coordination of their operations.
- B. Summary of results monitoring arrangements**
- 3.14 Program monitoring and evaluation will be coordinated by the executing agency through the PEU and supported by the technical manager. To this end, the targets and progress indicators set out in the Results Matrix (Annex II) will be taken into account. The Bank will monitor the program through inspection visits and management missions, examining: (i) progress made in terms of activities and contracting; (ii) executing agency performance; (iii) the budget for the following fiscal year; (iv) the execution schedule and performance indicators; and (v) progress in the implementation of the environmental and social management plan for each project.
- 3.15 The PEU will have suitable systems in place to: (i) compile periodic information on the program's physical and financial progress; and (ii) maintain relevant information about the execution of the program's activities and resources, in an accessible and up-to-date format. Program monitoring will be conducted as described in the monitoring and evaluation plan ([required electronic link 2](#)).

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration -Gender Equality and Diversity -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Public agencies' processing times of international trade of goods and services * -Professionals from public and private sectors trained or assisted in economic integration (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2338	Deepen the logistics services, efficiency, and connectivity of the productive infrastructure.
Country Program Results Matrix	The operation is scheduled for CPD 2018.	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	6.3	
3.1 Program Diagnosis	2.4	
3.2 Proposed Interventions or Solutions	1.2	
3.3 Results Matrix Quality	2.7	
4. Ex ante Economic Analysis	8.5	
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	0.0	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	6.5	
5.1 Monitoring Mechanisms	1.5	
5.2 Evaluation Plan	5.0	
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: Budget. Procurement: Information System.
Non-Fiduciary		
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	The Bank has provided technical cooperation resources to analyze logistics performance and currently supports the preparation of a National Logistics Plan. Some of the related operations are: RG-T2069, RG-T1982, RG-T2053, RG-T1660, RG-T1662, RG-T2267 y RG-T1744.
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.		

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

Panama is an open economy that faces several challenges in the cross-borders shared with Costa Rica that affect its logistics performance and prevents it from taking advantage of the full potential of its geographic comparative advantages. According to the analysis presented, the main determinants of these challenges are the excessive costs and times to trade; the lack of efficient information systems, infrastructure and equipment, and the weak inter-institutional interoperability. The diagnosis presented is partially adequate.

In this context, operation PN-L1107 seeks to improve the logistics sector of Panama through the modernization of processes, technology, infrastructure and fiscal and parafiscal control equipment, to ensure traceability in fiscal routes. The project has three components: (i) investments in constructions and equipment for border facilities in the three border crossings and the system and devices that ensure logistic traceability in fiscal routes; (ii) definition and development of efficient and effective fiscal and parafiscal control processes based on the parameters of the GCF (Coordinated Border Management); and (iii) support to the improvement of the urban environment at the border crossings. However, external and internal validity of the proposed solutions have only been partially provided.

The project documents allow understanding the vertical logic of the intervention, which is clear. The expected results of the operation are: (i) improvement in the operational efficiency of the border crossings; (ii) improvement in the efficiency of customs management; (iii) increase in institutional capacity to address cases of victimization against vulnerable groups in border crossings; (iv) improvement of the perception of the quality of the infrastructure and services in the Panamanian side of Paso de Canoas border crossing; and (v) improvement in the urban conditions of border communities that contribute to the proper functioning and sustainability of cross-borders.

The economic analysis is based on a Cost-Benefit evaluation that considers the incremental benefits related to savings in time and operating costs for users. The results are positive with an Internal Rate of Return of 29.8% and a Present Value of US \$ 40.5 million. The evaluation includes a sensitivity analysis with adequate variations. However, the estimates of direct investment costs are not adequately aligned with the costs of the project components and products.

The results matrix is adequately constructed and contains the elements necessary for project monitoring. The indicators proposed for impacts, results and products are SMART. The measurement of results consists of a before and after analysis of the result indicators; also, an ex post cost-benefit analysis is proposed.

The documentation includes a risk matrix. One risk was classified as high and four were rated as medium. The project overall risk rating is medium.

RESULTS MATRIX

Program objective	The program's objective is to help improve Panama's logistics sector by modernizing processes, technology, infrastructure, as well as fiscal and parafiscal control equipment, thereby ensuring traceability on Panamanian fiscal routes.
Specific objectives	The specific objectives are to: (i) improve border crossing operating efficiency by reducing operating costs and processing times for the control of people and goods; (ii) optimize the efficiency of customs multimodal management; (iii) build institutional capacities to address the victimization of vulnerable groups at border crossings; (iv) improve the perception of public service quality at border crossings; and (v) promote orderly land-use management in communities located near border crossings.

IMPACTS

Indicators/unit of measurement	Baseline	Final target (2022)	Source/means of verification	Comments
Impact: Improved performance of Panama's logistics sector				
Logistic performance Index (LPI)	3.34 (2016)	3.5	World Bank's LPI report	Reflects the perceptions of a country's logistics performance. The index ranges from 1 to 5.
Value of trade flows through the Paso Canoas border crossing/national GDP (%)	2.7 (2014)	3	National Customs Authority (ANA)	US\$1.25 billion/US\$46.21 billion

OUTCOMES

Indicators/unit of measurement	Process	Baseline (2015)	Final target (2022)	Source/means of verification	Comments
Expected outcome 1. Improved operating efficiency of Panama's control facility at the Paso Canoas border crossing, by reducing operating costs of control processes and crossing times for people and goods¹					
Paso Canoas²					
Total cost of process (US\$/procedure)	Import subject to sanitary control	169.34	115.32	Baseline data and targets	The indicator is calculated as the average total cost per procedure in terms of personnel, logistics operators, stationery, salaries, permits and authorizations, and fuel.
	Import not subject to sanitary control	137.24	106.11		
	Export subject to sanitary control	150.17	60.20	Consultant's report	

¹ Values of zero stem from the integrated border operational model to be implemented. A dual border control facility model (one in each country) will be implemented in Paso Canoas whereby transport units will only stop in the country of entry to simultaneously undergo the controls of both countries. Accordingly, freight operations exiting Panama (exports and transit operations in the direction of Costa Rica) will not result in significant wait times or operating costs for users on the Panamanian side and vice versa.

² A set of identical indicators is available for the Guabito border crossing.

Indicators/unit of measurement	Process	Baseline (2015)	Final target (2022)	Source/means of verification	Comments
	Export not subject to sanitary control	108.80	60.18		
	Entering transit subject to sanitary control	39.95	20.76		
	Entering transit not subject to sanitary control	12.88	12.47		
	Exiting transit subject to sanitary control	64.95	0.10		
	Exiting transit not subject to sanitary control	28.46	0.10		
	Empty units entering	9.93	9.70		
	Empty units exiting	0.74	0.00		
Average total border crossing time (hours per TU) ³	Import subject to sanitary control	10.0	1.04		The indicator takes counts the time form the moment the transport unit enters the first inspection line until it receives customs permission to leave the primary zone and continue to destination. It does not cover the six-hour nighttime window when the border post is not open.
	Import not subject to sanitary control	8.1	0.92		
	Export subject to sanitary control	14.6	0.0		
	Export not subject to sanitary control	7.9	0.0		
	Entering transit subject to sanitary control	8.1	0.93		
	Exiting transit subject to sanitary control	13.8	0.0		
	Entering transit not subject to sanitary control	7.3	0.89		

³ TU: Transport unit.

Indicators/unit of measurement	Process	Baseline (2015)	Final target (2022)	Source/means of verification	Comments
	Exiting transit not subject to sanitary control	7.3	0.0		
	Empty units entering	7.2	0.76		
	Empty units exiting	4.8	0.0		
Average transit time for passengers (minutes/passenger)	International buses (direction CR-PN)	61.0	33.5		Average total time for completing immigration formalities
	International buses (direction PN-CR)	64.0	0.0		
	Private vehicles (direction CR-PN)	29.9	14.5		
	Private vehicles (direction PN-CR)	23.9	0.0		
	Pedestrians (direction CR-PN)	3.8	2.8		
	Pedestrians (direction PN-CR)	4.1	0.0		
Maximum freight processing capacity at the border station (TU/day)	Import	806	1,361		Quantified through a simulation (processes and lines) that saturates the system but not to the point of collapse
	Export	801	1,352		
Greenhouse gas emission from freight transport units (kilograms of CO ₂ e/TU)	Import subject to sanitary control	101.3	10.5		
	Entering transit subject to sanitary control	81.9	9.4		
	Export subject to sanitary control	147.1	0		
	Exiting transit subject to sanitary control	139.9	0		

Indicators/unit of measurement	Process	Baseline (2015)	Final target (2022)	Source/means of verification	Comments
Fiscal Routes					
Transport units that arrive within the legally-mandated time frame ⁴	% of transport units that arrive with the legally-mandated time frame	Not applicable	90	Control and Monitoring Center (CMC) report ⁵	Baseline to be determined based on CCM reports
LPI tracking and traceability index ⁶	Index	2.95	3	LPI report	
Expected outcome 2. Improved Panamanian customs management efficiency through the implementation of systems and technology to facilitate the sharing of information and interoperability of the control agencies' fiscal and parafiscal systems					
Number of integration agreements and regional/subregional cooperation initiatives supported	Agreements	0	5	Ministry of Trade and Industry (MICI) World Trade Organization (WTO)	
Percentage of "single transit declarations" (DUT) for goods entering and exiting the national territory processed through the Integrated Customs Management System (SIGA), with a view to implementing the International Transit of Goods (TIM) procedure.	DUTs processed	0	100%	ANA DUCA-T statistics	
Annual percentage of customs operations with information sent electronically and in advance (%)	Import	0	50%	ANA	
	Export	0	50%		
Number of customs declarations processed per year in Paso Canoas ⁷	Import + Export	29,909	36,895	Annual customs management statistics	Number of customs declarations successfully processed per year in Paso Canoas. Assumes a growth rate equal to that expected in the value of trade through that border station.

⁴ Established in Cabinet Decree 12 of 29 March 2016.

⁵ Freight Control and Monitoring Center.

⁶ Logistics Performance Index.

⁷ This indicator is included in the Country Strategy with Panama 2015-2019.

Indicators/unit of measurement	Process		Baseline (2015)	Final target (2022)	Source/means of verification	Comments
Percentage of technical notes ⁸ processed via the VUCE platform	Import		0	25%		
	Export		0	25%		
Percentage of intrusive/nonintrusive physical inspections applied to “red lane” or “yellow lane” declarations	Import	Red	7%	10%		The risk analysis assigns declarations for documentary inspection (yellow), physical inspection (red), or “no inspection.”
		Yellow	5%	2%		
	Export	Red	2%	2%		
Time required to submit declaration of goods for clearance	Hours/procedure		5	1	ANA information system	
Expected outcome 3. Increased institutional capacity to address the victimization of vulnerable groups at border crossings						
Number of cases of crime or victimization detected, documented, ⁹ and addressed per 100,000 persons in transit through border crossings	Cases per 100,000 persons		0	20 ¹⁰	Integrated Crime Statistics System (SIEC) reports	This refers to crimes that impact or victimize women, indigenous groups, or minors, such as procuring, human trafficking, and kidnapping.
Expected outcome 4. Improved perception of infrastructure and service quality at Panama’s Paso Canoas border crossing control facility						
Index of user satisfaction with border crossings (%)	Tourists		54	90	Consultant’s report; satisfaction survey	The overall satisfaction index will be the weighted average of the following critical characteristics of service and infrastructure: access roads; infrastructure; technology and equipment; service quality; socioeconomic and environmental aspects; costs; security; and overall evaluation.
	Carriers		47	90		
Expected outcome 5. Improved urban development conditions in border communities, contributing to the effective operation and sustainability of the border crossings						
Increase in the average municipal investment executed per year, in accordance with the rule contained in the Partial Territorial Development Plans (PPOTs) of the identified border crossings			US\$4.87 million	US\$5.87 million	Project execution reports Municipal financial management reports	This will consider the infrastructure and public service investments made by the municipal governments of Barú, Bugaba, Renacimiento, and Changuinola with their regular budgets and with the loan.

⁸ Nontariff regulation/permit issued by the country’s control agencies for imports/exports.

⁹ Cases will be documented using the Integrated System of Criminal Statistics (SIEC – <http://www.siec.gob.pa>).

¹⁰ This is a preliminary target and should be verified against the studies to be carried out. The figure corresponds to some 60 cases each year, considering that a total of roughly 300,000 people cross the borders annually.

OUTPUTS

Indicator	Unit of measurement	Baseline		Interim measurements					Final target		Source/means of verification	Comments
		Value	Year	1	2	3	4	5	Value	Year		
Output 1: Paso Canoas border crossing built and/or upgraded, equipped, and operating	Border crossing	0	2017			1			1	2022	Acceptance of work certificate	
Output 2: Río Sereno border crossing built and/or upgraded, equipped, and operating	Border crossing	0				1			1			
Output 3: Guabito border crossing built and/or upgraded, equipped, and operating	Border crossing	0					1		1			
Output 4: Radio-frequency identification (RFID) system installed along fiscal routes and at border crossings	System	0						1	1		CMC control report	
Output 5: CBM processes and systems implemented and operating	Unit	0				1			1			
<i>Milestone 5.1: Integrated border management¹¹ control processes agreed upon and signed</i>	Unit	0	2017	1					1	2022	Legal directive of approval	
<i>Milestone 5.2: Regulatory control framework¹² implemented and operating</i>	Unit	0		1					1			
<i>Milestone 5.3: Comprehensive risk management system installed and operating</i>	System	0			1				1		Acceptance of work certificate	

¹¹ The set of detailed processes, steps, and responsibilities that must be defined in an operating manual for the structured implementation of control processes at border crossings. This manual will comprehensively address the actions of all State control agencies and their interaction with peer institutions of the neighboring country.

¹² Refers to the legal, juridical, and regulatory instruments that govern the implementation of integrated border management control processes.

Indicator	Unit of measurement	Baseline		Interim measurements					Final target		Source/means of verification	Comments
		Value	Year	1	2	3	4	5	Value	Year		
<i>Milestone 5.4: Management control system installed and operating</i>	System	0			1				1			
<i>Milestone 5.5: Customs system modernized and operating</i>	System	0					1		1			
<i>Milestone 5.6: Public officials trained in the use of new systems and processes</i>	Officials	0			100	20	20	20	160		Lists of officials trained	
<i>Milestone 5.7: Dissemination of information to the stakeholders about Panama's implementation of CBM</i>	Individuals	0			300	100	100	100	600		Lists of participants	
Output 6: Catalogue of processes for the Foreign Trade Single Window (VUCE) developed	Catalogue	0	2017		4				4	2022	Program status reports	
Output 7: Connection interphase between the information platforms of Panama and Costa Rica	Interphase	0					1		1		Certificate of satisfactory service performance	
Output 8: Authorized economic operator program implemented	Operator	0			1	2			3		Lists of participating companies	
Output 9: Partial territorial development plans (PPOTs) formulated, approved, and executed	Plan	0				2	1		3		Execution reports	
<i>Milestone 9.1: PPOTs formulated and approved, including portfolio of priority projects</i>	Plan	0	2017		2	1			3	2022	Municipal agreement	
<i>Milestone 9.2: Municipal officials trained in territorial planning and management, and in the ex ante</i>	Officials	0				15	5		20		Lists of officials trained	Four municipal governments: Barú, Bugaba, Renacimiento, and Changuinola

Indicator	Unit of measurement	Baseline		Interim measurements					Final target		Source/means of verification	Comments
		Value	Year	1	2	3	4	5	Value	Year		
<i>formulation and evaluation of infrastructure and basic urban amenity improvement projects</i>												
<i>Milestone 9.3: Municipios trained in managing their PPOTs with technical assistance</i>	Municipio	0				3	1		4		Program status report	
<i>Milestone 9.4: Designs of projects to improve the infrastructure network, services and basic urban amenities in areas near border crossings prepared</i>	Design	0	2017			2	2		4		Designs approved	
<i>Milestone 9.5: Projects to improve the infrastructure network, and basic urban services and amenities completed</i>	Project	0	2017				2	2	4		Acceptance of work certificate	
Output 10: Study on shortcomings and opportunities for gender equity and diversity at border crossings	Study	0	2017	1					1	2022	Final report	
Output 11: Public officials trained and sensitized in gender issues	Officials	0	2017		25	25	50	50	150		List of officials trained	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Panama
Program: Customs Logistics Integration Program (PN-L1107)
Executing agency: National Customs Authority
Prepared by: Ezequiel Cambiasso and David Ochoa (FMP/CPN)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 1.1 The National Customs Agency (ANA)¹ is the executing agency, through the program execution unit (PEU), which will be established to that end and report to the institution's senior-most authority. It will have autonomy in planning; in technical, operational, and fiduciary management (procurement and financial management); in monitoring; and in other areas related to the program's execution. The program Operating Regulations will set out the respective organization, functions, and responsibilities.
- 1.2 For purposes of interagency coordination, a program strategic steering committee (CDEP) will be established as an advisory body tasked with strategic management and coordination. It will be comprised of high-level representatives with decision-making capacity from the key institutions involved in border crossing management in Panama (i.e. the technical counterparts). The program Operating Regulations will establish the committee's membership, responsibilities, and coordination mechanisms.

II. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 2.1 The level of procurement risk is regarded as medium, based on the fact that ANA staff is unfamiliar with the Bank's procurement procedures, which could result in procurement delays or failures. To mitigate this risk, fiduciary workshops will be held with the executing agency, and robust fiduciary support will be provided to the ANA during the first year of execution. With regard to program execution, the PEU will be supported by a technical management and support firm, which will primarily provide technical management support related to program direction and management and, as necessary, in fiduciary, social management, and operational matters.
- 2.2 The level of financial risk is regarded as low based on the low probability of any significant failures in the financial management of the program that would affect disbursements.
- 2.3 There is a risk that insufficient funds will be allocated in the budget. Upon Bank approval of the operation, the ANA should make arrangements with the Ministry of Economy and Finance to allocate funds for the program. To mitigate this risk, the ANA will rely on PEU staff and planning tools to adequately manage budget allocations with the Ministry of Economy and Finance (MEF).

¹ Public security institution with legal status, its own assets, and autonomy in its internal governance, established by Decree-Law 1 of 13 February 2008.

- 2.4 The complexity of the steps required for the Office of the Controller General (CGR) to exercise prior control could delay the signing of contracts and processing of payments. To mitigate this risk and ensure that the human resources are available to manage these processes, a technical manager will be hired, as noted above.

III. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF CONTRACTS

- 3.1 The agreements and requirements that should be considered in the special conditions include the following:
- a. The guidelines set out in document OP-273-6 will apply, and in accordance with these: (i) audited financial statements prepared by an independent auditing firm acceptable to the Bank will be requested on an annual basis within 120 days after the close of each fiscal year or the date of the last disbursement; (ii) advances will be requested for financial plans of up to 180 days; and (iii) a new advance of funds may be requested only when 80% of the cumulative resources pending justification have been accounted for.
 - b. There is exchange-rate parity between the U.S. dollar and the Panamanian balboa, so the borrower may opt for any of the exchange rate options provided in the General Conditions of the loan contracts, according to its preference.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 The fiduciary agreements and requirements for procurement establish the provisions that apply for execution of all procurement processes planned under the program.

A. Procurement execution

- 4.2 The Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) will apply.
- a. **Procurement of works, goods, and nonconsulting services:** For procurement subject to international competitive bidding (ICB), the standard bidding documents issued by the Bank will be used. For procurement subject to national competitive bidding (NCB) and the shopping method, the models defined for this operation by the Bank will be used. The program sector specialist will be responsible for reviewing the technical specifications for procurement during the preparation of selection processes.
 - b. **Procurement of information technology systems:** Information technology systems will be procured. At the point at which the technical specifications and scope of work are being prepared, a determination will be made as to the bidding document best suited to the purpose.
 - c. **Selection and contracting of consultants:** For contracts for consulting services generated under the program, the standard request for proposals issued by the Bank will be used. The program sector specialist will be responsible for reviewing the terms of reference for consulting contracts.
 - d. **Selection of individual consultants:** For the selection of individual consultants, their qualifications for performing the work will be taken into account, based on a comparison of the qualifications of at least three candidates.

- e. **Use of country procurement systems:** The Bank's Board of Executive Directors approved the use of the framework agreement subsystems (document GN-2538-11) up to the threshold established for national competitive bidding (US\$250,000), and the mechanism for smaller purchases of up to US\$50,000, which may change as the Bank approves higher levels of use.
- f. **Retroactive financing:** The Bank may retroactively finance, as a charge against the loan proceeds, up to US\$15 million (20% of the proposed amount of the loan) in eligible expenditures incurred by the executing agency prior to the loan approval date, provided that requirements substantially similar to those of the loan contract were met. Such expenditures must have been incurred on or after 11 February 2016, but in no case more than 18 months prior to the loan approval date.
- g. **Purchase of land:** The purchase of land may be financed in accordance with the document, Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans (document GN-2331-5). Such expenditures will be eligible if evidence is furnished demonstrating that: (i) they form part of the program; (ii) are essential for attaining the program's development objectives; (iii) their use is productive in the context of the particular project; and (iv) it is possible to establish their value at market prices that are reasonable and satisfactory to the Bank.
- h. **Domestic preference:** Not applicable.
- i. **Procurement plan:** The Procurement Plan Execution System or a subsequent updated version of the system will be used for electronic monitoring of procurement processes.

B. Table of thresholds (US\$)

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

C. Main procurement items

Activity	Bidding type	Estimated amount (US\$)
Works		
Hiring of a firm to build and/or upgrade the works for the Paso Canoas border crossing	ICB	18,000,000
Hiring of a firm to build and/or upgrade the works for the Guabito border crossing	ICB	6,000,000
Hiring of a firm to build the urban improvement works in areas bordering the Project 1 border crossing (Paso Canoas)	ICB	3,125,000
Goods		
Procurement of equipment for the Paso Canoas border crossing	ICB	8,100,000
Procurement of equipment for the Guabito border crossing	ICB	3,250,000
Procurement of hardware for the CBM system	ICB	2,000,000
Procurement of hardware for the customs management system	ICB	2,550,000
Consulting services		
Hiring of a firm to supervise Paso Canoas border crossing works	QCBS	1,700,000
Hiring of a firm to develop software for CBM systems	QCBS	5,950,000
Hiring of a firm to develop modern customs management software	QCBS	4,000,000
Hiring of a firm to install prevention and technology systems for the monitoring control center	QCBS	1,900,000
Hiring of a firm to provide technical management and support	QCBS	2,500,000

D. Procurement supervision

- 4.3 All goods, works, and nonconsulting services procured using ICB or direct contracting will be subject to prior review. The selection of consulting firms for amounts greater than US\$200,000 and contracting by the single source selection method will be subject to prior review. For all other contracts, the type of review to be used will be determined case by case in the procurement plan.

E. Special arrangements

- 4.4 No special arrangements are anticipated.

F. Records and files

- 4.5 The executing agency will keep records up to date and files in proper order so that they can be reviewed by the Bank in accordance with the following guidelines:
- Procurement documents should be kept in a single file or folder and should be easily distinguished from processes financed with funds from the local contribution or financed with funds other than the program's.
 - Documents will be paginated and numbered and will be filed and kept in proper order so that they can be clearly and immediately located and identified and available at any time for Bank review and audit purposes.

V. FINANCIAL MANAGEMENT

A. Programming and budget

- 5.1 The MEF is responsible for budget formulation and control. Every year by 31 July, it presents a budget proposal to the legislature, which is responsible for approving it, as well as for authorizing any increase. The budget is prepared annually and includes all investments, revenue, and expenditures from the public sector. The

2018 Budget Act did not include an allocation for this program, so the ANA will need to make the corresponding arrangements to have it included.

B. Accounting and information systems

- 5.2 With a view to streamlining government management, the Panamanian government, through the MEF and the National Accounting Office (DNC), is currently implementing the new accounting and budget system known as ISTMO. The PEU will need to take the necessary steps required by the DNC to obtain its respective users, training, and system parametrization in order to manage the budget, commit expenditures, and make payments through the system.
- 5.3 Program accounting will be governed by the rules issued by the CGR, which are not consistent with the International Public Sector Accounting Standards.

C. Disbursements and cash flow

- 5.4 In the second half of 2013, legislation was enacted in Panama establishing use of a unified treasury account, and implementation began in late 2014 with the accounts of the MEF and continued in 2015 with several other ministries. In 2016, the Treasury Single Account (TSA) and how it interfaces with implementation of ISTMO will be evaluated to determine whether it could be used in Bank-financed projects.
- 5.5 The Bank will transfer resources to an exclusive program account at a financial institution opened by the ANA.² Disbursements will be made in the form of advances of funds³ to cover liquidity needs based on the respective financial plan for a period of up to 180 days. A new advance of funds may be requested only when 80% of the cumulative resources pending justification have been accounted for. Payments may also be reimbursed, or direct payments may be made to providers.
- 5.6 The initial financial plan indicates that US\$31.2 million in disbursements from the IDB loan will be needed in 2018.

D. Internal control and internal audit

- 5.7 Given the prior control exercised by the CGR, government institutions in Panama have weak internal control and internal audit systems inasmuch as they rely on the CGR's control activities instead of putting effective processes and controls in place. As a result, these systems are not considered adequate to the control functions required for projects.

E. External control and reports

- 5.8 The CGR has focused its efforts on prior control of transactions to dispose of government assets, since its audit function is weak. In addition, because it participates in administrative processes through prior control, it is not sufficiently independent to conduct audits, so the determination is that it does not have the capacity to exercise external control of the program.

² In the event the TSA evaluation mentioned in the previous paragraph is satisfactory, the funds will be transferred to the account designated by the MEF.

³ In accordance with the Financial Management Guide for IDB-financed Projects (document OP-273-6).

- 5.9 Audited financial statements prepared by an independent auditing firm acceptable to the Bank will be requested on an annual basis for the program, within 120 days after the close of each fiscal year or the date of the last disbursement.

F. Financial supervision plan

- 5.10 Financial supervision will be based on the reports prepared by the aforementioned auditors, and the supporting documentation for disbursements will be subject to post review by the auditors as part of their audits or during financial inspection visits.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Panama. Loan ____/OC-PN to the Republic of Panama
Customs Logistics Integration Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as borrower, for the purpose of granting it a financing to cooperate in the execution of the support for the Customs Logistics Integration Program. Such financing will be for the amount of up to US\$75,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 2018)