

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **PANAMA**

### **ECONOMIC DIVERSIFICATION AND COMPETITIVENESS PROMOTION PROGRAM**

**(PN-L1149)**

#### **LOAN PROPOSAL**

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Proposed resolution

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Annex II	Policy Matrix
Annex III	Results Matrix

REQUIRED LINKS	
1.	<a href="#">Policy Letter</a>
2.	<a href="#">Means of verification</a>
3.	<a href="#">Monitoring and evaluation plan</a>

OPTIONAL LINKS	
1.	<a href="#">Analysis of productivity and inequality in Panama</a>

## ABBREVIATIONS

AIG	Autoridad Nacional para la Innovación Gubernamental [National Authority for Government Innovation]
AMUPA	Asociación de Municipios de Panamá [Association of Municipios of Panama]
ATP	Autoridad de Turismo de Panamá [Panama Tourism Authority]
CAF	Development Bank of Latin America
CAMTUR	Cámara Nacional de Turismo [National Chamber of Tourism]
CCIs	Creative and cultural industries
CSTP	Cuenta Satélite de Turismo de la República de Panamá [Tourism Satellite Account of the Republic of Panama]
DGI	Dirección General de Ingresos [Directorate General of Revenue]
FFF	Flexible Financing Facility
GCI	Global Competitiveness Index
ICTs	Information and communication technologies
INDICATIC	Instituto Nacional de Investigaciones Científicas Avanzadas en Tecnología de Información y Comunicaciones [National Institute for Advanced Scientific Research in Information and Communication Technology]
INEC	Instituto Nacional de Estadística y Censo [National Statistics and Census Institute]
MEF	Ministerio de Economía y Finanzas [Ministry of Economy and Finance]
MICI	Ministerio de Comercio e Industrias [Ministry of Trade and Industry]
MiCultura	Ministerio de Cultura [Ministry of Culture]
OECD	Organisation for Economic Cooperation and Development
PBL	Policy-based loan
PBP	Programmatic policy-based loan
SENACYT	Secretaría Nacional de Ciencia Tecnología e Innovación [National Department of Science, Technology, and Innovation]
TFP	Total factor productivity
WAL	Weighted average life
WEF	World Economic Forum

**PROJECT SUMMARY**  
**PANAMA**  
**ECONOMIC DIVERSIFICATION AND COMPETITIVENESS PROMOTION PROGRAM**  
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Financial Terms and Conditions				
Borrower:			Flexible Financing Facility <sup>(a)</sup>	
Republic of Panama			Amortization period:	15 years
Executing agency:			Disbursement period:	1 year
Ministry of Economy and Finance (MEF)			Grace period:	2 years <sup>(b)</sup>
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (OC):	200 million	100%	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	200 million	100%	Weighted average life (WAL):	8.5 years
			Currency of approval:	United States dollars
Project at a Glance				
<p><b>Project objective/description:</b> The general objective of the programmatic series and this first operation is to promote Panama's sustainable economic growth by enhancing the country's competitiveness and advancing emerging sectors. The specific objectives are: (i) to improve the country's competitive conditions by promoting a digital environment conducive to business and strengthening the National Quality System; and (ii) to advance the development of emerging sectors that generate sources of growth for the economy.</p> <p>This operation is the first of two independent but technically linked operations under the programmatic policy-based loan (PBP) modality.</p>				
<p><b>Special contractual conditions precedent to first and only disbursement of the financing:</b> The first and only disbursement is subject to compliance with the policy reform conditions, as established in the Policy Matrix (Annex II), the <a href="#">Policy Letter</a>, and the other conditions established in the Loan Contract (see paragraph 3.4).</p>				
<p><b>Exceptions to Bank policy:</b> None.</p>				
Strategic Alignment				
Challenges: <sup>(d)</sup>	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>
			EI	<input type="checkbox"/>
Crosscutting themes: <sup>(e)</sup>	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

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

<sup>(b)</sup> Under the flexible repayment options of the FFF, changes to the grace period are permitted provided that they do not entail any extension of the original WAL of the loan or the last payment date as documented in the loan contract.

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

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

<sup>(e)</sup> 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 conditions.** The economic expansion that began in the mid-2000s in Panama has continued for the past ten years, achieving average annual growth of 6.0%<sup>1</sup> of GDP. More than half of this accelerated growth is attributable to the accumulation of capital<sup>2</sup> (as a result of heavy public and private investment in construction, trade, and logistics services related to the Panama Canal expansion), whereas total factor productivity (TFP) contributed less than one fifth. These growth rates have given Panama the highest per capita income in Latin America and the Caribbean (LAC). Such economic growth has been accompanied by the consolidation of a sound macroeconomic framework. On the one hand, the expected inflation rate for the country as a dollarized economy has been below 1% since 2015 and, on the other, the nonfinancial public sector deficit has been moderate with a debt-to-GDP ratio of 37.4% in 2010-2017. Having become a high-income country in just 12 years, Panama now faces the challenges of distributing this growth more evenly and maximizing the capacity to sustain these high rates in the long term. Given the strong economic growth experienced in the past decade, the provinces of Panamá (68.5% of real GDP) and Colón (78.7% of real GDP) grew the most, with the other provinces posting GDP growth of 41.3%.
- 1.2 **Insufficient conditions for competitiveness of a high-income country.** According to the World Economic Forum (WEF), competitiveness is the set of institutions, policies, and factors that determine the level of productivity of a country.<sup>3</sup> Productivity is important because it is considered the primary factor driving growth and income, which are intrinsically linked to the well-being of individuals.<sup>4</sup> In Panama's case, economic growth between 2007 and 2017 was accompanied by an increase in average competitiveness. This was reflected in the WEF's global competitiveness index (GCI), which rose from 4.17 to 4.43 (out of a total of 7 points) in absolute terms, owing mainly to gains in macroeconomic stability, the efficiency of logistics services, and the financial system. However, in relative terms, as Panama was transitioning towards becoming a high-income country, its position in the GCI began to reflect certain competitive disadvantages related to the pillars of efficiency (such as education and technology) and innovation, areas where other countries advanced faster. Thus, Panama slipped from 40th place in 2013 to 50th in 2017 out of 152 countries. Nevertheless, that year Panama ranked as the third most competitive LAC country, behind Chile and Costa Rica.

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<sup>1</sup> National Statistics and Census Institute (INEC) (2017).

<sup>2</sup> Panama Selected Issues (International Monetary Fund, 2018).

<sup>3</sup> For further clarity, the WEF proposes a specific, practical way of annually measuring a country's competitiveness. The metric, called the global competitiveness index (GCI), looks at four broad areas: (i) an enabling environment conducive to economic growth (institutions, infrastructure, information and communication technology (ICT) adoption, macroeconomic stability); (ii) human capital (health and skills); (iii) markets (product and labor markets, financial system, and market size); and (iv) innovation ecosystem (business dynamism and innovation capability). Therefore, the measure of a country's competitiveness according to this definition results from the degree of the country's development in this range of categories. This operation focuses on two of the four areas: (i) enabling environment conducive to economic growth; and (ii) innovation ecosystem.

<sup>4</sup> WEF (2018).

- 1.3 However, given Panama's position in the GCI, it became clear in 2018 that the Panamanian economy's competitiveness could no longer be sustained based on the strength of the macroeconomic environment, logistics services, and financial system.<sup>5</sup> That year, the GCI measurement methodology was modified to fully reflect the productivity factors required in the new context of the fourth industrial revolution, this time ranking Panama 64th out of 140 countries, behind Colombia, Peru, Uruguay, Mexico, Costa Rica, and Chile in Latin America and the Caribbean. This made it clear that, to increase its competitiveness, it was imperative for Panama to work on its greatest weaknesses, such as: (i) an enabling environment, specifically institutional quality (83rd position) and ICT adoption (81st position); (ii) human capital, specifically skills development (85th position) and labor market flexibility (87th position); and (iii) the innovation ecosystem, specifically business dynamism (71st position) and innovation capability (66th position). The main factors determining Panama's position in these areas include: (i) weak capacity to convert knowledge into goods and services, which is a reflection of limited spending on research and development; and (ii) limited ICT dissemination (see paragraph 1.5).
- 1.4 **Challenges in the business environment.** One of the big challenges for Panama is making its institutions more efficient. The country is facing weaknesses in government performance, reflected mainly in the regulatory burden (GCI 2018, 76th position) and the efficiency of the regulatory framework (GCI 2018, 91st position). In line with these results, the World Bank's Doing Business 2019 report identified a number of regulations restricting business activity, including the payment of taxes (174th)<sup>6</sup> and the management of building permits (108th).
- 1.5 **Limited productive and innovation ecosystem.** Panama still has to work on its innovation capabilities, particularly at the regional level.<sup>7</sup> Spending on research and development has been decreasing over time to just 0.15% of GDP in 2017, according to data from the Ibero-American and Inter-American Network of Science and Technology Indicators, compared to 0.43% of GDP in Costa Rica, 0.49% in Uruguay, and an LAC average of 0.64%. At the same time, the insufficient quality of research institutions (GCI 2018, 90th position) and the lack of collaboration among key stakeholders (GCI 2018, 84th position) are some of the constraints keeping innovation capability from really taking off, given the objectives of diversification of the export basket. The national government has an important role to play in enhancing the operation of innovation ecosystems regionally, to promote synergies in the productive capabilities of stakeholders and facilitate knowledge transfer and dissemination of technology services. Insufficient innovation capabilities act as a constraint on diversification and sophistication of the economy.
- 1.6 **Limited diversification and sophistication of productive structure.** INEC (2018) data show that Panama's total exports were US\$14.753 billion, whereas the export portion of national goods was just US\$672 million. A diagnostic

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<sup>5</sup> In these indicators, Panama ranked 50th, 7th, and 41st, respectively, out of 140 economies.

<sup>6</sup> It takes 36 steps and 408 hours every year to pay taxes in Panama, compared to the respective LAC figures of 27.1 and 330 (Doing Business 2019).

<sup>7</sup> In this context, regional refers to the geographic regions within the country (specifically, outside Panama City).

assessment of the complexity of Panama's economy<sup>8</sup> reveals that goods exported by the country account for approximately 1% of GDP and consist mainly of low-complexity agricultural and mining products. According to the calculations, Panama's per capita GDP is twice as high as expected, based on the complexity of goods it exports. In this context, an important factor for improving competitiveness for access to international markets and the preservation of local markets is to strengthen the national quality infrastructure,<sup>9</sup> so that the country can meet export, food security, and consumer protection requirements. This requires strengthening standards, accreditation, and metrology capabilities,<sup>10</sup> as well as safety and confidence in productive processes, opening access to quality products and services, therefore leading to greater competitiveness nationally and internationally.

- 1.7 At the same time, there are critical limitations to public-sector investment financing, including a gap in the delivery and quality of productivity enabling infrastructure services essential for improving competitiveness. Panama ranks 66th out of 140 economies in the infrastructure pillar of GCI 2018, behind Chile (41st), Mexico (49th), Ecuador (59th), and Uruguay (62nd). Its strengths lie in sea and air infrastructure, whereas its weaknesses are in electricity, water, and land transport. IDB and international experience shows that private-sector participation has benefits for greater efficiency in the provision of productive infrastructure services.<sup>11</sup>
- 1.8 **Impetus for additional growth engines.** Added to this domestic scenario—characterized by a fairly uneven distribution of productive activity, an environment not always conducive to competitiveness, and a construction-heavy productive basket—are some possible contingencies in the external scenario, such as the adoption of certain changes in trade and fiscal policies in the United States or China, financial instability, or a rise in fuel prices that could adversely affect the logistics sector, foreign direct investment, credit access and cost, and the current account deficit. These forewarnings mean that changes need to be made to the long-term growth strategy, with an inclusive view and openness to additional sources for generating income with productive and export potential.
- 1.9 The identification of these growth areas must be based on leveraging Panama's comparative advantages, considering their export potential, indirect impact on the development of other sectors, and potential to influence more balanced regional development.
- 1.10 **Comparative advantages.** Panama has comparative advantages that offer the opportunity to develop additional sources of growth that have yet to be fully exploited.

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<sup>8</sup> Hausmann, Morales, and Santos (2016).

<sup>9</sup> National quality infrastructure means all aspects of quality metrology, standardization, testing, and administration, including certification and accreditation. This includes public and private institutions, as well as the regulatory framework within which they operate (Sanetra, 2007).

<sup>10</sup> Metrology is the science of accurate and reliable measurements. It is fundamentally important for foreign trade, since parties to a transaction must measure the products being traded in a uniform manner.

<sup>11</sup> Evaluation of Public-Private Partnerships in Infrastructure (IDB, 2017).



- 1.11 **Creative and cultural industries (CCIs).**<sup>12</sup> Firstly, Panama's cosmopolitan nature, important attributes of social diversity, heritage,<sup>13</sup> expressions of folklore, and high degree of safety, combined with a high degree of connectivity that attracts travelers, cruise ships, and international events of all kinds, make it an excellent environment for the development of CCIs. One of the key factors that helped these industries take off in other developing countries was the existence of transnational flows and connections, since a large share of CCI demand comes from both tourism and consumers in distant markets. The available data show that the sector has been experiencing dynamic growth, to the point that its exports increased by an average of 12.2% annually between 2005 and 2015, more than the growth of the economy's total goods and services exports (9.7%) in the same period.<sup>14</sup> CCIs have great potential for synergies with the tourism sector and, given their low entry barriers, have great capacity of attracting international or regional creative and cultural workers (including groups with fewer opportunities), contributing to multicultural and inclusive economic development.
- 1.12 CCIs have gained global recognition as a high-growth productive sector.<sup>15</sup> In Panama, INEC (2010) data reveal that CCIs generated US\$797 million in revenue, recording value-added of US\$376 million in creative and cultural goods and services,<sup>16</sup> with high potential for job creation. From 2000 to 2010, the number of individuals employed grew 1.5% annually to 58,142, or 3.2% of total employment in Panama, more than generated by financial activities (1.6%) and real estate (0.5%). The main institutions supporting CCIs are the Ministry of Culture (MiCultura), Ministry of Trade and Industry, Panama Tourism Authority (ATP), and Ministry of Economy and Finance (MEF), whereas private-sector activities are concentrated in cinema, music, gastronomy, and technology developers.
- 1.13 Despite the potential identified, the harnessing of CCIs is still limited in Panama for a number of reasons: (i) lack of information and statistics;<sup>17</sup> (ii) lack of skilled human capital; (iii) lack of policy instruments and institutional weakness; (iv) lack of public-private coordination; (v) limited cultural and creative production; and (v) insufficient protection of intellectual property rights. In particular, the lack of information, institutional weakness in the sector, and the lack of forums for coordination among major players in the ecosystem act as key constraints on the design and implementation of any initiative.

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<sup>12</sup> CCIs are business activities where the value of the final product is due to its cultural or creative content (Buitrago and Duque, 2013; Benavente and Grazzi, 2017).

<sup>13</sup> Panama has five UNESCO World Heritage Sites. Cultural: Archaeological Site of Panamá Viejo and Portobelo-San Lorenzo Fortifications; Natural: Coiba National Park, Darien National Park, and La Amistad National Park.

<sup>14</sup> Lagarda, Linares, and Diamond (2017). *Industrias creativas culturales en Panamá: Diagnóstico del sector y relevancia económica* [Creative cultural industries in Panama: diagnostic assessment and economic importance]. Washington, D.C. (IDB).

<sup>15</sup> The value of CCIs is not limited to the sector's direct contribution to the economy and the creation of sources of work. CCIs also produce positive externalities in the form of knowledge, product, and network spillovers to the rest of the economy (Benavente and Grazzi, 2017).

<sup>16</sup> INDESA (2017).

<sup>17</sup> This weakness is being addressed through technical cooperation funding for operation ATN/OC-16676-PN, Support for the Creative and Cultural Ecosystem of Panama.

- 1.14 **ICT industry.** Panama's strategic geographic positioning, coupled with the fact that it has become an international financial center, has made it a connection point for large underwater fiber optic cables in both the Pacific (e.g., Maya and Pan American) and the Atlantic (e.g., Arcos I and Arcos II), which supply international bandwidth of 44.11 Kbps per inhabitant in Panama, far above the 18.31 Kbps in countries of the Organisation for Economic Co-operation and Development (OECD). This offers opportunities for the development of an ICT industry that exploits this advantage externally, by exporting its services, and internally, by enabling the emergence of new digital businesses and contributing to the digitalization of small and medium-sized enterprises, the modernization of the public sector, and the narrowing of opportunity gaps between the Province of Panamá and the rest of the country.
- 1.15 In Panama, exports of ICT services per capita averaged US\$179 between 2010 and 2015, double the exports in the LAC region, and income generated by the digital ecosystem accounted for 1.95% of GDP in 2015.<sup>18</sup> The ICT Strategy 2008-2018 was implemented over the course of ten years in Panama under the leadership of an ICT Cluster Facilitation Group made up of the business, labor, academic, and government sectors, clearing the way for a series of actions to develop and promote the digital industry. At present, a public fund exists under the Law on Universal Access to Communication Technology<sup>19</sup> that can be used to give initial momentum to research and development in the ICT sector. Also, the "Venture Club" group of private investors has been providing venture funding for innovation projects since 2009, and the City of Knowledge Innovation Center has supported approximately 3,000 ventures since 2000 with training and financing programs. The main ICT sector institutions in Panama are: in the public sector, the National Department of Science, Technology, and Innovation (SENACYT) and the National Authority for Government Innovation (AIG); in the private sector, the Panamanian Chamber of Information Technology and Telecommunications; and, in the academic sector, the University of Technology of Panama and the University of Panama.
- 1.16 However, Panama faces certain challenges in harnessing the potential of the digital industry. In addition to promoting broader coverage and improved quality of digital infrastructure, it is important to create a regulatory and institutional framework that facilitates the emergence of new digital business models, including financial ones such as fintech. Other factors important to the industry's development and takeoff are: (i) the promotion of public policies to accelerate the creation of ICT supply and demand, such as electronic invoicing; (ii) the vigorous promotion of talent and skills for ICT research and development; and (iii) the consolidation of digital ecosystems to support actors for information and knowledge sharing, training, and services, etc.
- 1.17 **Tourism.** Panama today is one of the top tourist destinations in Latin America.<sup>20</sup> According to ATP figures, the country welcomed 2.5 million tourists, who spent

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<sup>18</sup> Development Bank of Latin America (2017). Observatorio del Ecosistema Digital en América Latina y el Caribe [Observatory of the Digital Ecosystem in Latin America and the Caribbean].

<sup>19</sup> Law 59 of 11 August 2008, Chapter IV, Article 99.

<sup>20</sup> According to the WEF Travel and Tourism Competitiveness Index (2017), Panama ranks 35th out of 136 countries and 3rd in Latin America, after Mexico and Brazil.

US\$4.4514 billion, in 2017. Tourism's direct contribution to the Panamanian economy was nearly 6% of GDP, and projected average growth for the next decade is 5.6% (World Travel and Tourism Council, 2018). The tourism sector is the country's top export, accounting for 25.7% of the total.<sup>21</sup>

- 1.18 At the same time, Panama's geographic location has made it one of the region's busiest connectivity hubs.<sup>22</sup> Its varied ecosystems and climate conditions, combined with a large metropolitan area, offer a range of different tourism options. Sector expenditure has also increased its share in GDP from 8.9% in 2008 to 11.1% in 2017, tripling such expenditure during that period.<sup>23</sup>
- 1.19 However, the sector has limited tourism offerings in terms of products, with poorly coordinated and unsystematic tourism promotion efforts<sup>24</sup> that are not very inclusive of destinations outside the capital. Moreover, due to its shopping-oriented tourism model, 63% of rooms and 48% of hotels are concentrated in the Province of Panamá, to the detriment of midsized cities and rural areas. This model needs to be rethought, and the sector's development potential exploited for greater geographic balance. Stimulating activity will require sustained international promotion, as well as a higher quality experience through the adoption of standards for its sustainable development and the expansion of artistic and cultural offerings. The main institutions in this sector are the ATP and the National Chamber of Tourism (CAMTUR).
- 1.20 **Advances and challenges in the implementation of public policies to promote competitiveness and economic diversification.** Panama has been making efforts to increase its competitiveness for over a decade. These efforts are important to list in order to show the gains made in the medium term in all the areas included in this operation, and to assess the scope of the proposed policy reforms. In terms of the business environment, the National Authority for Government Innovation (AIG) was created in 2009 and tasked with promoting the use of ICTs in public modernization. Efforts have also been made to organize national government bureaucratic processes with the "Panamá Tramita" portal (2012), and to launch municipal portals through the Digital Municipios Project. Progress was also made on the regulatory framework with the enactment of the Digital Signature Law (2001) and the National Interoperability and Security System (2012), as well as the development of various plans, such as the Strategic Broadband Plan for the Republic of Panama 2012-2022 and the Strategic Digital Agenda for the Panamanian State 2014-2019. Despite these advances, after the proposed programmatic series Panama will still face the challenge of accelerating the digitalization of public services and the 3,700 bureaucratic processes<sup>25</sup> that still make it expensive to operate businesses in Panama, and of building out the regulatory framework to promote business development and investment.

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<sup>21</sup> Based on INEC (2018) figures, the breakdown is 16.1% tourist spending and 9.6% air transportation.

<sup>22</sup> The Tocumen airport is a regional transportation hub with the highest passenger traffic in Central America and one of the highest in Latin America and the Caribbean.

<sup>23</sup> Panama Tourism Authority (2018).

<sup>24</sup> Panama Sustainable Tourism Master Plan 2020.

<sup>25</sup> Sokol (2019). Análisis de las fuentes de crecimiento de Panamá [Analysis of Panama's sources of growth]. National Competitiveness Center, p. 104.

- 1.21 In terms of productive development and innovation, Panama implemented Industrial Promotion Certificates (2009) granting tax incentives to promote productive investment. Additionally, the Industrial Promotion Law (2017) created the National Industrial Competitiveness Program, which still has pending the implementation of a systematic collection of indicators for measuring program progress and outcomes. Panama also developed a regulatory framework to promote quality by regulating technical standardization, compliance evaluation, accreditation, quality certification, metrology, and conversion to the International System of Units, and a specific framework for metrology activities (2007). Despite this progress, international best practices recommend that the quality system pillars be financially and administratively independent, which will remain a pending task after this first operation.
- 1.22 In terms of the gains of industries with CCI potential, a law promoting the cinematographic and audiovisual industries was passed (2007, 2012), creating the National Fund for Cinematographic and Audiovisual Development. This fund has had problems keeping up annual implementation and execution of funds, in addition to which the amount of funding allocated to each production needs to be reassessed: the current US\$600,000 appears high for a single beneficiary.<sup>26</sup>
- 1.23 In the case of the ICT sector, in 2008 Panama developed the plan “Building a World-Class ICT Entrepreneurship Cluster: A 10-Year Strategy for Panama’s ICT Sector,” to transform Panama into an international center for ICT innovation. Several initiatives emerged under this plan to increase enrollment in ICT careers, such as master’s and doctorate degree scholarships in ICT fields. After the programmatic series, the number of students graduating from ICT programs will still need to be increased, as does the successful reintegration of ICT scholarship recipients into the scholarship program between the Institute for the Training and Utilization of Human Resources and SENACYT.
- 1.24 In terms of tourism, Panama sought to encourage investment in infrastructure and tourism products through tax incentives (1994, 2008), developing a wide range of hotel offerings. The National Tourism Authority was created in 2008, responsible for developing, promoting, and regulating tourism. The Tourism Promotion Fund was later established in response to the need to prevent bureaucratic processes from interrupting the country’s international promotion. The Tourism Satellite Account of the Republic of Panama (CSTP) was launched to provide detailed information on expenditure, consumption, value-added, employment, and other factors, and implementation is still ongoing. The challenge remains of building out the legal and institutional framework to enable the promotion of new tourism products, effective coordination among sector operators, and alignment of Tourism Promotion Fund use with local strategic needs.
- 1.25 Despite the progress in all these areas and the gains to be made with this program, even after the programmatic series is complete, Panama will have to work on some critical institutional constraints to increase its competitiveness, such as

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<sup>26</sup> Typical financial incentives in similar categories for feature films in other Latin American countries are: US\$75,000 in Uruguay (Ministry of Education and Culture), US\$205,000 in Chile (Chile Audiovisual), US\$315,000 in Argentina (National Institute of Cinema and Audiovisual Arts), and US\$500,000 in Mexico (Fidecine).

accountability, transparency, and bureaucratic efficiency.<sup>27</sup> Specifically, it must strengthen its institutional capacity to ensure a good process for statistics production, collection, and transparency that includes the ability to analyze this vital data for assessment and decision-making for the implementation of public policies. Although there are a number of formal coordination bodies in the area of competitiveness,<sup>28</sup> Panama has had difficulty establishing mechanisms for government-government or government-university-industry institutional collaboration to effectively build consensus on strategic policies and monitor implementation of its public policies. This program proposes collaboration structures that will promote mechanisms to strengthen their institutionalization and facilitation of consensus (see paragraph 3.3).

- 1.26 The policy actions of this operation give priority to the formulation of regulatory frameworks that have been approved via laws, executive decrees, and ministerial or institutional resolutions intended to promote competitiveness and diversify the economy, including actions to help close the different gaps identified in the diagnostic assessment, contributing to a better business environment, increase infrastructure investment capacity for competitiveness through the private sector, ensure responsible management of personal data, build regional innovation capabilities to promote greater territorial balance, and strengthen the quality system (including certain specific metrology systems). At the same time, authority for culture and creativity is raised to the ministry level, public-private coordination is facilitated for creative industry decision-making, firm support is provided for promotion of the ICT industry, and the capacity is strengthened to promote tourism more consistently. In particular, creative industries and tourism also have the potential to provide the population in the territories with opportunities. Actions under the second operation focus mainly on implementation, advancing the reforms, and strengthening the institutional structure implementing them, for which the Bank will provide technical cooperation, ensuring that the means of verification for the second operation are sound reforms and balanced with those of this first program. As a whole, the series will contribute to closing the following gaps: (i) weak institutional structure to support competitiveness;<sup>29</sup> and (ii) the leveraging of emerging sectors with high potential. The Bank will continue supporting efforts to improve the linkages among these coordination mechanisms that contribute to future policy reforms in the program priority areas.
- 1.27 **International experience.** A number of international policy implementation experiences have worked to foster the business environment, innovation, and quality, resulting in the public policy instruments to promote competitiveness and

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<sup>27</sup> Corruption Perceptions Index, Transparency International (2019).

<sup>28</sup> These include the National Competitiveness Forum held by the National Competitiveness Center, the Chamber of Information Technology and Telecommunications of Panama, the City of Knowledge Creative Industries Cluster, the MiCultura Creative and Cultural Industries Coordinating Group, and the National Chamber of Tourism.

<sup>29</sup> In addition to the definition of competitiveness (see paragraph 1.2), an economy's position depends on the achievement of simultaneous improvements on multiple fronts that include not only aspects such as infrastructure, health, and education, but also a set of elements linked to the ease of doing business, innovation, institutional development, and rule of law, which are the focus of this operation. These elements are crucial for the proper functioning of markets and for creating conditions conducive to attracting productive investment, both in existing sectors and in the development of additional sources of growth.

- economic diversification that were incorporated into this operation, including the following: (i) Regional Innovation Systems: over the past few decades, various European regions, and more recently Latin America, have been advancing and strengthening these regional systems to promote knowledge transfer and the contribution of specific local capacities to drive innovation; and (ii) National Quality System: this system promotes the development of quality in goods and services with the aim of strengthening the metrology system as a support tool for measurements and equivalences in quality promotion. In 2014 Peru established not only a National Quality System with IDB support but the institutional structure required for its implementation.
- 1.28 Among policies to promote high-potential emerging sectors, some relevant initiatives for this program include the following: (i) ICT industry: Uruguay's Digital Government Plan 2020, which shows the type of policies that the government can implement to encourage intensive use of technologies, such as the Internet, government services, and stakeholders taking ownership. Uruguay is currently considered the digital leader in Latin America and the Caribbean; (ii) Tourism: (a) the European Regional Development Fund, which supports tourism competitiveness, sustainability, and quality at the regional and local levels by promoting and financing investment related to the preservation, protection, promotion, and development of natural and cultural heritage; and (b) an investment guide to encourage regional tourism in cities that are tourist destinations; (iii) Creative industries: (a) policy for district development through clusters in Buenos Aires, promoting collaboration between developers and enterprises, access to technology, and training; and (b) facilitation of financing in Uruguay: funds to finance cultural infrastructure development, strengthen artistic institutions, and stimulate artistic training and creation.
- 1.29 **The Bank's experience in the region and lessons learned.** The Bank has extensive experience in designing and implementing competitiveness reform programs such as the one proposed. These programs include: Formalization and Productivity Improvement Program in the Dominican Republic (3326/OC-DR and 4375/OC-DR); Competitiveness Enhancement Program in Jamaica (1972/OC-JA, 2297/OC-JA, and 3147/OC-JA); Business Climate and Innovation Program in Suriname (3401/OC-SU); and Program to Enhance Productivity and Competitiveness in Peru (2325/OC-PE, 2849/OC-PE, and 3299/OC-PE). Lessons learned from the Bank's operations in the sector include the need to give priority to reforms that are to be included as part of competitiveness programs, so as to ensure the effectiveness and relevance of the actions, and the importance of combining reforms to support the business environment with other reforms to support business development, innovation, and productive diversification. The Bank has also developed extensive know-how in generating information and designing innovative interventions to nurture the orange economy. Technical cooperation operations now in execution include: Promoting Creativity and Innovation in Latin America and the Caribbean (ATN/OC-16258-RG); Innovation Vouchers in Creative Industries in Uruguay (ATN/ME-15756-UR); Promotion of the Creative Economy in Paraguay (ATN/ME-16081-PR); and Development of Creative Entrepreneurs in Mendoza (ATN/ME-16655-AR). This enables the Bank to provide the country with support and value-added in the design and

implementation of competitiveness reform programs and support for emerging sectors, such as the one proposed.

- 1.30 **The Bank's experience in the country and lessons learned.** The Bank has considerable experience in supporting improvements in competitiveness, the business environment, innovation, and emerging sectors in Panama. The Bank has delivered support through a series of competitiveness, technological change, and innovation projects, as follows: Program to Support the Competitiveness of the Producing Sectors (loan 1108/OC-PN);<sup>30</sup> Project to Support the Implementation of a Science, Technology, and Innovation Center of Excellence in Panama, i.e., City of Knowledge (loan 1273/OC-PN); Competitiveness and Trade Development Program (loan 1941/OC-PN);<sup>31</sup> Multiphase Program for Technological Transformation (loan 1987/OC-PN); and Innovation Program for Social Inclusion and Productivity (loan 3692/OC-PN). The lesson learned from these programs is the need to build the country's innovation capacity, including increase public and private spending on innovation activities. Technical cooperation projects have provided support to the 11 editions of the National Competitiveness Forum and supported the analytical capacity of the National Competitiveness Center (ATN/FI-13496-PN). These activities have taught the value of mechanisms for public-private sector dialogue on the various competitiveness enhancement activities. In terms of knowledge products, the Bank delivered support through a series of diagnostic assessments on Panama's economic complexity and growth under technical cooperation operation ATN/OC-16612-PN, Institutional Capacity for Multisectoral Planning and Promotion of Productivity.<sup>32</sup> In terms of logistics sector competitiveness, the country has made very active progress on reforms, as reflected in a programmatic series of three Bank operations from 2016 to 2018: Support for Panama's Transport and Logistics Sector Reform Program, loans 3486/OC-PN (2015), 3675/OC-PN (2016), and 4560/OC-PN (2018). In the creative economy, the Bank has spearheaded sector support in the country with knowledge products, such as the study "Industrias Creativas Culturales en Panamá: Diagnóstico del Sector y Relevancia Económica" [Cultural Creative Industries in Panama: Sector Diagnostic Assessment and Economic Relevance], as well as specific actions, such as the creation of the City of Knowledge Creative Industries Cluster. There is also the design and execution of technical cooperation operation ATN/OC-16676-PN, Support for the Creative and Cultural Ecosystem of Panama, which promotes the creative and cultural ecosystem through support for the design of the creativity and culture satellite account to strengthen the sector's statistical capacities, a detailed mapping of the creative and cultural ecosystem, and a survey for the identification of priority sectors. In addition, the Bank is executing specific programs to address two of the weaknesses described above (see paragraph 1.3) in education (loans 2734/OC-PN and 4357/OC-PN) and labor markets (loan 4689/OC-PN). This program will thus focus on addressing aspects that strengthen enabling environment factors and the conditions for productive innovation and development. Lastly, the Bank is executing projects related to this operation, particularly the Panama Online Program (loan 3683/OC-PN), that contribute to improved competitiveness, simplify

<sup>30</sup> The National Metrology Center was financed under this program.

<sup>31</sup> The creation of the ICT sector cluster under this program promoted the establishment of the Panamanian Chamber of Information Technology and Telecommunications.

<sup>32</sup> <https://growthlab.cid.harvard.edu/panama>.

bureaucratic processes, and promote the ICT industry; and the program, Support for the Conservation and Management of Cultural and Natural Heritage (loan 4450/OC-PN), which supports the creative economy and the restoration of cultural heritage.

- 1.31 In addition to the crosscutting support provided by the Bank in the different areas of this program, there has specifically been direct support for the fulfillment of several of the commitments of this first operation. The Bank has provided ongoing support in designing the approved legal framework for public-private partnerships. In terms of promotion and development of industries, the Bank publication “[¿Cómo Repensar el Desarrollo Productivo?](#)” [How to Rethink Productive Development] (2014), served as a guide, and its authors provided guidance the National Industrial Policy Council for the regulations implementing the law, which are part of this program. Funds from the Innovation Program for Social Inclusion and Productivity (loan 3692/OC-PN) are financing the planned activities for the strengthening of Regional Innovation Systems, which will drive reforms under both the first and second operations in this series. Additionally, in creative industries, the Bank has been the main driver of the orange economy in Panama, directly promoting the formalization of the mechanism for coordination of the public, private, and academic actors, and has been the main driver, with MiCultura, of the creation of the Creative and Cultural Industries Coordinating Group, hosting its first meetings. Lastly, the Bank financed the first version of Panama’s ICT sector strategy in 2009, and again supported and contributed to the process of the current Panama Digital Hub Strategy, hosting the group’s first meetings, where the priority of promoting fintech was set, and the attendees were connected with successful international experiences in electronic invoicing.
- 1.32 **Coordination with other international development agencies.** The Bank has worked and coordinated on actions in areas related to the program. Collaboration was established with the Inter-American Competitiveness Network of the Organization of American States, to participate in working groups of competitiveness experts with the objective of promoting the hemisphere’s competitiveness through the sharing of international experiences with subnational competitiveness and knowledge of the various methodologies for preparing competitiveness and innovation agendas, measurements, and reports at the province, state, region, or city level to benefit the public and private sectors in the execution of public policies on economic development and competitiveness. In 2017, the Subgroup of Experts on Subnational Competitiveness was established in the area of “Business Facilitation – Building Permits for Transparency and Competitiveness.” The IDB took part in dialogue with the World Bank to update the diagnostic assessment on reforms to be implemented by the country to enhance the business environment; and in dialogue with the OECD to conduct a study on the Regulatory Improvement Policy in the country. The Initiative to Strengthen the Digital Animation Value Chain was coordinated with the Economic Commission for Latin America and the Caribbean (ECLAC), identifying restrictions that must be addressed for the development of this subsector, consistent with the sector diagnostic assessment (insufficient human capital, limited access to public support instruments, lack of sector statistics, and fragmentation of actors).
- 1.33 **Strategic alignment.** The program is aligned with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and strategically aligned with the



development challenge of productivity and innovation, by promoting an enabling environment for business and innovation ecosystems, as well as with the crosscutting theme institutional capacity and rule of law, to be addressed through commitments contributing to facilitate strong business environments, strengthen transparency in the use of personal digital data, and create and strengthen institutions to support creative industries, ICTs, and tourism. The operation also contributes to the following auxiliary indicators of the Corporate Results Framework 2016-2019 (document GN-2727-6): tourism destinations benefited by projects aimed at increasing tourism expenditure, local and social inclusion, and/or improving environmental management; business environment reforms enacted; and projects supporting innovation ecosystems. The program is consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8), under the priority dimensions of improving the business and innovation climate, and is included in the Update to Annex III of the 2019 Operational Program Report (document GN-2948-2). The program is also consistent with the Strategic Plan of the Government of Panama, specifically with respect to improving competitiveness and fostering social inclusion within the framework of a sustainable and inclusive development model. Moreover, it is aligned with the government's "Uniendo Fuerzas" [Joining Forces] Plan, specifically the "Competitive, Job-Creating Economy" pillar, which promotes the development of a competitive economy and the promotion of emerging sectors for economic growth.

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

- 1.34 **General objective.** The general objective of the programmatic series and this first operation is to promote Panama's sustainable economic growth by enhancing the country's competitiveness and advancing emerging sectors. The specific objectives are: (i) to improve the country's competitive conditions by promoting a digital environment conducive to business and strengthening the National Quality System; and (ii) to advance the development of emerging sectors that generate sources of growth for the economy. This operation is the first of two independent but technically linked operations under the programmatic policy-based loan (PBP) modality.
- 1.35 To maximize its capacity to sustain high performance in the long run, it is essential for Panama to remedy its main weaknesses, focusing its efforts, first, on an environment that adopts digital technology to facilitate business operations; second, on conditions that foster productive development, the adoption of quality standards, and innovation; and, third, on additional sources of income generation with export potential, such as CCI, ICT industries, and tourism.
- 1.36 **Component I. Macroeconomic sustainability.** The objective of this component is to contribute to macroeconomic stability, consistent with the program objectives as established in the Policy Matrix and in the [Policy Letter](#).
- 1.37 **Component II. Promotion of a more competitive economy.** The objective of this component is to promote an environment that leverages digital technology to facilitate business operations and fosters the development of productive and innovation capabilities. The reforms to be addressed focus on the digitalization of processes in high demand, such as building permits in the Municipio of Panamá or trade movements in the Colón Free Zone, and on incentives for private

investment, the protection of personal digital data, and digital signature. Additional reforms are included to promote monitoring of the National Industrial Competitiveness Program and advance the National Quality System and the Regional Innovation Systems.

- 1.38 In terms of policies to promote an enabling digital environment for business, the program includes advances in the following areas:
- a. Simplification and digitalization of the process of obtaining building permits<sup>33</sup> from the Municipio of Panamá, to improve efficiency and shorten times. The second operation will pursue expansion of this policy action to two additional municipios.
  - b. Enactment of the law creating the Public-Private Partnership Regime as an incentive for private investment. The second operation will pursue approval of the law's implementing regulations.
  - c. Enactment of the Personal Digital Data Protection Law, to strengthen surveillance over the use of personal data when using ICTs. The second operation will include approval of the law's implementing regulations.
  - d. Implementation of the digital signature in at least one public-sector body, to contribute to the development of digital platforms in the public administration. Implementation of the digital signature in at least five pilot public institutions is expected for the second operation.
  - e. Adoption of the Electronic Commercial Movement Declaration System in the Colón Free Zone, to facilitate and authorize the secure and reliable exchange of information. The system is expected to be up and running for the second operation.
  - f. Approval of the regulations implementing the Industry Promotion and Development Law, to establish a framework for effective monitoring of the National Industrial Competitiveness Program. The implementation of a system of indicators that can be used for online monitoring the National Industrial Competitiveness Program is expected for the second operation.
  - g. Approval of a long-term strategy to foster Regional Innovation Systems contributing to the sustainable development of areas outside Panama City. The second operation will include the creation of the Regional Competitiveness Observatory, to monitor the progress of the regional visions.
- 1.39 In terms of policies to promote the strengthening of the National Business Quality System, the program includes advances in the following areas:
- h. Approval by the National Metrology Council of proposed implementing regulations for the Metrology Law to strengthen the institutional structure of the national quality infrastructure. The second operation will pursue approval of the law's implementing regulations.

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<sup>33</sup> According to the Procedures Manual of the Works and Construction Directorate of the Municipio of Panamá, a prerequisite for the building permit is review and registration of the construction drawings, and a requirement for that is to "Submit the resolution of the environmental impact assessment issued by the Ministry of the Environment." The proposed reform does not alter any environmental or social requirement.

- i. Approval by the Board of Directors of the National Metrology Center of Panama (CENAMEP AIP) of a proposed National Strategy for the National Metrology Infrastructure, as a basis for public policy decision-making. The second operation will pursue the approval of the National Strategy for the National Metrology Infrastructure.
  - j. Development of a new law for the modernization of the National Quality System through consensus with the system's main institutions, incorporating lessons learned and international best practices. The second operation will include submittal of the Draft Law for the Modernization of the National Quality System to the National Assembly.
- 1.40 **Component III. Promotion of a more diversified economy.** The objective of this component is to promote three industries with growth potential that contribute to the diversification of the productive infrastructure: CCIIs, the ICT industry, and tourism. The policies to be adopted seek, first, to improve the institutional structure, public-private coordination, and the internationalization of CCIIs in Panama, and to strengthen human capital for creativity and culture. Second, they seek to promote a strategy for the development of the ICT industry that includes the promotion of new digital financial models, electronic invoicing, and ICT research. Lastly, they seek to strengthen the institutional structure for sustainability and continuity of Panama's tourism promotion efforts and connect cultural supply and demand in the tourism sector.
- 1.41 In terms of progress to promote the cultural and creative ecosystem, the program includes advances in the following areas:
- a. Creation of the Ministry of Culture with an institutional mandate that includes development of the creative and cultural economy, copyright, and the cinematographic and audiovisual industry. The second operation will include the regulations implementing the Law Establishing the Ministry of Culture, including strengthening of the cinematographic and audiovisual industry and rules governing copyright, as well as the implementation of actions to promote the creative and cultural economy.
  - b. Creation of the Cultural and Creative Economy Coordinating Group as a public-private committee to set strategic priorities, facilitating the coordination of sector public policies. The second operation will include the execution and evaluation of the first phase of the strategy for promotion of the cultural and creative economy.
  - c. Approval of a strategy for internationalization of the creative economy to promote Panamanian cultural and creative products and services. The second operation will include the execution and evaluation of the first phase of the strategy for internationalization of the creative economy.
  - d. Creation of a Creative Industries Diploma program at Universidad Tecnológica de Panamá, to strengthen human capital training offerings in the sector. The second operation will include the creation of postgraduate support programs abroad for advanced human capital training in key segments of the creative industries.

1.42 In terms of policies to promote the exploitation of opportunities presented by the new digital economy, the program includes advances in the following areas:

- e. Adoption of the Panama Digital Hub Strategy to promote the ICT industry. The second operation will pursue the execution and evaluation of actions and tasks for promotion of the ICT industries called for in the Panama Digital Hub Strategy.
- f. Submittal to the National Assembly of the Law for the Modernization and International Competitiveness of the Financial System, which promotes the emergence of new financial models, such as fintech. The second operation will pursue approval of the law's implementing regulations.
- g. Authorization by the MEF Directorate General of Revenue (DGI) for a group of selected enterprises<sup>34</sup> to implement a pilot plan for the use of electronic invoicing in order to promote the digitalization of business operations and modernize tax management and collection. The second operation will pursue the expanded mandatory use of electronic invoicing with a phased implementation process from larger to smaller enterprises.<sup>35</sup>
- h. Establishment of the National Institute for Advanced Scientific Research in Information and Communication Technology (INDICATIC) as a public interest association. For the second operation, the institute will have at least two research groups, each with business participation.

1.43 In terms of progress to promote the tourism industry, the program includes actions in the following areas:

- i. Creation of the Tourism Office as the coordinating, advisory, and executing agency for priority actions and tasks in the tourism sector. For the second operation, an evaluation will be conducted of the actions and tasks implemented by the Tourism Office and the Panama Tourism Authority (ATP).
- j. Approval of the regulations implementing the Law on the Tourism Promotion Fund to promote the tourism industry. The second operation will pursue the execution and evaluation the international promotion strategy conducted by the Tourism Promotion Fund, once its trust has been funded.
- k. Approval of the regulation adopting international quality criteria or parameters for the sustainable development of tourism activities. An evaluation of the

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<sup>34</sup> In accordance with Resolution 201-5784, the enterprises participating in the pilot plan were selected with a view toward diversity in the technological platforms employed for invoicing: 3M Panama, Ace International, Agro & Food Integrity, Alemautos, Apcon Consulting, ASP Soluciones, Business Software & Consultants, Cemento Bayano, Cesar Arrocha Graell y Cia, Cochez y Cía, Compañía Astor, Compañía Goly, Corporación Medcom, CPSH, Duty Free de Panama, El Machetazo, Euro Boutiques, Farmacia Arrocha, Felipe Motta, Formas Eficientes, Formas Gráficas, Formularios Comerciales, Frigoservice, General Suppliers, Geo F. Novey, Inmobiliaria Don Antonio, Kbits Intl, L'bel París, Manantial del Volcán, Orlyn, Panafoto, Pensonómica, Petrolera Nacional, Productos Alimenticios Pascual, Productos de Prestigio, Representaciones Arrocha, Reprico, Riba Smith, Soluciones Punto de Venta, Telefónica Móviles, Terabyte Business Corp, The Factory HKA, and Topmanage de Panamá.

<sup>35</sup> The process will start with large enterprises (over US\$30 million in sales), then move on to medium-sized enterprises (over US\$1 million to US\$30 million) and, lastly, micro and small enterprises (under US\$1 million in sales).

implementation of these criteria and parameters is expected for the second operation.

- 1.44 **Beneficiaries.** The reforms proposed in the program are crosscutting in their scope and seek to narrow gaps for the effective functioning of markets and improve conditions for running and growing productive business, both in existing sectors and in sectors where new sources of growth are promoted. Given the sweeping nature of the reforms, this program is expected, under first specific objective, to benefit the country's enterprises in general, and micro, small, and medium-sized enterprises in particular (which according to DGI administrative records total approximately 43,500 for the formal sector). Under the second specific objective, the direct beneficiaries are enterprises in the creative industries, digital, and tourism sectors, which also includes a spillover effect for enterprises in their value chains (which according to DGI administrative records total approximately 4,600 for the formal sector).

**C. Key results indicators**

- 1.45 **Impact and outcome indicators.** The reforms proposed in this programmatic series contribute to promote economic growth. This objective will be measured through impact indicators: (i) percentage of the GDP annual growth rate attributable to changes in total factor productivity (TFP); (ii) Global Competitiveness Index; and (iii) participation of emerging sectors (percentage of sales of promoted sectors versus total formal sector sales). At the outcome level, the proposed reforms seek to strengthen competitiveness and economic diversification, measured through the following indicators: (i) time taken to approve the registration of regular plans (not miscellaneous or specialized plans) at the Panama City Hall single window; (ii) Business Digital Adoption Index; (iii) number of internationally recognized metrological capabilities (calibration and measurement); (iv) volume of annual value-added tax collected through electronic invoicing; (v) average annual sales of ICT sector enterprises; (vi) average annual sales of tourism sector enterprises; and (vii) average annual sales of creative sector enterprises.
- 1.46 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects<sup>36</sup> and the results of the Review of Good Practice Standards for the Evaluation of Policy-based Lending, prepared by the Evaluation Cooperation Group (ECG) comprised of the independent evaluation offices of multilateral development banks,<sup>37</sup> as described in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (document GN-2489-5), indicating, inter alia, that there is no need to include an analysis of efficiency in the use of financial resources,<sup>38</sup> it was decided not to perform an economic analysis for loans of this type, as reported to the Bank's Board of Executive Directors. Thus, this

<sup>36</sup> Document RE-397-1: "Currently, Economic Analysis section is computed as the maximum between the CBA (cost benefit analysis) and the CEA (cost effectiveness analysis). Yet neither a CBA nor a CEA is applicable to PBLs (policy-based loans) and PBP (programmatic policy-based loans)."

<sup>37</sup> Working Group on Public Sector Evaluation, 2012.

<sup>38</sup> The Evaluation Cooperation Group calls for policy-based loans to be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion because policy-based loans are sized according to the country's financing gap, independent of project benefits.

operation does not include an economic analysis and, consequently, the economic analysis is not considered for purposes of measuring the evaluability score in this program's Development Effectiveness Matrix (DEM).

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing instruments**

- 2.1 **Financial instrument.** The operation was structured under the programmatic policy-based loan (PBP) modality and is the first operation in a programmatic series of two contractually independent but technically linked operations, as established in document CS-3633-2, "Policy-based Loans: Guidelines for Preparation and Implementation." The instrument was selected in response to ongoing policy dialogue with the country that will make it possible to develop an execution strategy for this programmatic series during the dynamic process of the proposed reforms and institution-strengthening. Additionally, the selection of this modality is related to the government's demonstrated determination and capacity to execute sustainable reforms in order to strengthen competitiveness and lay the groundwork for developing areas that enable economic diversification.
- 2.2 **Dimensioning of operation.** As established in paragraph 3.27(b) of document CS-3633-2, the dimensioning of the operation was based on the country's broad fiscal resource needs and is not directly related to the agreed reform-associated costs under the operation. The amount of this operation will be US\$200 million from the Ordinary Capital resources, equivalent to 8.22% of the gross financing needs of Panama's public system, which are estimated at US\$2.433 billion for 2019 based on the Medium-term Fiscal Framework 2019-2023 (MEF, 2018), and account for 3.5% of Panama's multilateral financing as of 30 June 2019.

### **B. Environmental and social safeguard risks**

- 2.3 In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy, no environmental impact classification is required. The reforms proposed under this operation will not finance specific infrastructure works and will have no direct or significant impact on the environment or the country's natural resources.

### **C. Fiduciary risks**

- 2.4 No fiduciary risks associated with the operation were identified, as the proposed instrument provides unrestricted funds to cover the country's financing needs, considering also that the executing agency has the necessary management mechanisms.

### **D. Other key risks and issues**

- 2.5 **Public management and governance.** A medium risk was identified that will require responsiveness on the part of the institutions responsible for delivering the means of verification showing fulfillment of the policy actions, as well as better coordination among actors (weakness identified in paragraph 1.25), which will be mitigated by ensuring technical coordination under the Ministry of Economy and Finance (MEF), the Ministry of Trade and Industry (MICI), and MiCultura (see paragraph 3.3). At the same time, the government has demonstrated that the

program is a priority, as well as its commitment to advancing in the areas of the programmatic series (see paragraph 2.6). Additionally, a medium risk was identified in the fact that the policies and actions planned for the second operation will require close support to prevent implementation delays, which will be mitigated by the inclusion of support activities in technical cooperation operation ATN/OC-16676-PN, Support for the Creative and Cultural Ecosystem of Panama, and in the design and approval of another nonreimbursable technical cooperation operation for operational support.

- 2.6 **Sustainability.** As described in paragraph 1.20, the policies supported in this operation are consistent with the measures pursued by the government in recent years to promote competitiveness and economic diversification. At the same time, one of the pillars in the government's "Uniendo Fuerzas" [Joining Forces] Plan is the promotion of a "Competitive, Job-Creating Economy." This pillar puts priority on actions consistent with this program, such as the regulatory establishment of public-private partnerships, facilitation of government e-procedures, implementation of the National Industrial Competitiveness Plan, regional competitiveness support, support for quality to ensure international market access for Panamanian products, promotion of MiCultura and the Creative Industries Promotion Law, creation of the Tourism Office, promotion of a tourism quality system, launch of the Tourism Promotion Fund, and promotion of private investment in technology and innovation. The recent implementation of reforms included in this program<sup>39</sup> is indicative of the political commitment made by the Government of Panama to lead an active agenda in the promotion of competitiveness and advancement of emerging sectors with high potential to contribute to the economy, so the reforms are expected to remain in effect in the medium term. Additionally, the Bank will continue to provide assistance contributing to fulfillment of the measures proposed for the second operation, supporting the country with nonreimbursable technical cooperation resources focused on areas of improvement for competitiveness, tourism, and ICT, and the ongoing execution of technical cooperation operation ATN/OC-16676-PN, Support for the Creative and Cultural Ecosystem of Panama.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Panama, and the executing agency will be the Ministry of Economy and Finance (MEF). The MEF will serve as technical coordinator for the project. The MEF National Public Policy Directorate is the technical counterpart for this first operation in the series. The counterpart role of the frontline government institutions promoting public policy reforms and adjustments makes them very important, given the multisector nature of the proposed project.
- 3.2 The executing agency will be responsible for: (i) coordinating with the institutions and ministries responsible for the actions set out in this operation in all relevant

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<sup>39</sup> In the first month of the current administration, progress was made with the presentation of a legal framework for public-private partnerships, the Law Establishing the Ministry of Culture (MiCultura), and the establishment of the Tourism Office.

respects; (ii) providing evidence that the policy commitments have been fulfilled, as well as any other program-related evidence that the Bank needs to approve the respective disbursement; (iii) once the program disbursement has been secured, gathering information from the performance indicators used to evaluate the program outcomes; and (iv) periodically tracking the plan for fulfillment of the indicative policy actions for a second operation.

- 3.3 **Coordination mechanism.** The institutional functions and missions of the executing agency include carrying out the development strategies adopted by the government and supporting the formulation, promotion, and evaluation of key institutional reforms and public policies for their implementation. The executing agency will lead the supervision, evaluation, monitoring, and control of this program in close cooperation with each of the different institutions involved, as it has done during program preparation. The executing agency will be tasked with engaging the institutions involved and tracking timely fulfillment of the indicative commitments for the second operation. Specifically, the executing agency will coordinate with the Ministry of Trade and Industry (MICI) on progress related to industry promotion and development and strengthening of the National Quality System and with the Ministry of Culture (MiCultura), which will be responsible for advances related to the cultural and creative ecosystem. Additionally, to facilitate the program's strategic coordination, the executing agency will be supported by the National Competitiveness Forums of the National Competitiveness Center (competitiveness, tourism, and ICT) and the Creative and Cultural Industries Coordinating Group.<sup>40</sup> Coordination with local governments will be coordinated with the Association of Municipios of Panama (AMUPA).<sup>41</sup>
- 3.4 **Special contractual conditions precedent to first and only disbursement of the financing. The first and only disbursement is subject to compliance with the policy reform conditions, as established in the Policy Matrix (Annex II), the [Policy Letter](#), and the other conditions established in the Loan Contract.**

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

- 3.5 **Monitoring.** Given the nature of the project, monitoring will focus on verifying fulfillment of the policy actions by the Government of Panama for the first and only disbursement of the financing for the first operation, as described in the [Monitoring and Evaluation Plan](#), the Policy Matrix (Annex II), and its respective [Means of Verification Matrix](#), once the program disbursement has been made. The executing agency will be responsible for delivering a six-monthly report to the Bank on implementation of the plan for fulfillment of the indicative policy actions for the second operation, once the first and only disbursement has been made for the first operation. A single administration mission is planned, to analyze implementation.
- 3.6 **Evaluation.** The program final evaluation, which will be reflected in the program completion report and assess achievement of the objectives through change in the impact and outcome indicators established in the program Results Matrix (Annex III), will be conducted upon completion of the programmatic series. The evaluation methodology for all outcome and impact indicators will be a reflexive or

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<sup>40</sup> The Coordinating Group includes representation from public institutions, the private sector, and universities.

<sup>41</sup> See [www.amupa.org.pa](http://www.amupa.org.pa).



“before and after” comparison. The program evaluation will rely on the use of administrative data regularly collected by the MEF, MICI, MiCultura, National Authority for Government Innovation (AIG), and Panama Tourism Authority (ATP) (see [monitoring and evaluation plan](#)).

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

- 4.1 The Bank and the Government of Panama have agreed on the policy commitments to be supported through this program, as reflected in the Policy Matrix (Annex II), the [Means of Verification Matrix](#), and the Results Matrix (Annex III). The [Policy Letter](#) affirms the government’s commitment to the objectives and actions envisaged for the programmatic operation as a whole.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Tourism destinations benefited by projects aimed at increasing tourism expenditure, local and social inclusion and/or improving environmental management (#)* -Business environment reforms enacted (#)* -Projects supporting innovation ecosystems (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix		
Country Program Results Matrix	GN-2948-2	The intervention is included in the 2019 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	8.3	
3.1 Program Diagnosis	1.8	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	2.5	
4. Ex ante Economic Analysis	N/A	
5. Monitoring and Evaluation	10.0	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	7.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Low	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury. Procurement: Information System.
Non-Fiduciary	Yes	Monitoring and Evaluation National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Please refer to TC ATN/OC-16676-PN.

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

The program of promotion of competitiveness and economic diversification in Panama has the general objective of promoting sustainable economic growth through improvements in the country's competitiveness and the promotion of emerging sectors. The specific objectives of this operation are: (i) to improve the conditions of competitiveness of the country through the promotion of a digital environment favorable to business and the strengthening of the national quality system; and (ii) boost the development of emerging sectors that generate additional sources of growth for the economy. This operation is the first of a series of two operations, independent but technically linked, under the Program-Based Policy loan modality (PBP). This operation seeks to support the country's competitiveness and economic diversification through three components: (i) Macroeconomic Stability, (ii) Promotion of a more competitive economy which seeks to promote a business climate that leverages digital technologies to facilitate operability of business, and on the other hand, promote the development of productive and innovation capacities, and (iii) Promotion of a more diversified economy. This component aims to promote three industries with growth potential that could contribute to the diversification of the productive structure (creative and cultural industries, the ICT industry and tourism).

The diagnosis of the program identifies as the main problems of competitiveness and diversification of the country: (i) the low efficiency of the institutions which affects the business environment, (ii) having a limited productive and innovation ecosystem, and (iii) having a economy production structure that is not very diversified and sophisticated. Given the lack of information that the country has, in some cases the diagnosis does not include evidence of the determinants of the problems and therefore the quantification of the magnitudes of the deficiencies of the problem outlined above. The vertical logic of the program is clear and has outcome indicators to measure its scope. However, some targets of the outcome indicators are not supported with evidence. Given the lack of evidence relevant to the effectiveness of these types of programs and the government's desire to carry out an attribution assessment, the project includes an impact assessment for component III, based on a non-experimental methodology. Additionally, to compare the results of the other components, a before and after comparison of will be made.

## POLICY MATRIX

**Objective:** The general objective of the programmatic series and this first operation is to promote Panama's sustainable economic growth by enhancing the country's competitiveness and advancing emerging sectors. The specific objectives are: (i) to improve the country's competitive conditions by promoting a digital environment conducive to business and strengthening the National Quality System; and (ii) to advance the development of emerging sectors that generate sources of growth for the economy.

Components/ Policy objectives	Policy conditions Programmatic loan I	Fulfillment status of Programmatic loan I conditions <sup>1</sup>	Triggers Programmatic loan II
<b>Component 1: Macroeconomic sustainability</b>			
a. Contribute to macroeconomic stability	1.1 Maintain a macroeconomic policy framework consistent with the program objectives.	1.1 Fulfilled	1.1 Maintain a macroeconomic policy framework consistent with the program objectives.
<b>Component 2: Promotion of a more competitive economy</b>			
a. Promote an enabling digital environment for business	2.1 Simplification and digitalization of the process of obtaining building permits <sup>2</sup> from the Municipio of Panamá, to improve efficiency and shorten times.	2.1 Pending fulfillment (Q4 2019)	2.1 Simplification and digitalization of the process of obtaining building permits in at least two additional municipalities.
	2.2 Enactment of the law creating the Public-Private Partnership Regime as an incentive for private investment.	2.2 Fulfilled (Q3 2019)	2.2 Approval of the regulations implementing the Public-Private Partnership Law.
	2.3 Enactment of the Personal Digital Data Protection Law, to strengthen surveillance over the use of personal data when using ICTs.	2.3 Fulfilled (Q1 2019)	2.3 Approval of the regulations implementing the Personal Digital Data Protection Law.
	2.4 Implementation of the digital signature in at least one public sector body, to contribute to the development of digital platforms in the public administration.	2.4 Pending fulfillment (Q4 2019)	2.4 Implementation of the digital signature in at least five pilot public institutions.
	2.5 Adoption of the Electronic Commercial Movement Declaration System in the Colón Free Zone, to facilitate and authorize the secure and reliable exchange of information.	2.5 Fulfilled (Q2 2019)	2.5 Electronic Commercial Movement Declaration System up and running in the Colón Free Zone.

<sup>1</sup> This information was merely indicative as of the date of this document. In accordance with document CS-3633-2, "Policy-based Loans: Guidelines for Preparation and Implementation," compliance with all the specified conditions for disbursement, including the maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank at the time of the borrower's request for the corresponding disbursement, as aptly reflected in the disbursement eligibility memorandum.

<sup>2</sup> According to the Procedures Manual of the Works and Construction Directorate of the Municipio of Panamá, a prerequisite for the building permit is review and registration of the construction drawings, and a requirement for that is to "Submit the resolution of the environmental impact assessment issued by the Ministry of the Environment." The proposed reform does not alter any environmental or social requirement.

	2.6	Approval of the regulations implementing the Industry Promotion and Development Law for effective monitoring of the National Industrial Competitiveness Program.	2.6	Fulfilled (2018 Q2)	2.6	Implementation of a system of indicators that can be used for online monitoring of the National Industrial Competitiveness Program.
	2.7	Approval of a long-term strategy to foster Regional Innovation Systems contributing to the sustainable development of areas outside Panama City.	2.7	Fulfilled (2018 Q4)	2.7	Creation of the Regional Competitiveness Observatory, to monitor the progress of the regional visions.
b. Promote the strengthening of the National Business Quality System	2.8	Approval by the National Metrology Center of Panama (CENAMEP AIP) of proposed implementing regulations for the Metrology Law to strengthen the institutional structure of the national quality infrastructure.	2.8	Pending fulfillment (Q4 2019)	2.8	Approval of the regulations implementing the Metrology Law.
	2.9	Approval by the Board of Directors of the National Metrology Center of a proposed National Strategy for the National Metrology Infrastructure, as a basis for public policy decision making.	2.9	Fulfilled (2018 Q4)	2.9	Approval of the National Strategy for the National Metrology Infrastructure.
	2.10	Development of a new law for the modernization of the National Quality System through consensus with the system's main institutions, incorporating lessons learned and international best practices.	2.10	Fulfilled (Q2 2019)	2.10	Submittal of the Draft Law for the Modernization of the National Quality System to the National Assembly.
<b>Component 3: Promotion of a more diversified economy</b>						
a. Promote the cultural and creative ecosystem	3.1	Creation of the Ministry of Culture with an institutional mandate that includes development of the creative and cultural economy, copyright, and the cinematographic and audiovisual industry.	3.1	Fulfilled (Q3 2019)	3.1	Regulations implementing the Law Establishing the Ministry of Culture, including strengthening of the cinematographic and audiovisual industry and rules governing copyright, as well as the implementation of actions to promote the creative and cultural economy.
	3.2	Creation of the Cultural and Creative Economy Coordinating Group as a public private committee to set strategic priorities, facilitating the coordination of sector public policies.	3.2	Fulfilled (Q3 2019)	3.2	Execution and evaluation of the first phase of the strategy for promotion of the cultural and creative economy.
	3.3	Approval of a strategy for internationalization of the creative economy to promote Panamanian	3.3	Fulfilled (Q2 2019)	3.3	Execution and evaluation of the first phase of the strategy for internationalization of the creative economy.

	cultural and creative products and services.		
	3.4 Creation of a Creative Industries Diploma program at Universidad Tecnológica de Panamá, to strengthen human capital training offerings in the sector.	3.4 Fulfilled (Q2 2019)	3.4 Creation of postgraduate support programs abroad for advanced human capital training in key segments of the creative industries.
b. Promote the exploitation of opportunities presented by the new digital economy	3.5 Adoption of the Panama Digital Hub Strategy to promote the ICT industry.	3.5 Fulfilled (2018 Q2)	3.5 Execution and evaluation of actions and tasks for promotion of the ICT industries called for in the Panama Digital Hub Strategy.
	3.6 Submittal to the National Assembly of the Law for the Modernization and International Competitiveness of the Financial System of the Republic of Panama, which promotes the emergence of new financial models, such as fintech.	3.6 Fulfilled (Q2 2018)	3.6 Approval of the regulations implementing the Law for the Modernization and International Competitiveness of the Financial System of the Republic of Panama.
	3.7 Authorization by the MEF Directorate General of Revenue (DGI) for a group of selected enterprises <sup>3</sup> to implement a pilot plan for the use of electronic invoicing in order to promote the digitalization of business operations and modernize tax management and collection.	3.7 Fulfilled (Q3 2018)	3.7 Expanded mandatory use of electronic invoicing with a phased implementation process from larger to smaller enterprises. <sup>4</sup>
	3.8 Establishment of the National Institute for Advanced Scientific Research in Information and Communication Technology (INDICATIC) as a public interest association.	3.8 Fulfilled (Q2 2019)	3.8 Establishment of at least two research groups at the institute, each with business participation.

<sup>3</sup> In accordance with Resolution 201-5784, the enterprises participating in the pilot plan were selected with a view toward diversity in the technological platforms employed for invoicing: 3M Panama, Ace International, Agro & Food Integrity, Alemautos, Apcon Consulting, ASP Soluciones, Business Software & Consultants, Cemento Bayano, Cesar Arrocha Graell y Cia, Cochez y Cia, Compañía Astor, Compañía Goly, Corporación Medcom, CPSH, Duty Free de Panama, El Machetazo, Euro Boutiques, Farmacia Arrocha, Felipe Motta, Formas Eficientes, Formas Gráficas, Formularios Comerciales, Frigoservice, General Suppliers, Geo F. Novey, Inmobiliaria Don Antonio, Kbits Intl, L'bel París, Manantial del Volcán, Orlyn, Panafoto, Personómica, Petrolera Nacional, Productos Alimenticios Pascual, Productos de Prestigio, Representaciones Arrocha, Reprico, Riba Smith, Soluciones Punto de Venta, Telefónica Móviles, Terabyte Business Corp, The Factory HKA, and Topmanage de Panamá.

<sup>4</sup> The process will start with large enterprises (over US\$30 million in sales), then move on to medium-sized enterprises (over US\$1 million to US\$30 million) and, lastly, micro and small enterprises (under US\$1 million in sales).

c. Promote the tourism industry	3.9 Creation of the Tourism Office as the coordinating, advisory, and executing agency for priority actions and tasks in the tourism sector.	3.9 Fulfilled (Q3 2019)	3.9 Evaluation of the actions and tasks implemented by the Tourism Office and the Panama Tourism Authority (ATP).
	3.10 Approval of the regulations implementing the Law on the Tourism Promotion Fund to promotes the tourism industry.	3.10 Fulfilled (Q1 2019)	3.10 Execution and evaluation the international promotion strategy conducted by the Tourism Promotion Fund, once its trust has been funded.
	3.11 Approval of the regulation adopting international quality criteria or parameters for the sustainable development of tourism activities.	3.11 Fulfilled (Q3 2019)	3.11 Evaluation of the implementation of international quality criteria or parameters for the sustainable development of tourism activities.

## RESULTS MATRIX

<b>Project objective:</b>	The general objective of the programmatic series and this first operation is to promote Panama's sustainable economic growth by enhancing the country's competitiveness and advancing emerging sectors. The specific objectives are: (i) to improve the country's competitive conditions by promoting a digital environment conducive to business and strengthening the National Quality System; and (ii) to advance the development of emerging sectors that generate sources of growth for the economy.
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### EXPECTED IMPACTS

Indicators	Unit of measure	Baseline	Base year	Target (2023)	Means of verification	Comments
<b>Expected impact 1 (related to general objective):</b> Increase in sustainable economic growth						
Percentage of the GDP annual growth rate attributable to changes in total factor productivity (TFP)	%	20	2017	35	Penn World Table	The baseline corresponds to the average, for the period 2011-2017, of the percentage of annual GDP growth explained by the annual change in TFP. The calculation takes into account only periods in which the PWT9.1 recorded as much GDP as TFP growth (excludes years in which the GDP or TFP contracted due to distortion in the interpretation of contributions from/to negative changes). The target involves recovery to the indicator's average level observed in the previous decade. "Before and after" evaluation through a pre/post comparison.
<b>Expected impact 2 (related to specific objective 1):</b> Improvement in Panama's Global Competitiveness Index						
Global Competitiveness Index	Index	61	2018	61.6	Global Competitiveness Report of the World Economic Forum	The baseline corresponds to the index value (version 4.0) published in the 2018 edition of the report. The expected target is for the current ranking to climb four spots (equivalent to Colombia's index). "Before and after" evaluation through a pre/post comparison.
<b>Expected impact 3 (related to specific objective 2):</b> Increase in emerging sector participation in economic activity						
Participation of emerging sectors (% of sales of promoted sectors versus total formal sector sales)	%	3.3	2018	4.3	Administrative records of the Directorate General of Revenue (DGI) of the Ministry of Economy and Finance (MEF)	The indicator aggregates the sales of all formal firms operating in sectors promoted by the program relative to the total sales of all formal firms in the country. The baseline is the median for the period 2014-2018 (last five-year period) of values observed annually for the said indicator. The target will measure the average of the annual indicator recorded for the entire program period (2019-2022). "Before and after" evaluation through a pre/post comparison.

# EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Base year	Target (2021)	Means of verification	Comments
<b>Expected outcome 1 (related to specific objective 1):</b> Improve the country's competitive conditions by promoting a digital environment conducive to business and strengthening the National Quality System						
Time taken to approve the registration of regular plans (not miscellaneous or specialized plans) at the Panama City Hall single window	Number of days	300	2016	18	Report of the Works and Construction Department of Panama City Hall	Baseline and target estimated based on the report of the Works and Construction Department of Panama City Hall. "Before and after" evaluation through a pre/post comparison.
Business Digital Adoption Index	Index	0.62	2016	0.64	World Bank	The indicator reports the simple average of four standard indicators: the percentage of enterprises with websites, the number of secure servers, download speed, and 3G coverage in the country. "Before and after" evaluation through a pre/post comparison.
Number of internationally recognized metrological capabilities (calibration and measurement)	Number of recognized metrological capabilities	37	2019	40	International Bureau of Weights and Measures	The indicator reflects the number of metrological capacities (measurement and calibration) in eight areas: (i) acoustics, ultrasound, and vibration; (ii) mass and related quantities; (iii) length; (iv) photometry and radiometry; (v) ionization and radiation; (vi) thermometry; (vii) time and frequency; (viii) chemistry; and (ix) electricity and magnetism. The baseline is extracted from the Annual Report of the International Bureau of Weights and Measures and measures the number of metrological capacities recognized by the Bureau for Panama. "Before and after" evaluation through a pre/post comparison.
<b>Expected outcome 2 (related to specific objective 2):</b> Advance the development of emerging sectors (ICT, tourism, and CCI)						
Volume of annual value-added tax collected through electronic invoicing	US\$ million	17	2019	35	MEF DGI administrative records	"Before and after" evaluation through a pre/post comparison.
Average annual sales of ICT sector enterprises	US\$ million	0.30	2018	0.35	MEF DGI administrative records	Information on surviving enterprises in the sector was considered for the period (2009-2019). The difference in difference matching (DDM) method will be used for evaluation with comparable enterprises in sectors other than those covered.
Average annual sales of tourism sector enterprises	US\$ million	0.24	2018	0.3	MEF DGI administrative records	Information on surviving enterprises in the sector was considered for the period (2009-2019). The DDM method will be used for evaluation with comparable enterprises in sectors other than those covered.
Average annual sales of creative sector enterprises	US\$ million	0.27	2018	0.305	MEF DGI administrative records	Information on surviving enterprises in the sector was considered for the period (2009-2019). The DDM method will be used for evaluation with comparable enterprises in sectors other than those covered.



## OUTPUTS

Outputs	Unit of measure	Base year	Baseline value	Target 2019	Means of verification	Entity Responsible
<b>Component 2. Promotion of a more competitive economy</b>						
2.1 Process for obtaining building permits in the municipio of Panamá, simplified and digitized.	Simplified and digitized process	2018	0	1	Municipal Agreement of the Municipal Council of the municipio of Panamá	Municipio of Panamá
2.2 Law creating the Public-Private Partnership Regime promoting private investment, enacted.	Law enacted	2018	0	1	Law 93 of 19 September 2019	Ministry of Public Works
2.3 Law for the Protection of Personal Digital Data to strengthen surveillance over the use of personal data where ICT is involved, enacted.	Law enacted	2018	0	1	Law 81 of 26 March 2019 on personal data protection	National Transparency and Access to Information Authority
2.4 Digital signature pilot to contribute to the development of digital platforms in public administration, implemented in one public-sector body (to replace physical signatures in regular processes).	Pilot implemented	2018	0	1	Certification of the adoption of digital signature in Cabinet Council	Authority for Government Innovation
2.5 E-commerce Movement Reporting System in the Colón Free Zone to facilitate and enable the exchange of secure and reliable information, adopted.	System adopted	2018	0	1	Resolution 008-2019 of the Board of Directors of the Colón Free Zone	Colón Free Zone
2.6 Regulation of the Industry Promotion and Development Law that enables appropriate monitoring of the National Industrial Competitiveness Program, approved.	Regulation approved	2018	0	1	Executive Decree 37 of 10 April 2018 regulating Law 76 of 23 November 2009	Ministry of Trade and Industry
2.7 Long-term strategy to strengthen the Regional Innovation Systems that contribute to the sustainable development of areas outside Panama City, approved.	Strategy approved	2018	0	1	Certification of the publication of the strategy	National Secretariat for Higher Education, Science, Technology, and Innovation
2.8 Regulation of the Metrology Law, which strengthens the institutional structure of the national quality infrastructure, approved by the National Metrology Council.	Regulation approved	2018	0	1	Document of the National Metrology Council	Ministry of Trade and Industry
2.9 National Strategy of the National Metrology Infrastructure, which serves as a basis for public policy decision-making, approved by the Board of Directors of the National Metrology Center.	Strategy approved	2018	0	1	Document of the Board of Directors of the National Metrology Center	National Secretariat for Higher Education, Science, Technology, and Innovation
2.10 Draft law for the modernization of the National Quality System, developed and agreed with the main bodies of that system.	Agreement on draft law reached	2018	0	1	Communication with the MICI Head Office.	Ministry of Trade and Industry (MICI)

Outputs	Unit of measure	Base year	Baseline value	Target 2019	Means of verification	Entity Responsible
<b>Component 3. Promotion of a more diversified economy</b>						
3.1 Law Creating the Ministry of Culture, whose institutional mandate includes the development of the creative and cultural economy, copyright, and the cinematographic and audiovisual industry, created.	Law enacted	2018	0	1	Law 90 of 15 August 2019 creating the Ministry of Culture	Ministry of Culture
3.2 Cultural and Creative Economy Coordinating Group as a public-private committee in charge of establishing strategic priorities and facilitating the articulation of sector public policies, created.	Coordinating Group created	2018	0	1	Memorandum of understanding between the member institutions of the Coordinating Group	Ministry of Culture
3.3 Strategy for the internationalization of the creative economy to promote Panamanian cultural and creative products and services, approved.	Strategy approved	2018	0	1	Certification of the publication of the strategy	Ministry of Foreign Affairs
3.4 Creative Industries Diploma program at the University of Technology of Panama to strengthen the development of human capital in the sector, created.	Diploma program created	2018	0	1	Document of the Graduates Committee of the Office of the Vice Rector for Research, and Postgraduate and Extended Studies, which approves the Diploma on Creative and Cultural Industry Planning and Management	University of Technology of Panama
3.5 Panama Digital Hub Strategy, which promotes the ICT industry, adopted.	Strategy adopted	2018	0	1	Executive Decree 455 of 20 June 2018 endorsing the Panama Digital Hub Strategy	Authority for Government Innovation
3.6 Draft Law for the Modernization and International Competitiveness of the Financial System of the Republic of Panama, submitted to the National Assembly.	Draft law submitted	2018	0	1	Cabinet Resolution 19 of 3 April 2018 authorizing the Ministry of Economy and Finance to introduce the Law	Ministry of Economy and Finance
3.7 Pilot to test the use of electronic invoicing in a group of enterprises, implemented.	Pilot implemented	2018	0	1	Resolution 201-5784 of 31 August 2018 authorizing the use of electronic invoicing by a group of companies	Directorate General of Revenue
3.8 National Institute for Advanced Scientific Research in Information and Communication Technology, established as a public interest association.	Institute established as a public interest association	2018	0	1	Certificate of Incorporation of the public interest association INDICATIC AIP	National Secretariat for Higher Education, Science, Technology, and Innovation
3.9 Tourism Office as the coordinating, advisory, and executing body for priority actions and tasks in the tourism sector, created.	Office created	2018	0	1	Executive Decree 278 of 3 July 2019 creating the Tourism Office	Panama Tourism Authority
3.10 Regulation of the Law on the Tourism Promotion Fund, approved.	Regulation approved	2018	0	1	Executive Decree 172 of 23 August 2018 regulating the Tourism Promotion Fund	Panama Tourism Authority

Outputs	Unit of measure	Base year	Baseline value	Target 2019	Means of verification	Entity Responsible
3.11 Regulation that adopts international quality criteria or parameters for the sustainable development of tourist activities, approved.	Regulation approved	2018	0	1	Executive Decree 22 of 18 March 2019 adopting international quality criteria for sustainable tourism development.	Panama Tourism Authority

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/19

Panama. Loan \_\_\_\_/OC-PN to the Republic of Panama  
Economic Diversification and Competitiveness Promotion 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 Economic Diversification and Competitiveness Promotion Program. Such financing will be for the amount of up to US\$200,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ 2019)