



# Board of Executive Directors

## For consideration

On or after 25 October 2022

PR-5030  
11 October 2022  
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**Public**  
**Simultaneous Disclosure**

**To:** The Executive Directors

**From:** The Secretary

**Subject:** Panama. Loan proposal for the "Global Credit Program for Sustainable Economic Recovery"

**Basic Information:** Loan type ..... Global Credit Operation (GCR)  
Borrower ..... Republic of Panama  
Amount ..... up to US\$160,000,000  
Source ..... Ordinary Capital

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**Remarks:** This operation is included in Annex III of document GN-3087, "2022 Operational Program Report" or the respective update. However, its amount exceeds the ceiling established for Group C countries. Therefore, the operation does not qualify for approval by No-Objection Procedure, in accordance with Part III of document GN-1838-3.

**Reference:** DR-398-19(5/20), GN-1838-3(6/18), GN-3087(2/22), GN-3087-2(9/22), GN-3055(5/21)



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PANAMA**

**GLOBAL CREDIT PROGRAM FOR SUSTAINABLE ECONOMIC RECOVERY**

**(PN-L1179)**

**LOAN PROPOSAL**

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## **ABBREVIATIONS**

ABP	Asociación Bancaria de Panamá [Panama Banking Association]
ANIFI	Asociación Nacional de Instituciones Financieras [National Association of Financial Institutions]
BNP	Banco Nacional de Panamá
CQS	Selection based on the consultants' qualifications
GDP	Gross domestic product
IDB	Inter-American Development Bank
IFI	Intermediary financial institution
IFRS	International Financial Reporting Standards
IICC	International individual consultant selection based on qualifications
ILO	International Labour Organization
IPACOOOP	Instituto Panameño Autónomo Cooperativo [Autonomous Institute for Cooperatives of Panama]
IMF	International Monetary Fund
MEF	Ministry of Economy and Finance
MSMEs	Micro, small, and medium-sized enterprises
NDC	Nationally determined contribution
OECD	Organisation for Economic Co-operation and Development
REDPAMIF	Red Panameña de Microfinanzas [Panama Microfinance Network]
SBP	Superintendency of Banks of Panama
SMEs	Small and medium-sized enterprises
SOFR	Secured Overnight Financing Rate

## PROJECT SUMMARY

### PANAMA GLOBAL CREDIT PROGRAM FOR SUSTAINABLE ECONOMIC RECOVERY (PN-L1179)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility <sup>(a)</sup>	
Republic of Panama			Amortization period:	20 years
Executing agency:			Disbursement period:	3 years
Banco Nacional de Panamá (BNP)			Grace period:	3.5 years <sup>(b)</sup>
Source	Amount (US\$)	%	Interest rate:	SOFR-based
IDB (Ordinary Capital):	160,000,000	100	Weighted average life:	11.75 years
Total:	160,000,000	100	Approval currency:	U.S. dollars
Project at a Glance				
<b>Project objective:</b> The general development objective of the program is to promote a sustainable economic recovery through investments to help make Panama's productive fabric more productive and sustainable. The specific development objective is to increase the supply of credit for sustainable, productive investment by micro, small, and medium-sized enterprises (MSMEs) in Panama.				
<b>Special contractual conditions precedent to the first disbursement of the financing:</b> The approval and entry into force of the <a href="#">Credit Regulations</a> under terms previously agreed upon with the Bank will be a special contractual condition precedent to the first disbursement of the financing (see paragraph 3.10).				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
<b>Challenges:</b> <sup>(c)</sup>	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
<b>Crosscutting themes:</b> <sup>(d)</sup>	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>	

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection 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 Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

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

<sup>(d)</sup> GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** The COVID-19 crisis took a heavy toll on Panama in 2020. Gross domestic product (GDP) fell 17.9%;<sup>1</sup> unemployment rose to 18.5%, up from 7.1% in 2019; the poverty rate rose 12.5 percentage points;<sup>2</sup> nonfinancial public sector revenues fell 20%; the public deficit increased from 2.9% to 10.2% of GDP; and debt rose from 46.4% to 68.5% of GDP.<sup>3</sup> The economy rebounded well in 2021, albeit unevenly in terms of sustainability. GDP grew 15.3%,<sup>4</sup> still shy of pre-pandemic levels (down 5.4% from 2019), largely on the strength of the mining sector, which accounted for 3.5 percentage points of economic growth.<sup>5</sup> The unemployment rate stood at 9.9% as of April 2022, as workforce participation was on the rise, but remained shy of 2019 levels (62.3%, down from 66.5% in 2019). Similarly, the role of the informal sector declined but remains above previous levels (48.2%, compared with 44.9% in 2019).<sup>6</sup> On the fiscal front, in 2021 the deficit fell to 6.7% of GDP and debt declined to 63.7% of GDP, still above 2019 levels.
- 1.2 The latest projections for 2022 by the Economic Commission for Latin America and the Caribbean have Panama's GDP growing by 7% due to the effects of reactivation as well as copper mining operations and increased traffic, by tonnage, through the Panama Canal. Mining and freight operations, it should be noted, are highly polluting: they emit 4.3 million<sup>7</sup> and 14.8 million<sup>8</sup> tons, respectively, of carbon dioxide (CO<sub>2</sub>) equivalent per year. Growth is expected to stabilize over the medium term at 5% per year, but rising prices of gas, oil, and food; disruptions in global value chains; and deteriorating economic conditions worldwide are driving up inflation (5.2% year-on-year as of June) and wreaking havoc on household finances. Since May, the rising cost of living has sparked unrest and protests throughout Panama. In response, the government approved an austerity plan, froze the price of fuel at US\$3.25 per gallon until October, ordered price controls on 71 items of the basic food basket, and pledged to increase public expenditure on education to 6% of GDP by 2024 (compared with 3.9% of GDP in 2020).
- 1.3 Economic reactivation was one of the government's main challenges in the wake of the COVID-19 pandemic. The recovery transition, however, is framed as part of a new national development model that is sustainable, low-emissions, and climate-resilient. In 2020, Panama submitted the first update to its nationally

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<sup>1</sup> Economic Commission for Latin America and the Caribbean. [Economic Survey of Latin America and the Caribbean](#). 2021.

<sup>2</sup> Garcimartín, C.; Freire, C.; and Astudillo, J. (2021). *Impacto social de la pandemia del COVID-19 en Panamá y análisis de eficiencia de los programas de transferencias monetarias*. Technical Note IDB-TN-2221. IDB.

<sup>3</sup> [Article IV Consultation](#). International Monetary Fund (IMF). 2021.

<sup>4</sup> [World Bank data on national accounts and Organisation for Economic Co-operation and Development \(OECD\) data files on national accounts](#). 2021.

<sup>5</sup> [The World Bank in Panama: Overview](#). World Bank. 2022.

<sup>6</sup> [National Institute of Statistics and Census of Panama](#). 2022.

<sup>7</sup> First Quantum Minerals, the leading mining company operating in Panama. [Annual report 2021](#).

<sup>8</sup> CAIT Climate Data Explorer, via Climate Watch. 2019.



determined contribution (NDC),<sup>9</sup> pledging to reduce emissions in leading sectors of the productive fabric, such as farming, livestock-raising, fishing, energy, sustainable infrastructure, and the circular economy. With committed amounts associated with greenhouse gases, total emissions will be reduced from the business-as-usual scenario by an estimated 60 million cumulative tons of CO<sub>2</sub> equivalent between 2022 and 2050 and up to 10 million cumulative tons of CO<sub>2</sub> equivalent between 2022 and 2030, as specified in the NDC.

- 1.4 The pandemic was especially hard on Panama's productive sector, and particularly on micro, small, and medium-sized enterprises (MSMEs). Some 30% of all MSMEs in Panama had to shut down in 2020.<sup>10</sup> According to the IMF, 284,029 employment contracts were suspended in 2020 due to the pandemic, amounting to nearly 15% of a national workforce numbering 2 million people. After the strong economic rebound of 2021, both in Panama and abroad, as well as the reinstatement of work contracts, the economy is expected to continue growing and the unemployment rate is projected to continue its decline. Against this backdrop, Panama's business community faces a challenge in the recovery of the productive sector, but, at the same time, an opportunity to implement energy efficiency measures and expand renewable energy. The leading sectors of the Panamanian economy include agriculture, commerce, and services. The agriculture sector and the agribusiness chain include food processing operations, which employ nearly 150,000 people and account for 4% of GDP.<sup>11</sup> The commerce sector employs 16.9% of the economically active population and accounts for the second-largest share of GDP (17%); 54% of all jobs in this sector are held by women. The service sector accounts for 27% of GDP and 40% of all formal-sector jobs in Panama.<sup>12</sup>
- 1.5 **MSMEs as a cornerstone of sustainable economic recovery.** While green investment opportunities are available for a diverse range of Panamanian enterprises, smaller businesses have special potential due to the crucial role they play in growth, diversification of production, and job creation. Panama has an estimated 85,000 MSMEs, accounting for 95% of all businesses and 51% of all formal-sector jobs. Microenterprises account for 59% of Panama's businesses and employ 15% of the workforce; small enterprises, for 35% of all businesses and 30% of the workforce; and medium-sized enterprises, for 2.1% of all businesses and 6% of the workforce. In 2016, MSMEs grossed some US\$6.5 billion in revenues (17% of GDP), of which: (i) microenterprises accounted for 17.5%; (ii) small enterprises, for 41.6%; and (iii) medium-sized enterprises, for 40.9%. MSMEs are most geographically concentrated in the provinces of Panamá (49%) and Chiriquí (13.5%), and their operations are focused primarily on retail commerce (36%).<sup>13</sup>

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<sup>9</sup> Panama's nationally determined contribution, first update. 2020. Ministry of Environment. Republic of Panama.

<sup>10</sup> [Impacto económico de la crisis COVID-19 sobre la MIPYME en Panamá](#). National Center for Competitiveness. 2021.

<sup>11</sup> Data from the Panama Industrial Union of Panama as of May 2020.

<sup>12</sup> Data from the Ministry of Labor and Social Development as of December 2020.

<sup>13</sup> [Statistical analysis of small and medium-sized enterprises](#). National Center for Competitiveness. 2021.

**Table 1. Official definition of MSMEs in Panama**

Variable	Microenterprise	Small enterprise	Medium-sized enterprise
Annual sales	< US\$150,000	US\$150,000–US\$1 million	US\$1 million–US\$2.5 million

Source: National classification of MSMEs in accordance with Law 33 (25 July 2000).

- 1.6 This new stage of sustainable economic recovery poses an opportunity to foster the growth of the business fabric in a more environmentally sustainable way that is low in greenhouse gas emissions and resilient to the effects of climate change. As Panama is highly exposed and vulnerable to adverse climate events associated with climate change,<sup>14</sup> combatting climate change is a priority of its public policy agenda. Carbon emissions associated with the productive sector have increased 300% on average since 2015.<sup>15</sup> To meet Panama's commitment under the Paris Agreement, the first NDC update calls for achieving carbon neutrality by 2050 and building climate resilience.<sup>16</sup> This will require the productive sector to adopt new production models that are more environmentally sustainable and incorporate circular-economy principles.
- 1.7 In line with the IMF's "green recovery" strategy<sup>17</sup> and the OECD's development objectives, financing initiatives should be pursued through public policy to focus on renewable energy, climate-smart technology, and climate change adaptation in productive activity, so as to reduce the likelihood of future macroeconomic shocks and make countries more resilient when such shocks occur. This shift in the production paradigm will also yield benefits in terms of employment. A groundbreaking study by the IDB and the International Labour Organization (ILO) found that transitioning to an economy with net-zero carbon emissions could create 15 million new jobs in Latin America and the Caribbean by 2030. These new jobs would be in agriculture, plant-based food production, renewable electricity generation, forestry, construction, and manufacturing.<sup>18</sup>
- 1.8 Along these lines, MSMEs in Panama play a critical role in supporting a stage of low-carbon, climate-resilient economic recovery that incorporates elements of sustainability. The benefits of this recovery would be not only economic in nature, but also social and environmental over the long term. However, at present, Panama's MSMEs are constrained in their ability to make sustainable production-related investments. These constraints include: (i) limited access to long-term financing for upgrading production processes; (ii) a lack of green financial products aimed specifically at sustainable investment projects; and (iii) a gender gap that particularly hinders access to financing for women-owned or -led MSMEs.
- 1.9 **Panama's financial sector and its work with MSMEs.** According to the IMF's Article IV consultation report of July 2021, Panama's banking system remains

<sup>14</sup> [Climate threat profile for Panama](#). World Bank-Global Facility for Disaster Reduction and Recovery, 2022.

<sup>15</sup> [Panama: CO<sub>2</sub> Country Profile](#). Oxford University. 2020.

<sup>16</sup> [Panama's nationally determined contribution](#). First update. Ministry of Environment. 2020.

<sup>17</sup> [Greening the Recovery](#). IMF. 2021.

<sup>18</sup> Jobs in a Net-zero Emissions Future in Latin America and the Caribbean. IDB and ILO. 2020.

stable, well capitalized, and liquid despite the pandemic-related shock. The system remained resilient, largely due to prudential regulations that have proven effective in recent years. The supply of financing for MSMEs, however, remains low due to a lack of financial education and stringent credit requirements for access to financing. According to 2020 data published by the Superintendency of Banks of Panama (SBP), only a small portion of lending from the financial system goes to MSMEs.<sup>19</sup> The MSME loan portfolio shrank at an average rate of 5% per year in 2015-2019. If 2021 data are figured in, the portfolio shrank by 12%. The national banking system posted a balance of US\$68.227 billion in its net credit portfolio in 2021<sup>20</sup> and extended US\$5.842 billion in credit to MSMEs, or only 15.3% of the total, while MSMEs account for 51% of all jobs and 17% of GDP. This financing has been disbursed largely in the form of traditional loans (83%), followed by other modalities or credit facilities such as advances of funds and overdrafts (16%) and, to a lesser extent, credit cards (1%).

- 1.10 The current credit portfolio for MSMEs is distributed across economic sectors, with much of it supporting the commerce, construction, and service sectors (71%). Fifty-one percent of loans to the commerce sector are for retail commerce. Most lending to the construction sector is in the form of short-term loans. For the service sector, most loans go to the rental car, vehicle maintenance, tourism, and transportation subsectors. The agriculture sector is served to a lesser degree, accounting for 20% of the loans; this limits investment in clean technologies that would increase productivity and reduce environmental impact. A significant portion goes to specific subcategories such as grains (rice and corn) and nongrain crops (coffee and tomato).<sup>21</sup> Most of the volume of loans to MSMEs is disbursed by private banks, which finance 89% of loans to microenterprises and small businesses. Panama's five largest banks heavily involved in this market are Banco General, Global Bank, Banco Nacional de Panamá (BNP) (through its first-tier portfolio), Multibank, and Banistmo, which hold a combined 62% of the MSME portfolio.
- 1.11 **Lack of green financial products to promote sustainable economic recovery.** Although Panama contributes only a small portion (about 0.036%<sup>22</sup>) of global greenhouse gas emissions, it is vulnerable to the effects of climate change and natural disasters and needs its productive sector to adapt in order to become more productive and sustainable over the medium and long terms. To this end, MSMEs in Panama need access to credit for green, sustainable investments. Panama's financial sector, however, does not offer financial products specifically for this type of investment. Panama still lacks strong green financial markets to help

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<sup>19</sup> The supply of credit to MSMEs is low due to: (i) weaknesses in the institutional and regulatory environment in terms of property rights and enforcement of financial contracts and recovery process in the event of insolvency; (ii) the information asymmetry faced by financial institutions in evaluating credit risk; and (iii) the high scale-related cost of providing loans in small amounts to small enterprises.

<sup>20</sup> [\*Análisis de la cartera de créditos otorgados por los bancos del Sistema Bancario Nacional a la micro y pequeña empresa\*](#). Superintendency of Banks of Panama. 2020.

<sup>21</sup> [\*Análisis de la cartera de créditos otorgados por los bancos del Sistema Bancario Nacional a la micro y pequeña empresa\*](#). Superintendency of Banks of Panama. 2020.

<sup>22</sup> Panama's nationally determined contribution. First update, 2020.

- channel financing to low-carbon, climate-resilient, environmentally sustainable investment projects.
- 1.12 According to a recent OECD publication,<sup>23</sup> MSMEs face obstacles in their efforts to finance sustainable ventures. Aside from the inherent complexity of doing business, they face new challenges due to a lack of awareness, information, and knowledge on environmental and social requirements and needs. It is a common theme worldwide that access to resources for sustainable activities—as well as institutional strengthening, finance, and technology—is more limited for MSMEs than for larger companies, and that MSMEs tend to face market and policy uncertainties that make climate-related investment even more challenging. Supporting a sustainable economic recovery in Panama requires a better understanding of MSMEs' investment needs, along with appropriate financial products to help implement more efficient equipment for production, support the use and generation of renewable energy in the productive and service sectors, and implement smart methods of agriculture and the circular economy.
- 1.13 Green finance in Panama is at an incipient stage of development. The Sustainable Finance Working Group<sup>24</sup> was formed in 2018 to work toward a financial system that supports an inclusive, sustainable economy. This group has focused on designing training programs and developing guidelines on good practices. The Panama Banking Association's (ABP) Sustainable Finance Protocol of Panama,<sup>25</sup> published in 2018, includes a component for the development of green products, which emphasizes the need to create or promote green financial products that sustainably support initiatives for environmental protection, sustainable resource usage, and the competitiveness of Panama's productive sectors. While this protocol represents a step forward in introducing sustainable finance to the banking sector, none of the leading banks that finance MSMEs in Panama currently offer green lines of credit for investment projects. Nor has significant progress been made in the securities markets. According to data from the Green Bond Transparency Platform<sup>26</sup> through the first half of 2022, Panama issued a total of US\$380 million in thematic bonds in 2019 and 2020, which amounts to less than 1% of the total volume, in U.S. dollars, issued in the region.
- 1.14 While some institutions in Panama's banking sector are working to design green financial products and evaluate their feasibility and development, the sector still lacks specific products with an environmental approach. Obstacles to expanding the supply of green financial products and services include a lack of: (i) capacities to identify opportunities in their client base and measure demand for green products and services; (ii) regulatory incentives to offer green products;<sup>27</sup> and (iii) access to green funding from international sources. As a result, State-owned

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<sup>23</sup> OECD (2021), [No Net Zero without SMEs: Exploring the Key Issues for Greening SMEs and Green Entrepreneurship](#).

<sup>24</sup> [Sustainable Financing Working Group of Panama](#).

<sup>25</sup> [Sustainable Finance Protocol of Panama](#). ABP. 2018.

<sup>26</sup> The [Green Bond Transparency Platform](#) is a platform developed by the IDB and IDB Invest to promote the harmonization and standardization of green bond reporting.

<sup>27</sup> The Bank is supporting the SBP in developing a roadmap toward a climate risk measurement framework.

banks need to intervene<sup>28</sup> to create these new green financial products, bring them to market, and attract the interest of private banks in financing this type of project.<sup>29</sup>

- 1.15 **Gender gap in business financing.** Developing a broader, more inclusive business landscape in Panama is key to a sustainable long-term economic recovery. The financial inclusion of women entrepreneurs and business owners can boost the growth of MSMEs. While estimates suggest that the proportion of women business owners in Panama is in line with the regional average (12% in Panama, compared with 13% in the region),<sup>30</sup> these figures are still low. Adequate financial data on women-owned or -led businesses are lacking, but the available information indicates that their access to credit is limited. An estimated 18% of women-led and -owned enterprises are fully financially constrained, exceeding the estimated regional average of 14%, and they faced a finance gap of at least US\$831 million.<sup>31</sup> Similarly, available data<sup>32</sup> on businesses with women in general manager positions in Panama show that 7.2% of these enterprises have turned to banks for financing for working capital (compared with 9.6% of their male-led counterparts). Meanwhile, a study<sup>33</sup> on the factors that most heavily impact financial inclusion in Panama found that the gender gap is one of the strongest inhibitors of greater inclusion.
- 1.16 In addition to the problems related to women-led businesses and financing, the COVID-19 pandemic took a greater toll on women in terms of unemployment, thus exacerbating gender inequity.<sup>34</sup> According to the World Economic Forum's Global Risks Report 2021,<sup>35</sup> women's participation in the workforce in Latin America fell by at least 10% during the pandemic.<sup>36</sup> This situation needs to be addressed and highlights the need for a gender approach in public finance programs, so as not to reduce women's participation in business and the percentage of loans for women's MSMEs. The program will allocate resources specifically to promote greater access to credit for women-owned or -led MSMEs.
- 1.17 **Proposed intervention.** The proposed intervention continues the Bank's support for the country's productive fabric. The Global Credit Program for Safeguarding the

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<sup>28</sup> "Green Financing: Role of Public Sector Banks." Ansari and Prasad, 2015.

<sup>29</sup> According to a consultation held in July 2022 with the ABP, the Panama Microfinance Network (REDPAMIF), and the National Association of Financial Institutions (ANIFI), their members are interested in financing sustainable projects for over US\$500 million, primarily in the commerce, service, and agricultural sectors.

<sup>30</sup> MSME Finance Gap. SME Finance Forum, 2018.

<sup>31</sup> MSME Finance Gap. SME Finance Forum, 2018.

<sup>32</sup> [Enterprise Surveys, 2010.](#)

<sup>33</sup> [Inclusión financiera en Panamá. La importancia de la calidad institucional y las brechas territoriales, de ingreso y de género.](#) IDB, 2022.

<sup>34</sup> Employment Action Framework with Gender Perspective. IDB. 2021.

<sup>35</sup> The Global Risks Report 2021, 16th edition. World Economic Forum, 2021.

<sup>36</sup> According to the Bank's Better Jobs Index, the gender gap in Latin America is 22.5%, and men score 17.3 points higher than women in the quality dimension, which includes formal-sector participation rates and percentages of jobs that pay enough to rise above poverty. Before the pandemic, the World Economic Forum's Global Gender Gap Report 2020 estimated that Panama, absent any acceleration of the narrowing of gender gaps, would take 59 years to reach gender equality in the workplace. This projected pace has likely slowed due to the pandemic.

Productive Fabric and Employment ([5040/OC-PN](#)), approved early in the pandemic (May 2020) for US\$150 million and now disbursed, has enabled MSMEs to gain access to short-term lines of credit to avert a breakdown in the payment chain and protect the greatest possible number of jobs. The Global Credit Program for Promoting the Sustainability and Economic Recovery of Panama ([5251/OC-PN](#)), approved midway through the pandemic (March 2021) for US\$150 million and now disbursed, has contributed to the initial stage of the economic recovery by providing short- and medium-term lines of credit to help businesses reopen and to help save jobs (paragraph 1.20). This operation continues the support for the recovery of Panama's productive fabric in terms of sustainability, through new medium- and long-term financial products that contribute to a sustainable economic recovery while incorporating a gender perspective.

- 1.18 This operation calls for developing an innovative lending instrument by focusing on sustainability as a pillar of the recovery, while continuing to support BNP in gaining experience on projects by focusing on MSMEs. Priority will be given to MSMEs in the agriculture, commerce, and service sectors, as they are key to the country's economy and directly contribute to carbon emissions.<sup>37</sup>
- 1.19 **The Bank's experience.** The Bank has extensive experience in designing sovereign-guaranteed loan programs to enhance access to financing for MSMEs through financial intermediaries. These programs have been implemented both in expansionary economic cycles, with support focused on access to long-term financing for productive investments, and in contractionary economic cycles, when support is focused on maintaining MSMEs' access to liquidity for continued economic activity.
- 1.20 Various experiences in the region have shown the importance of financial support for economic activity and employment. Programs implemented in Colombia and Brazil are cases in point. In Colombia, loans under a program for financing of small and medium-sized enterprises (SMEs)—which was structured through Banco de Comercio Exterior (Bancóldex), a second-tier government bank—were found to have had significant positive effects in terms of increased production (24%), employment (11%), and investment (70%) in the four years following the first disbursement of the IDB loan.<sup>38</sup> These programs also showed that long-term lines of credit yielded the most significant positive effects on investment, productivity, and production.<sup>39</sup> In Brazil, an evaluation of public lines of credit issued by the Brazilian National Bank for Social and Economic Development (BNDES) and the Brazilian Innovation Agency found a positive impact in job growth and exports but no significant impact in labor productivity.<sup>40</sup>
- 1.21 In Panama, the Bank has supported interventions to promote access to financing for the productive sector that are specifically focused on MSMEs' sustainability as

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<sup>37</sup> Emerging and Sustainable Cities Initiative (2015). Annex 7. *Emisiones de Contaminantes Ambientales*. Idom/IH Cantabria.

<sup>38</sup> [Eslava et al. \(2012\). \*Impacto del crédito de Bancóldex en los empresarios\*.](#)

<sup>39</sup> *Ibid.*

<sup>40</sup> De Negri, J. et al. (2011). The Impact of Public Credit Programs on Brazilian Firms. IDB working paper.



- a mainstay of employment amid the COVID-19 crisis, through two operations ([5040/OC-PN](#) and [5251/OC-PN](#)) with financing amounts averaging US\$35,000 in view of the operations' focus on microenterprise. The objectives of these operations were to support the short-term sustainability of MSMEs and promote their economic recovery through access to production-oriented finance. As of mid-2022, these programs have benefited more than 4,100 MSMEs (of which 61% are microenterprises, 25% are small enterprises, and 14% are medium-sized enterprises) in various areas of Panama through 31 financial intermediaries (banks, cooperatives, and finance institutions) while restoring more than 16,500 jobs. These enterprises are concentrated mainly in agriculture (sale of grains, fruits, vegetables, and food processing), retail commerce (grocery stores, sale of cleaning products), and services (lodging and restaurants).
- 1.22 IDB Invest, meanwhile, has focused on MSMEs in operations to provide funding to the financial sector to narrow the gap in access to financing through operations that include the following: (i) a gender bond issued by Banistmo to finance projects with a high positive social impact in Panama, with a focus on women-led SMEs (12174-02); (ii) a senior loan to Global Bank with a focus on SMEs (11881-02); (iii) a senior loan to BAC International Bank Inc. with a focus on internationalizing MSMEs ([3098A/OC-PN](#)); and (iv) a revolving line of credit for Multibank with a focus on MSMEs (PN-3757A-02). Since these operations complement efforts on previous operations by focusing a larger segment, the IDB Group's response in support of Panama's MSMEs is comprehensive. Moreover, a risk mitigation facility was created in July 2022 to provide guarantees for loans to the tourism sector.<sup>41</sup>
- 1.23 **Lessons learned.** The lessons learned by BNP as the executing agency of previous operations ([5040/OC-PN](#) and [5251/OC-PN](#)) will help ensure efficient execution of this operation and fulfillment of its objectives. Three lessons have been particularly significant for successful execution and for impacting the country's productive fabric. First, coordination with private sector associations, both in the capital and elsewhere in Panama, is key for accurate prospecting and analysis of proposed financing operations. Efforts have also been closely coordinated with associations of financial institutions (ABP, Panama Microfinance Network, and National Association of Financial Institutions), which have adapted their analytical methodologies and internal systems to manage finance application processes more effectively. This has helped to validate demand<sup>42</sup> and prioritize sectors to create a pipeline and achieve high portfolio quality for efficient execution. This dialogue, coordinated with IDB Invest, has helped to identify prospects by size and scope, as well as to shape the IDB Group's response.
- 1.24 The second lesson relates to the executing agency's interagency coordination with the Ministry of Economy and Finance (MEF) and other sector-related agencies and ministries. This close coordination with government entities has led to improved tenors of approval and participation in loan contracts with the Republic of Panama, as well as approvals of changes to the [Credit Regulations](#) to streamline execution and reach more MSMEs more quickly. Lastly, institutional strengthening has been key to achieving the expected impact and scope. Technical assistance and

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<sup>41</sup> IDB. [IDB Invest, Panama Support Tourism Recovery with Financial Guarantees](#). 2022.

<sup>42</sup> See [optional link 3](#) for the demand study, which will be further developed before execution commences.

- monitoring was provided for formation of an execution unit that began executing the two previous Bank operations; this execution unit has now been absorbed into the operational structure of the division to which it reports and is executing similar MSME-focused operations. This unit now has a team dedicated to prospecting new finance operations throughout Panama, as well as to real-time monitoring of loan placements by financial intermediaries using project funds.
- 1.25 These lessons learned have been incorporated into this operation to continue efficient execution and benefit more MSMEs throughout Panama. As part of the execution of previous operations, the Bank maintains a smooth dialogue with the private sector, which fosters an understanding of current needs and resource requirements for continuing the economic recovery process in terms of the IDB Group's intervention in Panama. This ongoing dialogue has supported the involvement of these associations in designing the current operation. Moreover, coordination with the MEF and sector-specific ministries has helped to prioritize the sectors targeted by the previous operation, by taking into account the sectors that are most important to the national economy and have the greatest demand for this type of financing. The program will also continue institutional strengthening efforts to help the executing agency be even more efficient in executing this type of project and bolster its progress toward becoming a public development bank through increased exposure to impactful projects.
- 1.26 **Coordination with other Bank projects.** The program will coordinate efforts with the Sustainable and Inclusive Agricultural Innovation Project ([5316/OC-PN](#)), whose objective is to help smallholder farmers make their farms more profitable through greater sustainability, as farmers who are in need of financing and can benefit from the project's participating financial intermediaries will be identified. Efforts will also be coordinated with IDB Invest's risk-sharing facility for the tourism sector, which aims to provide guarantees for the banking system's portfolios of financing for the SME sector. In the energy sector, the Bank has been supporting the National Energy Secretariat in developing specific strategies and measures to implement renewable distributed energy generation and energy efficiency, as part of the Energy Transition Agenda ([ATN/OC-18916-PN](#) and [ATN/OC-19276-PN](#)). In particular, the Bank supported the development of the National Distributed Generation Strategy, which has been approved by the Cabinet and published, and it is considering mechanisms to streamline the finance market for energy efficiency in Panama. This program will coordinate efforts with these initiatives to maximize the outcomes of the Bank's support for Panama.
- 1.27 **Strategic alignment.** The program is consistent with the Second Update of the Institutional Strategy (document AB-3190-2) and is aligned with the challenges of: (i) social inclusion and equality, as it will provide enterprises with access to financing; and (ii) productivity and innovation, through production-oriented finance for MSMEs and strategic value chains, as it will promote the reactivation of the productive sector. The program is also aligned with the crosscutting themes of: (i) gender equity, as it will strengthen the institutional capacity of the executing agency in terms of gender-disaggregated data and strategies to better serve women's microenterprises, and it will help promote the placement of resources targeted solely at this segment; (ii) institutional capacity and rule of law, through institutional strengthening actions to support institutional aspects, streamline execution by BNP, and improve the conditions of production-oriented finance; and



- (iii) climate change, as the program will support the design and implementation of new financial instruments to facilitate access to credit for sustainable investments; moreover, in accordance with the [multilateral development banks' joint methodology for tracking climate finance](#), 40% of the operation's resources will be invested in activities for climate change mitigation and adaptation activities. The program is also consistent with the Energy Sector Framework Document (GN-2830-8) in terms of energy sustainability, security, and governance, and with the Climate Change Sector Framework Document (GN-2835-8), as it promotes the use of renewable energy low in CO<sub>2</sub> emissions, thereby helping to mitigate climate change. The program is consistent with the IDB Group's Vision 2025 (document AB-3266), specifically in the priority areas of support for SMEs and action on climate change, since it aims for a sustainable, inclusive economic recovery through production-oriented financing for MSMEs, while ensuring access and financial opportunities for marginalized groups and using innovative financing tools to leverage private sector investment and promote climate-resilient development.
- 1.28 The program will also contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) through the following indicators: (i) jobs supported; (ii) micro, small, medium enterprises financed; and (iii) women beneficiaries of economic empowerment initiatives. The program is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-2768-7), which emphasizes the importance of promoting access to financing for the productive sector. The program is aligned with the IDB Group Country Strategy with Panama 2021-2024 (GN-3055), particularly with the priority area of reigniting and diversifying productive activity and the strategic objective of expanding access to credit for underserved sectors (MSMEs). Lastly, the operation is included in the updated Annex III of the 2022 Operational Program Report (GN-3087-2).
- 1.29 **Gender considerations.** To move toward greater gender inclusion in the executing agency's portfolio for the business segment, the operation will be supported by two technical assistance operations for the counterpart.<sup>43</sup> Actions will be taken to continue: (i) the institutional strengthening of the counterpart in terms of scaling and implementing the gender action plan as part of the technical assistance provided to the executing agency;<sup>44</sup> and (ii) training on the spectrum of investment using a gender and diversity approach.<sup>45</sup> To this end, resources from technical cooperation operation [ATN/OC-18036-RG](#) will be allocated to support such activities. In addition, the operation will allocate 35% of its resources to financing for women-owned and -led enterprises.

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<sup>43</sup> Resources from technical cooperation operation [ATN/OC-18036-RG](#) were used to support the executing agency in: (i) capacities to generate gender-disaggregated data in the business segment; and (ii) developing a gender action plan. As a result, a definition of "women's enterprises" was suggested to the counterpart in accordance with international best practices, and recommendations were made as to adjustments for ensuring the availability of data for program monitoring. In addition, a proposal was put forward to the executing agency to work on a gender equity policy that takes a gender approach to the investment cycle.

<sup>44</sup> The Bank is supporting the SBP in developing a roadmap toward a climate risk measurement framework.

<sup>45</sup> While this program does not call for actions related to diversity, awareness-raising sessions are proposed so that the executing agency can begin to consider how financing is important for indigenous communities, people with disabilities, Afro-descendant people, and LGBTIQ+ communities.

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

- 1.30 **Objectives.** The general development objective of the program is to promote a sustainable economic recovery through investments to help make Panama's productive fabric more productive and sustainable. The specific development objective is to increase the supply of credit for sustainable, productive investment by micro, small, and medium-sized enterprises (MSMEs) in Panama.
- 1.31 **Component I. Support for sustainable financing (US\$159,000,000).** Resources for this component will be used to support a sustainable economic recovery through sustainable financing of MSMEs. To this end, medium- and long-term financing will: (i) support the restoration of productive capacity; and (ii) support needs related to restructuring and adapting the productive process to make it more sustainable in the agriculture (including the agribusiness chain), commerce, and service sectors. For example, financing may be provided to procure more efficient production equipment and implement projects for energy efficiency, thermal solar energy, renewable generation of precision irrigation in agriculture, the circular economy, etc. (see the [Credit Regulations](#) and the exclusion list for more details). A minimum of 35% of the resources for this component will be targeted to enterprises that are women-led or in which women hold majority ownership (paragraph 1.29), and a minimum of 40% will be placed in sustainable investments that contribute to climate change mitigation and/or adaptation, in accordance with the list of eligible investments<sup>46</sup> included in the [Credit Regulations](#). Resources under this component will be channeled by the executing agency through loans to eligible intermediary financial institutions (IFIs) (paragraph 3.6), such as banks, finance companies, and cooperatives, all of them regulated and supervised by the appropriate oversight entities, which in turn will extend credit to eligible MSMEs (paragraph 3.7). The average loan amount is estimated at US\$40,000, and the maximum loan amount will be US\$500,000.<sup>47</sup>
- 1.32 **Component II. Institutional strengthening (US\$800,000).** The operation will continue to strengthen the institutional capacity of the executing agency, specifically for the development of the finance market through the design of tools to promote the expansion of credit, such as guarantee funds. Technical support will be provided for development of the guarantee funds in terms of formation and operational structure as part of the executing agency and the completion of technical studies aimed at identifying strategic sectors, technical and financial conditions, and financial leveraging.

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<sup>46</sup> Financing is expected to be provided for renewable energy projects for electricity, mechanical energy, energy backup, storage, energy efficiency, etc.

<sup>47</sup> These amounts are proposed in view of the experience on both previous operations, as well as the initial findings of the market poll carried out with the private sector in July 2022. This market poll found that larger operations can focus on energy restructuring or cogeneration projects. The maximum financing amount will be specifically for this type of project. The market poll also found that no more than 10 operations of this type are anticipated and that the demand for financing for MSMEs continues to exceed the supply of financing in the local financial market. Demand remains focused on the priority economic sectors: commerce, services, and agriculture. See [optional link 3](#).

1.33 **Administration, audit, monitoring, and evaluation (US\$200,000).** The costs of project administration—including operating expenses and costs of reporting, audits, monitoring, and evaluation—will be covered.

1.34 **Beneficiaries.** The intervention will direct its resources to eligible MSMEs—with a focus on the agriculture, commerce, and service sectors—that need resources for sustainable investments for climate change adaptation and mitigation, as set forth in the [Credit Regulations](#). The program is expected to benefit 2,360 enterprises,<sup>48</sup> including 826 women-owned or -led enterprises and/or businesses of diverse populations. Moreover, BNP will benefit from technical support for the creation of new financial products, as well as the strengthening of its operational structure and more effective loan placement.

## C. Key results indicators

1.35 **Expected results.** The general development objective will be measured by: (i) the differential in the annual rate of job growth in program-supported MSMEs compared with a control group; (ii) the differential in the annual rate of sales growth in program-supported MSMEs compared with a control group; and (iii) CO<sub>2</sub> emissions avoided as a result of program-supported sustainable investments. The specific development objectives will be measured through the following indicators: (i) the rate of arrears of the program-supported portfolio for sustainable production-oriented investment in MSMEs, compared with rate for the banking system's loans to MSMEs; (ii) the percentage of the relevant portfolio supported with an original tenor of 48 months or longer; (iii) financing for climate change mitigation as a percentage of the portfolio supporting sustainable financing for green investments; (iv) the total amount of the relevant portfolio for sustainable financing; and (v) the percentage of the portfolio supporting sustainable financing for women-led or -owned beneficiary enterprises (or production-oriented projects).

1.36 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. When these flows are calculated and discounted at 12%, they yield a return of US\$17.68 million and an internal rate of return of 16.5%. The sensitivity analysis shows that the program is resilient to adverse shocks (see [optional link 1](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

2.1 The total amount of the program will be US\$160 million in resources drawn from the Bank's Ordinary Capital. The program will be structured as a global credit loan, inasmuch as it will provide financial intermediation for beneficiary MSMEs. The disbursement period will be three years,<sup>49</sup> and the disbursements will be made in accordance with the timetable and amounts shown in Table 2.

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<sup>48</sup> This calculation is based on the average loan size on previous operations, with an increase to account for operations that fall under the green approach.

<sup>49</sup> This execution period reflects the program execution structure in the sense that the execution unit has already been formed, which will reduce the time needed to start up the operation. This is crucial due to the nature of the loans to be financed.

**Table 2. Estimated program costs (US\$ million)**

Components	IDB (total)	%
Component I. Support for sustainable financing (MSME financing)	159.0	99.4
Component II. Institutional strengthening (support for development of guarantee fund and technical studies)	0.8	0.5
Administration, auditing, monitoring, and evaluation	0.2	0.1
<b>Total</b>	<b>160.0</b>	<b>100.0</b>

**Table 3. Disbursement schedule (US\$ million)**

Source	Year 1	Year 2	Year 3	Total
IDB	64	48	48	<b>160</b>
%	<b>40</b>	<b>30</b>	<b>30</b>	<b>100</b>

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

- 2.2 In accordance with the Environmental and Social Policy Framework (document GN-2965-23), this is classified as a financial intermediation operation with a moderate environmental and social risk rating. The operation has a low disaster and climate change risk rating. The sectors to be financed are agriculture, commerce, and services. The environmental and social due diligence review indicates that most subprojects to be financed by the program will have a low social and environmental risk, with some potentially moderate-risk projects, as the average amount of financing per subproject will be below US\$40,000 and the maximum amount will be US\$500,000. This program will not finance, inter alia, subprojects classified as category A or those with considerable environmental or social risk. The potential environmental and social impacts associated with the program will be managed through the program's environmental and social management system, which will be based on, inter alia, observance of the Bank's exclusion list, local laws, and additional exclusion and eligibility criteria. In accordance with the IDB Group's Measures to Address Risk of Forced Labor in the Supply Chain of Silicon-based Solar Modules (GN-3062-1), for energy efficiency subprojects involving the financing of solar modules, measures are put in place to avoid and mitigate the risk of forced labor in accordance with local laws and international agreements and are incorporated into the environmental and social management system. High-risk sectors will not be eligible. These environmental and social requirements will constitute the program's environmental and social management system and will be included in the [Credit Regulations](#). See the [summary environmental and social review](#) for more details.

## **C. Fiduciary risks**

- 2.3 The institutional capacity assessment of the executing agency found that it has the capacity to carry out fiduciary management of the loan operation. BNP effectively executed programs 5040/OC-PN and 5251/OC-PN, and therefore the fiduciary risk is deemed to be low. Similarly, the institutional capacity assessment of BNP found no weaknesses related to financial management.

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

- 2.4 A medium-high risk related to the economic and financial environment was identified, as interest rate hikes in the United States coupled with current inflation may create a complex scenario that saps demand for credit across economic sectors, and this may adversely affect the pace of execution or program targets. This, in combination with the recent social unrest, may exacerbate Panama's macroeconomic situation. This risk is mitigated by the fact that the program is designed as a countercyclical financial recovery initiative, with credit conditions that will help adapt to the demand for credit over time, as described in the [Credit Regulations](#), which will be periodically revised. In addition, coordination with the private sector will be maintained as in the two previous operations, which has helped to effectively satisfy demand.
- 2.5 A medium-high risk related to organizational structure was also identified. If effective mechanisms are not in place to determine the duties and obligations of entities involved in the execution arrangement (the MEF as trustor and BNP as trust fund administrator and executing agency), delays in program management and loan placement may result. To mitigate this risk, the [Credit Regulations](#) will clearly define the roles and responsibilities of the trustor (MEF) and the trust fund administrator and executing agency (BNP).
- 2.6 Lastly, a medium-high risk related to human resources was identified, as the Bank's institutional support for the executing agency in previous operations has strengthened its execution capacity in carrying out two previous operations on a parallel basis with the same team. If an efficient team is not in place to continue executing operations, delays in execution may result. To mitigate the risk, the institutional strengthening of the executing agency—and particularly the execution unit—will continue, and additional personnel may be hired if deemed necessary during execution.
- 2.7 **Sustainability.** This operation is part of the Bank's support aimed at enhancing Panamanian MSMEs' access to financing through the two previous operations, which have yielded positive results in terms of scope and job creation.<sup>50</sup> Through the Bank's support, the executing agency has built its internal capacity to execute this type of program by creating a division for execution of similar programs. In addition, the Bank has provided support in the form of technical knowledge for the development of new financial products, such as the guarantee funds and operational structure as part of a unit of BNP, an instrument that is still at an incipient stage in Panama and has proven to be a significant tool for the expansion of credit (gender-based financing strategy) by strengthening the executing agency's capacities to continue satisfactorily executing similar projects.

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<sup>50</sup> Through the Bank's support related to the structuring of the execution mechanism and selection criteria, BNP has developed a specific financial product by using the features of program loans, which has lent sustainability to the efforts undertaken with Bank support. Moreover, BNP is currently gathering data on women-owned and -led enterprises, as well as financing operations contributing to climate change adaptation and mitigation, by using the Bank's criteria.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower in this operation is the Republic of Panama, and the executing agency is Banco Nacional de Panamá (BNP), which will execute the program through a trust fund.<sup>51</sup> The Ministry of Economy and Finance (MEF) will serve as trustor, and the executing agency will serve as trust fund administrator and fiduciary. The borrower, acting through the MEF, will transfer the loan proceeds to a trust fund set up at BNP, which will onlend to eligible MSMEs through IFIs. BNP already has its own execution unit consisting of a coordinator and a project officer responsible for loan placement and monitoring. This is the same unit that has executed previous operations with the Bank. If additional support is needed, operational support for loan placement and monitoring may be procured.
- 3.2 **Execution and administration.** Founded in 1904, BNP is an autonomous State entity with legal personality, its own assets, and administrative, functional, budgetary, and financial autonomy. It is subject to the oversight of Panama's executive branch and supervisory bodies. BNP is the State's financial agency, and its objective is to conduct banking business by securing the financing necessary to develop the country's economy. BNP has the operational capacity to supply first- and second-tier financial products, since it is one of the main agencies providing services to local financial intermediaries. These include banks, financial institutions, and microlenders incorporated in Panama and duly licensed by the SBP, as well as savings and loan cooperatives duly regulated by the Autonomous Institute for Cooperatives of Panama (IPACOO).
- 3.3 With a network of 42 branches, BNP covers every department in Panama, mainly serving the agriculture, service, and commerce sectors. As of 31 March 2022, the agriculture, commerce, and industrial sectors (specifically in operations with MSMEs) jointly account for 47% of the total portfolio. In conjunction with this sector-level concentration, mortgage loans account for 21.1%; SMEs account for 23.4%; and financial institutions for 9.7%. Since its founding, BNP has fostered development in the agriculture and SME sectors in Panama. Its solid experience in the design, promotion, risk management, and monitoring of credit facilities for these sectors makes BNP the entity best prepared to execute the proposed program given the current situation. BNP is strongly engaged with its social and environmental setting, and in 2020 it formed its Division of Social Responsibility, which manages BNP's projects related to sustainability, social investment, cultural management, and community development. This division was structured in compliance with the ISO 26000 standard and aligned with the Sustainable Development Goals of the United Nations and Agenda 2030, the National Strategic Plan with State Vision "Panama 2030," the Sustainable Finance Protocol of Panama, and the Gender Parity Initiative.<sup>52</sup>

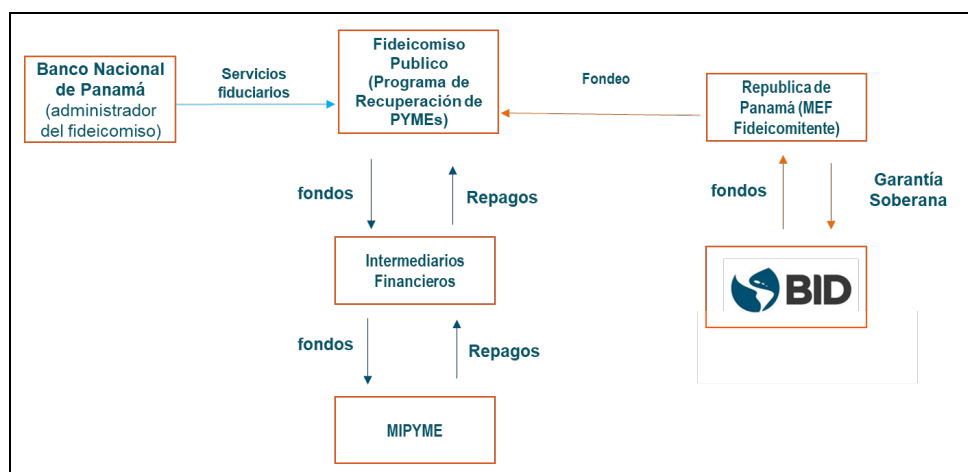
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<sup>51</sup> This trust fund for program execution was set up in 2020 and features a subsegmented structure for execution of Bank programs. This optimizes the management of program startup and execution times.

<sup>52</sup> Panama's Gender Parity Initiative is a public-private partnership aimed at promoting best practices to close gender-based economic gaps. It is led by the Ministry of Social Development.

- 3.4 The executing agency will be the fiduciary entity responsible for program resources and will have the following duties: (i) making disbursements to eligible IFIs for the placement of resources with eligible beneficiaries for fulfillment of program objectives in accordance with the [Credit Regulations](#); (ii) preparing execution reports and financial and physical progress reports for the Bank; (iii) monitoring compliance with environmental and social safeguards; and (iv) conducting monitoring and evaluation of the program.
- 3.5 **Implementation considerations.** Using the same execution structure as on previous Bank operations with BNP to support the productive fabric, the Republic of Panama will channel resources to the trust fund set up at BNP for the vehicle to then issue loans to eligible IFIs, which in turn will channel financing to eligible MSMEs. Financing will be channeled through eligible IFIs that are better positioned for and more geared to sustainable development of the productive fabric of Panama. The trustor will be the MEF. BNP, acting through its Financial Institutions and Fiduciary Management Division (see paragraph 3.8 for other duties of the fiduciary team), will be responsible for program management in aspects related to finances, accounting, monitoring, and evaluation. For Component II, consultant selection process will be managed by BNP's Financial Institutions and Special Projects Division, which is responsible for this type of procedure.

**Figure 1. Execution structure**



Source: Prepared by the authors.

- 3.6 To be eligible, IFIs must meet the following requirements: (i) be a financial institution authorized and supervised by the country's compliance and oversight body for the financial sector; (ii) comply with the country's regulatory requirements for capital, portfolio quality and provisioning, liquidity, and governance; and (iii) pledge to comply with the specific requirements of BNP, including the requirements of the Bank program. BNP will determine whether all IFIs satisfy the above requirements, to remain eligible to receive program funds.
- 3.7 To be eligible, MSMEs must meet the following requirements: (i) be incorporated under the laws of the Republic of Panama; (ii) possess the licenses and permits



required to operate under the laws of Panama;<sup>53</sup> (iii) meet the requirements to qualify as an MSME in Panama; (iv) be solvent and creditworthy and satisfy the credit requirements of the IFIs; and (v) operate in a relevant sector eligible for the global credit program (paragraph 3.6). No loans to MSMEs may exceed US\$500,000, and any loan for more than US\$250,000 must have the no objection of the Bank.

- 3.8 **Credit Regulations.** The [Credit Regulations](#) include: (i) details of the responsibilities in the areas of administration, risk management, and coordination between the executing agency and the Bank; (ii) the eligibility criteria and the terms and conditions of the loans and subloans; (iii) the sectors and projects that may be financed with the loans and other parameters or restrictions governing the use of the loan proceeds; (iv) agreements for management and monitoring; and (v) requirements for the management and mitigation of potential environmental and social impacts.
- 3.9 **Interagency coordination.** The borrower, acting through the MEF, will transfer the loan proceeds to the trust fund set up at the BNP, which will onlend to eligible MSMEs. Meanwhile, the executing agency will coordinate with public entities such as the Micro, Small, and Medium-sized Enterprise Authority (AMPYME), the Ministry of Commerce and Industry, and other sector-specific agencies and ministries to ensure program alignment with Panama's public policy objectives, as well as private associations of MSMEs in Panama to obtain information on potential financing prospects and reach more eligible beneficiaries throughout the country.
- 3.10 **Contractual conditions precedent to the first disbursement of the financing.** The approval and entry into force of the [Credit Regulations](#) under terms previously agreed upon with the Bank will be a special contractual condition precedent to the first disbursement of the financing. These conditions are needed to establish the structure, guidelines, and procedures to be followed by the executing agency for successful program execution.
- 3.11 **Procurement.** As a global credit program, this operation is not expected to entail the procurement of works, goods, or nonconsulting services; it is only expected to involve less-complex processes for the selection of consultants under Component II. Thus, an assessment of procurement capacity was not deemed necessary. The BNP has thus far effectively executed operations 5040/OC-PN and 5251/OC-PN. Any procurement of services or consulting contracts will be in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), or any subsequent updates to these policies. See Annex III for more details.
- 3.12 **Disbursements.** Program resources will be disbursed from the Bank to the trust fund in Panama in the form of advances and/or reimbursements in accordance with the Financial Management Guidelines for IDB-financed Projects

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<sup>53</sup> This may include MSMEs that are in the process of obtaining the licenses, provided they are authorized to operate at the time of signature of the loan contract.



(document OP-273-12) or current IDB policies. Disbursements will be made to advance funds to, or reimburse the trust fund for, transfers to IFIs that have submitted loan contracts in compliance with the eligibility provisions set forth in the program [Credit Regulations](#). Disbursements will be verified on an ex post basis and will be subject to onsite reviews of loans.

- 3.13 **Financial statements and audit.** Throughout the original loan disbursement period and any extension thereof, the executing agency, within 120 days after the end of the fiscal year and within 120 days of the last disbursement of the loan, will submit to the Bank the program's annual financial statements, which will be audited by an independent audit firm acceptable to the Bank.

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

- 3.14 **Monitoring.** Program execution will be monitored via six-monthly progress reports prepared by the executing agency and submitted within 60 days after the close of each six-month period. The reports will be based on the reporting requirements included in the Results Matrix for each operation, as well as compliance with the eligibility criteria set out in the [Credit Regulations](#) (see the [monitoring and evaluation plan](#)). These reports will be reflected in progress monitoring reports.
- 3.15 **Evaluation.**<sup>54</sup> The following approaches will be used as part of the strategy for evaluating program results: (i) a reflexive evaluation, before and after the program, to determine the extent of outcomes and impacts; and (ii) a qualitative analysis discussing the lessons learned during program execution. The evaluation strategy is described in the [monitoring and evaluation plan](#). The executing agency will bear the costs of evaluation and monitoring.
- 3.16 **Information for program monitoring and evaluation.** The executing agency will be responsible for maintaining data gathering and monitoring systems (see the [monitoring and evaluation plan](#)). The executing agency will commit to maintain a system for monitoring and evaluation of both subcomponents, which it will use to prepare the reports and data delivered to the Bank. For evaluation purposes, the executing agency will compile, store, and safeguard all information, indicators, and parameters, including annual plans, as well as the final evaluation as needed to prepare the project completion report. Any additional information needed for the evaluation will be drawn from national or international secondary sources of statistical data and, potentially, reports of relevant organization.

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<sup>54</sup> The Bank is supporting the country with the development of a framework for sustainable bond issues, specifically with the creation of a framework for measuring and compiling data for the first sovereign sustainable bond issue (technical cooperation operations [ATN/AC-17318-RG](#), [ATN/MC-17316-RG](#), and [ATN/OC-17317-RG](#)). The data compiled will serve to make the evaluation of the operation more robust.

Development Effectiveness Matrix		
Summary		PN-L1179
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Jobs supported (#) -Micro / small / medium enterprises financed (#) -Women beneficiaries of economic empowerment initiatives (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3055	Expand access to credit for underserved sectors (MSMEs)
Country Program Results Matrix	GN-3087-2	The intervention is included in the 2022 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	8.0	
3.1 Program Diagnosis	1.9	
3.2 Proposed Interventions or Solutions	3.5	
3.3 Results Matrix Quality	2.6	
4. Ex ante Economic Analysis	7.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	1.5	
4.2 Identified and Quantified Benefits and Costs	0.0	
4.3 Reasonable Assumptions	2.5	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	7.9	
5.1 Monitoring Mechanisms	3.4	
5.2 Evaluation Plan	4.4	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium Low	
Environmental & social risk classification	FI	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Procurement and contracting: Information system, Price comparison method, individual consultants.
Non-Fiduciary		
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	ATN/OC-18036-RG

**Evaluability Assessment Note:** The Global Credit Program for the Sustainable Reactivation of Panama (PN-L1179) has as the general development objective to promote a sustainable economic recovery through investments that contribute towards improving the productivity and sustainability of Panama's productive sector. The Program proposes to contribute to that objective through the specific development objective of increasing credit provision for productive and sustainable investment among Panama's MSMEs. The project's diagnosis points to a lack of sustainability in the current economic recovery as a general problem, and the lack of green financing in the country as one of the determinants of this problem. Thus, the program proposes financing to support adaptation and reconversion needs in productive processes that contribute towards climate change mitigation and adaptation, in addition to general financing to reestablish productive capacity. The project discusses general needs of financing among intermediary financial institutions in their MSME-oriented lines but does not present explicit quantitative information regarding general or sustainable financing demand. Results indicators associated to the specific objective are SMART and would allow to measure the objective's scope. The measurement of indicators associated to the general objective do not present a clear measurement plan.

The economic analysis quantifies benefits in terms of sales and employment, as well as CO2 emissions avoided by green technologies. It shows an IRR of 16.5%. However, used variables are not representative of every sector that would benefit from financing, and focus only on agriculture.

The monitoring and evaluation plan proposes two evaluation strategies: (i) a before and after analysis that shows results associated to the specific objective; and (ii) a qualitative analysis that discusses lessons learned during the project's execution. These evaluation strategies do not allow empirical attribution of results. With respect to the general objective, the monitoring and evaluation plan proposes that an evaluation methodology for indicators will be developed with the Banco Nacional de Panama, but there are no specific data sources with guaranteed access.

## RESULTS MATRIX

<b>Project objective:</b>	The specific development objective of the program is to increase the supply of credit for sustainable, productive investment by micro, small, and medium-sized enterprises (MSMEs) in Panama. The general development objective is to promote a sustainable economic recovery through investments to help make Panama's productive fabric more productive and sustainable.
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### GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline 2022	Final target	Means of verification	Comments
<b>General development objective: To promote a sustainable economic recovery through investments to help make Panama's productive fabric more productive and sustainable</b>					
<b>Indicator 1:</b> Differential in annual rate of job growth in program-supported MSMEs compared with a control group	Percentage points	0	4	Program tracking and monitoring data gathered by BNP and semiannual progress report	This indicator measures the differential in the average annual rate of job growth in program-supported MSMEs compared with a control group. The baseline is zero, assuming no differential in MSME job growth vis-à-vis the control group prior to the disbursement of loans. The proposed ex ante target of four percentage points is based on the findings of an impact evaluation of interventions by the Brazilian National Bank for Social and Economic Development (BNDES) using its range of lines of credit ( <a href="#">Grimaldi et al., 2018</a> ). This final target will be confirmed at the launch workshop.
<b>Indicator 2:</b> Differential in average annual rate of sales growth in program-supported MSMEs compared with a control group	Percentage points	0	4	Program tracking and monitoring data gathered by BNP and semiannual progress report	This indicator measures the differential in the average annual rate of sales growth in program-supported MSMEs compared with a control group. The baseline is zero, assuming no differential in MSME sales growth vis-à-vis the control group prior to the disbursement of loans. The proposed ex ante target of 4% is based on the findings of an impact evaluation of interventions by BNDES using its range of lines of credit ( <a href="#">Grimaldi et al., 2018</a> ). This final target will be confirmed at the launch workshop.
<b>Indicator 3:</b> CO <sub>2</sub> emissions avoided as a result of program-supported sustainable investments	Tons of CO <sub>2</sub>	0	28,454	Program tracking and monitoring data gathered by BNP and semiannual progress report	This indicator measures the reduction in tons of CO <sub>2</sub> that can be attributed to program-supported sustainable investments. The baseline is zero because no similar investments are known to exist in the current portfolio. The target is based on estimates included in the <a href="#">economic analysis</a> . While the program is likely to finance a wide variety of technologies, the decision has been made to monitor those that are most representative. The monitored technologies include machinery, precision agriculture, solar power, and precision irrigation. The program will save an estimated 9,485 tons of CO <sub>2</sub> per year, which equates to a total of 28,454 tons over three years. For verification, a review methodology will be implemented with BNP to estimate the average amount of emissions,

Indicators	Unit of measure	Baseline 2022	Final target	Means of verification	Comments
					as well as monitoring the most efficient production equipment, carrying out energy efficiency projects, and implementing projects for the generation of renewable energies during the program.

**SPECIFIC DEVELOPMENT OBJECTIVES**

Indicators	Unit of measure	Baseline 2022	Final target	Means of verification	Comments
<b>Specific development objective 1: To increase the supply of credit for sustainable, productive investment by MSMEs in Panama</b>					
<b>Indicator 1:</b> Rate of arrears of the program-supported portfolio for sustainable productive investment in MSMEs, compared with the rate for the banking system's loans to MSMEs	Ratio	4.5	4.5	BNP monitoring, semiannual progress report, and Superintendency of Banks of Panama	This indicator is calculated by dividing the rate of arrears on the loan portfolio for beneficiary MSMEs by the systemwide rate of arrears. The average rate of arrears by economic sector and enterprise size for MSMEs is 4.5%. This percentage is expected to be maintained throughout the operation. The systemwide rate of arrears will be verified by BNP either internally or through a reference website of the Superintendency of Banks. This means of verification will be confirmed at the launch workshop.
<b>Indicator 2:</b> Percentage of the relevant supported portfolio with an original tenor of 48 months or longer	%	39	39	BNP monitoring and semiannual progress report	The baseline was based on BNP data, which indicate that 39% of the relevant portfolio has tenors of 48 months or longer. This percentage is expected to be maintained throughout the operation. This final target and the means of verification will be confirmed at the launch workshop.
<b>Indicator 3:</b> Financing for climate change mitigation as a percentage of the portfolio supporting sustainable financing for green investments	%	0	40	BNP monitoring and semiannual progress report	This indicator measures the total amount of loans for green investments that contribute to climate change mitigation and/or adaptation. Disbursements totaling 40% of the funding, or US\$63.6 million, are expected.
<b>Indicator 4:</b> Total amount of the relevant portfolio for sustainable financing	US\$ million	0	63.6	BNP monitoring and semiannual progress report	This indicator measures the total amount of the relevant portfolio for sustainable financing. The baseline is zero because BNP does not have a relevant portfolio for sustainable financing. The US\$63.6 million to be provided to this operation for sustainable financing will be added to the baseline.
<b>Indicator 5:</b> Percentage of the portfolio supporting sustainable financing for women-led or -owned beneficiary enterprises (or production-related projects)	%	0	35	BNP monitoring and semiannual progress report	Pro-gender indicator Beneficiary women-owned or -led enterprises are defined as those with women holding over 50% of the stock, with a woman leading the enterprise, or with women holding at least 25% of the stock and at least one woman in a decision-making position. At least 35% of the relevant portfolio will be for women-led or -owned enterprises.

OUTPUTS

Outputs	Unit of measure	Baseline 2022	Year 1	Year 2	Year 3	Final target	Means of verification	Comments
<b>Component 1: Support for sustainable financing (US\$159,000,000)</b>								
<b>Output 1:</b> Amount provided to restore productive capacity	US\$ million	0	31.8	31.8	31.8	95.4	BNP monitoring and semiannual progress report	Annual allocation of program funds to restore productive capacity.
<b>Milestone 1:</b> Amount provided to support sustainable financing for women-led or -owned MSMEs	US\$ million	0	11.3	11.3	11.3	33.9	BNP monitoring and semiannual progress report	Pro-gender indicator This figure is 35% of the total amount. Beneficiary women-owned or -led enterprises are defined as those with women holding over 50% of the stock, with a woman leading the enterprise, or with women holding at least 25% of the stock and at least one woman in a decision-making position.
<b>Output 2:</b> Amount provided to support the restructuring and adaptation of the production process as needed to make it more sustainable	US\$ million	0	21.2	21.2	21.2	63.6	BNP monitoring and semiannual progress report	Annual allocation of program funds to support the restructuring and adaptation of the production process as needed to make it more sustainable.
<b>Milestone 1:</b> Amount provided to support the restructuring and adaptation of the production process as needed to make it more sustainable for women-led or -owned MSMEs.	US\$ million	0	7.42	7.42	7.42	22.26	BNP monitoring and semiannual progress report	Pro-gender indicator This figure is 35% of the total amount. Beneficiary women-owned or -led enterprises are defined as those with women holding over 50% of the stock, with a woman leading the enterprise, or with women holding at least 25% of the stock and at least one woman in a decision-making position.
<b>Component 2: Institutional strengthening (US\$800,000)</b>								
<b>Output 3:</b> Design and creation of a guarantee fund	Number	0	0	1	0	1	BNP monitoring and semiannual progress report	This output refers to the design and creation of a guarantee fund.

**Country:** Panama

**Division:** IFD/CMF

**Project No.:** PN-L1179

**Year:** 2022

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Executing agency:** Banco Nacional de Panamá (BNP)

**Name:** Global Credit Program for Sustainable Economic Recovery

### I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

#### 1. Use of country systems in program

<input type="checkbox"/> Budget	<input type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information system	<input type="checkbox"/> National competitive bidding (NCB)
<input type="checkbox"/> Treasury	<input type="checkbox"/> Internal audit	<input checked="" type="checkbox"/> Shopping	<input type="checkbox"/> Other
<input type="checkbox"/> Accounting	<input type="checkbox"/> External control	<input checked="" type="checkbox"/> Individual consultants	

#### 2. Fiduciary capacity

Fiduciary capacity of the executing agency	A fiduciary capacity assessment conducted in May 2020 for project <a href="#">5040/OC-PN</a> and <a href="#">5251/OC-PN</a> found that financial management and project coordination are adequate for administration of the operation. As a global credit program, this operation is not expected to entail the procurement of works, goods, or nonconsulting services; it is only expected to involve less-complex processes for the selection of consultants under Component II. Thus, an assessment of procurement capacity was not deemed necessary. The executing agency will be BNP, as in operations <a href="#">5040/OC-PN</a> and <a href="#">5251/OC-PN</a> , which has thus far demonstrated adequate execution. Consultant selection processes will be managed by BNP's Financial Institution and Special Project Division, which is responsible for this type of procedure.
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3. Fiduciary risks and mitigation measures: No fiduciary risks were identified.

4. Policies and guidelines applicable to the program: Budget Law of the Republic of Panama; State Procurement Law 22; and Executive Order 439, which sets forth regulations on Law 22. Financial management: [GN-2811 \[OP-273-12\]](#). Procurement policies: [GN-2349-15](#) and [GN-2350-15](#).

5. Exceptions to policies and guidelines: None.

## II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

<p><b>Exchange rate.</b> Legal tender in Panama is the balboa, which is equivalent to, and freely interchangeable with, the United States dollar (US\$).</p>
<p><b>Audited program financial statements.</b> Throughout the original loan disbursement period and any extension thereof, the executing agency, within 120 days after the end of its fiscal year and within 120 days after the last disbursement of the loan, will submit to the Bank the program's annual financial statements, duly audited by an independent audit firm acceptable to the Bank.</p>

## III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Projects with financial intermediaries	As this loan is for global credit programs and other operations in which resources are provided to financial intermediaries that will in turn issue loans or resources via other onlending modalities, it will be stipulated that the Bank's prohibited practices clauses are to be included in the agreements between the borrower and its financial intermediaries, and those between the latter and the end borrowers. Alternatively, if the effective inclusion of these clauses in the aforementioned contracts is not possible or practical in view of the program's circumstances, the project team may examine other mechanisms to adopt acceptable controls and duly bind the relevant third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity, with support from the Legal Department, and described in the <a href="#">Credit Regulations</a> .						
<input checked="" type="checkbox"/>	Documents for selection of consultants	Consulting services will be selected and contracted in accordance with the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), and the standard request for proposals issued by the Bank will be used. The project team leader is responsible for reviewing the technical specifications and the terms of reference for procurement while the selection processes are being prepared. This technical review may be performed ex ante and is independent of the procurement review method.						
<input checked="" type="checkbox"/>	Procurement supervision	<p>Ex post supervision will be used, except for smaller selection processes that, due to their technical complexity, the project team leader deems more suited for ex ante review. The procurement plan will specify the supervision method for each selection process. Ex post reviews will be conducted every 12 months in accordance with the project supervision plan, subject to changes during execution. Physical reviews will be conducted for no fewer than 10% of the contracts. The threshold amounts for ex post review are as follows:</p> <table> <tr> <th>Works</th><th>Goods / Nonconsulting services</th><th>Consulting services</th></tr> <tr> <td>N/A</td><td>N/A</td><td>US\$200,000</td></tr> </table>	Works	Goods / Nonconsulting services	Consulting services	N/A	N/A	US\$200,000
Works	Goods / Nonconsulting services	Consulting services						
N/A	N/A	US\$200,000						
<input checked="" type="checkbox"/>	Records and files	The <a href="#">Credit Regulations</a> will include procedures and instructions to ensure effective maintenance of records and files.						

Main procurement items

Description	Procurement method	New procedures / tools	Estimated start date	Estimated amount (US\$000)
<b>Consulting firms</b>				
Consulting for implementation of the credit coverage methodology	CQS	N/A	Q1 2025	110
Consulting for development of the CO <sub>2</sub> measurement methodology	CQS	N/A	Q1 2025	150
Consulting for development of sustainability/ monitoring indicators	CQS	N/A	Q1 2025	115
<b>Individual consultants</b>				
Consulting for sector diagnostic assessment	IICC	N/A	Q2 2023	45
Consulting for design of financial products	IICC	N/A	Q2 2023	65
Consulting for development of financial manuals	IICC	N/A	Q2 2023	45
Consulting for adaptation of financing platforms	IICC	N/A	Q3 2023	75
Consulting for design of a sustainable banking system structure	IICC	N/A	Q4 2024	85

**IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS**

<input checked="" type="checkbox"/>	Programming and budget	BNP is an autonomous, independent entity that generates its own income. It submits an annual budget to the Budget Committee in the National Assembly.
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☒	Treasury and disbursement management	<ul style="list-style-type: none"> <li>▪ Disbursements will be made in the form of advances of funds and reimbursements.</li> <li>▪ The disbursement mechanism will be through the submittal of physical disbursement requests. During the COVID-19 health emergency, disbursement requests may be signed, scanned, and submitted by email from an institutional address, with each signatory authorizing the request via email.</li> <li>▪ Bank account: BNP will keep the advance funds in a trust set up exclusively for the program.</li> <li>▪ Financial plan: Advances will be made for a period of up to six months, depending on the demand for loans.</li> <li>▪ Percentage for accountability reporting: 80% of advances pending justification. An expenditure will be considered eligible when the executing agency (BNP) delivers the funds to the first-tier financial institutions. Information on the final beneficiaries for the purposes of the project completion report will be received ex post.</li> <li>▪ Program resource flow: Funds will be disbursed to BNP by deposit into the trust fund account opened for the program, with the prior approval of the MEF.</li> </ul>
☒	Accounting, information systems, and reporting	<ul style="list-style-type: none"> <li>▪ Specific accounting standards: Financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), including IFRS 9, 15, 16, and others.</li> <li>▪ Accountability reports: Statement of Cash Balances and Disbursements and Statement of Cumulative Investments, prepared on the basis of information in the e-IBS Banking Core.</li> <li>▪ Accounting method and currency: A combination of accounting methods is used depending on the account category. The currency of record is the balboa, which is equivalent to, and freely interchangeable with, the U.S. dollar.</li> </ul>
☒	External control and financial reports	<p>With the agreement of the Bank, the executing agency will select and contract the services of an eligible auditor, in accordance with the terms of reference agreed upon beforehand. The executing agency currently uses KPMG as its audit firm.</p>
☒	Project financial supervision	<p>Financial supervision will be conducted by means of visits to BNP, working meetings, and reviews of reports including the audited financial reports.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/22

Panama. Loan \_\_\_\_/OC-PN to the Republic of Panama  
Global Credit Program for Sustainable  
Economy Recovery

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 aimed at cooperating in the execution of the Global Credit Program for Sustainable Economy Recovery. Such financing will be for the amount of up to US\$160,000,000 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 \_\_\_\_ 2022)