

**FINANCIAL SECTOR PROGRAM
(SEFI)**

MULTILATERAL INVESTMENT FUND

**NONREIMBURSABLE TECHNICAL-COOPERATION FUNDING FOR A PROJECT
TO STRENGTHEN THE SECURITIES COMMISSION**

(TC-95-08-46-9)

EXECUTIVE SUMMARY

EXECUTING AGENCY: The Ministry of Planning and Economic Policy (MIPPE), through the Public Policy Technical Unit (UTPP), with the participation of the Securities Commission

BENEFICIARY: The Republic of Panama

FINANCING:	Modality:	Grant
	MIF (Window I):	US\$1,200,000
	Local counterpart funding:	US\$ 900,000
	Total:	US\$2,100,000

IMPLEMENTATION	Implementation period:	42 months
TIMETABLE:	Disbursement period:	48 months

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of December 27, 1996, classified this as a Category II operation, with no further analysis required.

OBJECTIVES: The objective of the operation is to support the strengthening of the Securities Commission, the country's regulatory and standard-setting agency which will be monitoring compliance, safeguarding competition, and averting abuse by companies with market power.

DESCRIPTION: The object of the regulatory reform is to create a stable and transparent enabling environment for private investment, based on precise rules and contractual arrangements that protect both national and investors' interests and spell out the rights and responsibilities of the parties.

The MIF funds will be used to develop the Securities Commission and strengthen securities market regulation and oversight, with the following aims: (i) develop and implement the new organizational structure (organization chart, organization and

functions manuals); (ii) manage human resources (selection, training, incentives); (iii) set in place a professional development program; (iv) institute systems management (information processing, documentation service, implementation, databases); (v) purchase computer hardware and software; (vi) develop regulations under the Law; (vii) produce a procedures manual and prospectus register; (viii) devise a chart of accounts and standard periodic reporting forms; (ix) oversee the operations of brokers and dealers; (x) supervise investment funds and fund administrators; and (xi) supervise the markets.

BENEFITS:

The main benefits of the finance sector program will be more efficient financial-system intermediation (particularly in the capital market), and new safeguards to make for a sound, stable financial system. Stringent standards and controls, coupled with the strengthening of the Bank Superintendency and the Securities Commission (which then will be equipped to monitor compliance) will make the financial system more secure.

The strengthening of the Securities Commission, as envisaged in this program, is a prerequisite for development of an efficient, secure, and transparent securities market. This move is essential at a time when mechanisms are needed to efficiently channel savings toward capital projects.

RISKS:

The chief risk of the program has to do with its scale and complexity. To counter this risk, the UTPP will be coordinating the program and serving as the lead executing agency. A second risk has to do with the administration of funds, and particularly with the procedures and timeframes for hiring consultants. To allay that risk, it is being proposed that the United Nations Development Programme be engaged to provide administrative support to the UTPP.

SPECIAL IMPLEMENTATION FEATURES AND EXCEPTIONS TO MIF AND BANK POLICIES:

It is proposed that authorization be given for the United Nations Development Programme to be hired directly as the administrative agency to support the UTPP (see paragraph 2.6 of Annex III).

The proposed method for selecting consultants is the "minimum cost" approach. A minimum acceptable technical level is established, against which the quality of technical proposals is rated. Offers are submitted in two separate envelopes. The technical proposals are opened first and evaluated. Those that do not satisfy the minimum technical requirements are

discarded, and the envelopes containing financial proposals are opened only for the remaining (qualifying) firms. The firm bidding the lowest price is then selected. It is understood, in setting a minimum acceptable standard on the technical side, that firms whose proposals meet that standard then compete only as to cost. The minimum requirements will be explicitly set out in invitations for proposals (see paragraph 2.7).

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement:

In addition to the conditions precedent to the first disbursement set out in Annex III for the technical-cooperation loan, the Bank will require evidence of the entry into force of the new Securities Law, which will set out the regulatory and institutional framework.

The agreement for the MIF grant will contain standard Bank and MIF provisions as to audits, reports, inspections and evaluations, procurement of goods, hiring of consultants, and other matters.

I. COUNTRY ELIGIBILITY

- 1.1 The Donors Committee of the Multilateral Investment Fund (MIF) declared Panama eligible for all types of MIF financing on February 9, 1995.

II. FRAME OF REFERENCE

- 2.1 Created in 1991, the Panamanian stock exchange is still in the early stages of development. Apart from the exchange, the country's capital market includes an over-the-counter market. Most trading on the secondary market is conducted outside the exchange, and that market is three or four times larger than the trading business on the exchange. This outside activity is not recorded at all, which reduces the market's transparency and competitiveness.
- 2.2 The Panamanian stock exchange has been growing rapidly in recent years. Between 1991 and 1996 public offerings soared from US\$32 million to US\$447 million. Most operations involve corporate bonds and commercial paper. The term for debt operations is seven or eight years, which is much longer than the terms available on other markets in the region. However, a dearth of long-term capital and the closed share structure of Panamanian companies have held back the development of the stock market, which continues in its infancy.
- 2.3 The Panamanian stock exchange has operated effectively under a self-regulatory system that defines the rules for trading, clearing and settlement, registration of securities and tradable issues, public disclosure, and other matters. Acceptance of these rules is a requirement for admission to the exchange as a member. Over-the-counter operations, in which banks and corporations play the main role, are not regulated or supervised. Although no widespread or systemic financial problems have been caused by this situation, it contains inherent risks that will grow as the market develops.
- 2.4 The law as it stands contains serious weaknesses with respect to the structure and nature of the institutions regulated and is unclear regarding the purpose of regulation. First, it does not contain basic legal definitions about public offerings, disclosure to the public and the regulator, the ownership of securities (for the holder of paper or book-entry securities), definitions of professional investors or their obligations, etc. Second, it does not adequately establish what the objectives, duties, and obligations of the market regulator – Comisión Nacional de Valores (CNV) [National Securities Commission] – are with respect to the supervision of operations inside and outside the exchange and does not give it adequate disciplinary powers to exercise effective control over illicit operations. Last, the law does not set forth

the rights and duties of participants in the market, such as issuers, stock brokers, investment funds, and investment risk rating services.

- 2.5 This operation forms part of the financial sector reform program (PN-0056). MIF funds will be complemented by a fast-disbursing sector loan to support Panama's external financing requirements during the program, and by a technical-cooperation loan to finance the rest of the consulting services and equipment included in the reform program.
- 2.6 Both the authorities and market operators agree that a stronger legal and institutional framework is needed to offer better guarantees of transparency and security for investors and borrowers. The process has already begun through the regional technical-cooperation project financed by the MIF to strengthen and harmonize clearing and settlement systems in six countries in the region.

III. THE PROJECT

A. Objective

- 3.1 The purpose of the MIF financing is to help strengthen the National Securities Commission established by the new Securities Market Act. The commission will operate under a solid regulatory framework that will assure international standards of transparency and solvency as mechanisms to promote stock market efficiency and the confidence of investors, institutions, and other market participants.

B. Activities

- 3.2 The government is in the process of passing a new Securities Market Act and establishing a National Securities Commission (CNV) to take charge of regulating, supervising, verifying, and preserving competitive conditions and preventing abuses by companies with market power. Regulatory reform is intended to establish a stable and transparent context for private investors, based on precise rules and contractual arrangements which, apart from protecting national interests, will stipulate the rights and duties of the parties and protect the interests of investors.
- 3.3 The MIF funds will be used to develop the CNV and strengthen the functions of securities market regulation and supervision.
- 3.4 The technical-cooperation funds proposed herein will be used to:
 - (i) develop and implement the new organizational structure (organization chart, organization and functions manuals);
 - (ii) manage human resources (selection, training, and incentives);

- (iii) introduce a professional development program; (iv) implement systems management (information systems plan, documentation service, and databases); (v) procure computer hardware and software; (vi) develop the enabling regulations for the Act; (vii) prepare a manual of procedures and a prospectus register; (viii) develop an accounting plan and models for periodic reporting; (ix) supervise intermediaries; (x) supervise investment funds and fund administrators; and (xi) supervise the markets.
- 3.5 Strengthening of the Securities Commission requires the advisory services of experts in regulation, rule-making, information systems, accounting principles, auditing, and standards and monitoring systems. The work will be structured around the new Securities Market Act which is currently before the legislative assembly.

IV. COST AND FINANCING

- 4.1 The MIF will provide total nonreimbursable funding of US\$1.2 million. The following table gives a breakdown of the costs of the different MIF project components. Table I in Annex III shows the details for the total cost of the technical-cooperation program.

**Itemized budget
(US\$000)**

Component	Person/months	Financing		
		Local	MIF	Total
1.1 Development and implementation of enabling regulations for the Securities Market Act	6.0	-	150	150
1.2 Development and implementation of the organizational structure of the CNV	2.0	-	40	40
1.3 Implementation of systems management (information systems plan, documentation service, database)	10.0	-	200	200
1.4 Preparation of a procedures manual and prospectus register	4.0	-	80	80
1.5 Accounting plan and models for periodic reporting	4.0	-	80	80
1.6 Supervisory systems for: - intermediaries - investment funds and fund administrators - markets	18.0	-	360	360
1.7 Human resources management and professional development (selection, training, and incentives)	6.0	300	140	440
1.8 Computer hardware, software, and training	4.0	600	-	600
Subtotal	54	900	1,050	1,950
1.9 Contingencies	-	-	100	100
1.10 Supervision	-	-	50	50
Total	54	900	1,200	2,100

V. EXECUTION AND DISBURSEMENTS

- 5.1 This technical-cooperation project will be executed by the Ministry of Planning and Economic Policy (MIPPE), through the Public Policy Unit, with participation by the new National Securities Commission, which will be established during the program. In executing and administering this MIF project the MIPPE will count on participation by the CNV, which will be strengthened under this program. The same execution arrangement as for Bank loans 969/OC-PN and 970/OC-PN will continue to be used, as explained in Annex III. Goods will be procured in accordance with the Bank's standard procedures. Procurements worth US\$350,000 and over will be subject to international public bidding. Consultants will be contracted in accordance with Bank procedures, except as indicated in the section

on exceptions to Bank policies for the technical-cooperation loan from ordinary capital resources, as explained in Annex III.

- 5.2 Disbursements will be made in accordance with Bank procedures and MIF eligibility criteria. An estimated 42 months will be required before all the components in the technical-cooperation program are implemented.
- 5.3 In duly-justified cases, MIF grant funds may be reallocated within the project, provided the proposed changes are consistent with the objectives of the proposed program. The Bank will approve reallocations of funds in consultation with the Office of the MIF.

VI. COMPLIANCE WITH ELIGIBILITY CRITERIA

- 6.1 The technical-cooperation project to support the efforts to structure and establish the National Securities Commission in Panama is fully compatible with the MIF's general objective which seeks greater private sector participation and expansion as the basis for speeding up the country's economic growth and social development.
- 6.2 The proposal is compatible with MIF guidelines for financing under the Technical Cooperation Facility, as per Article III, Section 2(d), of the Agreement Establishing the MIF, which allows funds to be granted to governments to finance the advisory services required to establish or strengthen regulatory agencies. The proposal is also consistent with the recommendations to support development of the legal, regulatory, contractual, and oversight framework.

VII. CONSISTENCY WITH THE BANK'S COUNTRY PROGRAM

- 7.1 This operation complements and fits in with the support that the Bank is providing for the Panamanian government to reform the financial sector. It is an integral part of that effort and is fundamental for promoting private-sector involvement in that sector.

PLAN OF OPERATIONS

**TECHNICAL COOPERATION LOAN IN SUPPORT OF
THE FINANCIAL SECTOR PROGRAM
(SEFI)**

(PN-0056)

EXECUTIVE SUMMARY

**BORROWER AND
GUARANTOR:** Republic of Panama.

EXECUTING AGENCY: Ministry of Planning and Economic Policy (MIPPE), through its technical unit on public policy (UTPP) and with the participation of the institutions named in paragraph 3.4 of the financial sector loan document (PN-0056).

AMOUNT AND SOURCE: IDB TC LOAN: US\$10.13 million (OC)
Local counterpart funding: US\$ 2.7 million
Total: US\$12.83 million

TIME PERIODS: Execution period: 42 months
Disbursement period: 48 months
Amortization period: 20 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: US dollar (Single Currency Facility)

OBJECTIVES: The purpose of the technical cooperation is to support the reform measures that the Panamanian government will take under the financial sector program. The specific objectives of this technical cooperation are to: (i) build up the operating capacity of the financial oversight agencies and develop financial regulations; (ii) assist in the privatization of government development banks; (iii) support reform of the social security system; (iv) integrate public debt management, nurture the creation of a debt market and develop the legislative framework for financial administration; and (v) support preparations for a second stage of reforms. A parallel MIF grant (TC-95-08-46-9-PN) now funding similar projects in other countries of the

region, will finance the creation and strengthening of the securities commission.

DESCRIPTION: The technical cooperation has been organized into five subprograms: (i) financial regulation (US\$5.8 million); (ii) government banking (US\$2.5 million); (iii) social security (US\$1.7 million); (iv) public debt (US\$1.5 million); and (v) special studies (US\$1 million). Subprograms I through IV will finance the activities planned for stage I of the government's financial sector reform program. Under subprogram V, a number of studies will be conducted in preparation for a second stage of the program.

BENEFITS: The TC will: (i) bolster the operating and technical capacity of the agencies that supervise banking, securities and pensions plans; (ii) facilitate privatization of government banking and minimize any losses the process might cause; (iii) make the pensions system more efficient and transparent; (iv) integrate management of the public debt under a framework law on financial administration.

RISKS: The principal risk has to do with the size and complexity of the program. Keeping this risk in check is the UTPP, as the program's coordinator and principal executing unit. Finally, there is the risk associated with the administration of resources, particularly the procedures and time needed to hire the consultants. To keep this risk in check, it is proposed that the United Nations Development Programme (UNDP) be contracted to provide the UTPP with administrative support.

EXCEPTIONS TO BANK POLICY: It is suggested that UNDP be contracted directly to assist the UTPP with administrative activities (see paragraph 2.6).

The least-cost method is proposed for selecting the consulting services. This method establishes a minimum acceptable technical standard by which to rank the quality of the technical proposals, which are submitted in two separate envelopes. The technical proposals are opened first and evaluated. Those that do not meet the minimum acceptable standard are rejected; as for the envelopes containing the economic proposals, only those whose technical proposal met the minimum acceptable technical standard will be opened. The firm bidding the lowest price will be the one selected. With this method it is understood that proposals ranked above

the minimum acceptable technical standard will compete solely on the basis of cost. That minimum standard will be explicitly spelled out in the invitation to bid (see paragraph 2.7).

**PROCUREMENT OF
GOODS AND
CONTRACTING OF
CONSULTANTS:**

Procurement will be done according to standard Bank procedure. Procurements in amounts of US\$350,000 or more will require international competitive bidding. Consultants will be contracted according to standard Bank procedure, except as provided in the section of this summary on exceptions to Bank policy.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement of the TC loan:

Apart from the conditions precedent to the first disbursement that are standard for operations of this type, the TC loan agreement will stipulate the following additional conditions precedent: (i) that the government has signed an agreement with UNDP for the latter to perform administrative activities to support the UTPP (see paragraphs 2.6 and 2.8); (ii) that the UTPP has submitted the plan for carrying out this technical cooperation in support of the financial sector program (see paragraph 4.3), and (iii) that the program coordinator has been hired.

Also, the TC agreement will contain the standard Bank clauses on, inter alia, auditing, reports, inspections, and evaluations of the TC.

I. PROGRAM OBJECTIVES AND DESCRIPTION

A. Objectives

- 1.1 The purpose of the technical cooperation is to support the reform measures that the Government of Panama will undertake as part of the financial sector reform program. The program's specific objectives are to: (i) build up the operating capacity of the financial oversight agencies and develop financial regulations; (ii) assist in the privatization of government development banks; (iii) support reform of the social security system; (iv) integrate public debt management, nurture the creation of a debt market and develop the legal framework for financial administration; and (v) support preparations for a second stage of reforms.

B. Description of the technical cooperation

- 1.2 The TC has been organized into five subprograms: (i) financial regulation; (ii) government banking; (iii) social security; (iv) public debt, and (v) special studies. Subprograms I through IV will finance implementation of the activities planned for the first stage of the government's financial sector reform program. The TC resources will support the plans for establishing and building up institutions, and finance consulting services and specialized technical assistance, organization of training courses and related contracting, exchange visits, attendance at seminars, personnel exchanges and training at similar institutions, purchase of hardware and software. Subprogram V will support a series of studies identified in advance to prepare a second stage of government-sponsored reforms.

C. Description of the subprograms

1. Subprogram I: Financial regulation

- 1.3 This subprogram is to strengthen regulations, safeguards and controls to keep the institutions in the financial sector solvent and efficient. The technical cooperation will support implementation of the following components: (i) banking system, to strengthen the office of the banking supervisor; (ii) securities market, to strengthen the securities commission (MIF project), and (iii) pension fund supervision, to develop the regulatory framework for pensions and provide institutional strengthening for the pension funds oversight agency.
- 1.4 The technical cooperation will go toward preparation of a financial supervision strategy and an institution-building plan to strengthen those supervisory agencies in the areas of banking, the securities market and pension funds that have: (i) clear overall objectives;

(ii) defined areas of activities eligible for funding; (ii) established procedures for drawing up semiannual operating plans to be agreed upon and approved by the Bank; and (iv) concrete benchmarks of progress made toward the agreed objectives.

2. Subprogram II: Government development banks

- 1.5 The government has decided to undertake an in-depth reform of government banking in Panama, and a bill is now in process that will give the executive branch broad authority to proceed with the planned reforms. This subprogram is geared to supporting those efforts.
- 1.6 The support that the technical cooperation will provide for the privatization agreed upon with the government both for the BHN and the BDA will be in the form of contracted specialized technical advisory services. It has been agreed in principle that the process will involve the following steps: (i) design of a plan to restructure and privatize the two institutions; and (ii) implementation of the plan. The technical cooperation will also support government measures to privatize the C.A. Expert advisors will be contracted to determine the selling price of the shares and advise the government on the privatization process.

3. Subprogram III: Social security

- 1.7 The purpose of this subprogram is to strengthen the country's social security system. With passage of Act 8 and the recent approval of its regulations under Executive Decree 27 of 1997, the government introduced major reforms in the supplemental pension plan for civil servants and took an important step toward creating the second pillar of the pension system.
- 1.8 With this technical cooperation, specialized advisory services will be contracted to help the government complete implementation of the SIACAP. The steps needed to that end include: (i) setting up the administration committee; (ii) tallying the workers' contributions and issuing recognition bonds; (iii) selecting companies for administration and the records and payment company; and (iv) transferring the recognition bonds and paid-in funds to the administrators.
- 1.9 To consolidate the regulatory framework governing private pension funds, the retirement pension funds act (Act 10 of 1993) needs to be revised and regulated. With this technical cooperation, experts will be hired to advise the government on this matter.
- 1.10 The government has said that a sweeping reform of the pension system would not be possible at the present time. However, this operation provides resources to: (i) do a study on CSS administrative efficiency; (ii) design a work plan for

administrative segregation of the CSS health programs from its pension programs; (iii) design and introduce a plan to build up the CSS pension area, and (iv) study alternatives that ensure the pension plans' long-term efficiency, equity and viability.

4. Subprogram IV: Public debt

- 1.11 Act 6, of July 1997, created the DGT and the national treasury commission under the Ministry of Finance (MHT). Treasury prepares the central government's financial program and coordinates and carries out debit and credit operations on the Public Treasury account.
- 1.12 The broad authority that the law gives to the DGT requires that it be carefully regulated. Under this technical cooperation, specialized consultants will be contracted to assist the government in this process. Resources will also be provided for contracting specialized technical advisors, training, and so on.
- 1.13 With the TC, a medium-term debt strategy will be created that not only considers what funds the government will need but also aims to establish and deepen a local market for State debt paper. This cooperation will also be used to draft a financial administration law to restructure, define and integrate the budget, accounting, treasury and public credit subsystems under a single legal text.

5. Subprogram V: Special studies

- 1.14 To prepare a second stage of reforms and support certain measures that reinforce the program, TC funds will go toward the studies and work needed to complete the reforms planned by the government in the medium term. As a result of the working meetings, it was agreed that studies on the following would be included: (i) the payments system; (ii) design and implementation of a stock exchange; (iii) modernization of the BNP; (iv) international accounting standards; (v) regulation and supervision of financial groups; (vi) regulation of securities; (vii) development of financial services for small farmers; and (viii) design and implementation of a system of direct support for farmers through amendment of the FECI legal regime.

II. ORGANIZATION AND EXECUTION

- 2.1 The borrower will be the Republic of Panama and the executing agency the Ministry of Planning and Economic Policy (MIPPE) through the UTPP, which was created to support execution of loans 688/OC-PN and 689/OC-PN, which have already been completed, and loans 969/OC-PN and 970/OC-PN, now in progress.

- 2.2 The MIPPE, through its UTPP, may rely upon the following institutions to help carry out the technical cooperation loan: the office of the bank supervisor; the MHT's general treasury office, and the MIPPE's public credit and budget offices.

A. Functions of the executing unit

- 2.3 The UTPP will be the executing unit answerable to the Bank for the progress of both the program and the technical cooperation. It will serve as liaison between the Bank and the other participating institutions and its functions will include: (i) managing the resources and supplying the Bank with the required documentation; (ii) submitting reports and monitoring and evaluating the program and the TC; (iii) coordinating and supervising the other participating institutions; (iv) coordinating and supervising UNDP participation; (v) coordinating technical activities with the Bank; (vi) ensuring that the TC activities are consistent with the policy elements of the reform program; (vii) coordinating with other participating institutions on fulfillment of the contractual conditions of the TC and the standard Bank contractual conditions, and preparing the pertinent documentation; (viii) submitting disbursement requests; (ix) submitting duly audited annual financial statements to the Bank; (x) supervising the performance of consulting services; and (xi) preparing and submitting reports and documents related to the contractual conditions agreed upon with the Bank.

- 2.4 For the UTPP to be able to carry out its functions under this program, TC resources will be used to hire a coordinator and support team. The coordinator is to be well versed and experienced in matters related to the financial sector. Given the qualifications required of the coordinator, he or she may advise the government on program-related matters.

- 2.5 The principal functions of the entities that are the beneficiaries of the TC will be as follows: (i) collaborate with the UTPP on preparing the documents required for procurement of the requisite goods and services and carry out the procurement process in coordination with the UNDP; (ii) coordinate the consulting services engaged and serve as their technical and administrative counterpart; (iii) monitor the studies in progress and prepare monitoring and evaluation reports thereon for presentation to the UTPP; and (iv) ensure the quality of the products delivered by the contracted firms.

B. System for carrying out the TC program

- 2.6 The government has asked for authorization to continue operating with UNDP, which is currently providing administrative support for various loans in the country. This would enable it to take advantage of the successful experience it is having and has had on

other projects financed with loans from the Bank and other multilateral organizations. Acceptance of UNDP involvement to assist the UTPP with contracting and payment of goods and services is recommended inasmuch as the UNDP meets the criteria that give it the institutional advantage described in the procurement manual (GS-603) for the purposes explained earlier.

- 2.7 The least-cost method recommended for selecting consultants and consulting firms is warranted by the nature of the work included under the program. In general, these are complex jobs for which a well-established body of standards and of professional best practices already exists. Experience often shows that once the technical proposals are ranked, one group stands out as being equals in technical quality and capable of achieving the desired goals. The proposed method shifts the burden of responsibility for preparing solid technical proposals to the consultants and forces them to come up with economical and competitive schemes.
- 2.8 The UNDP services that the TC will finance will be carried out according to the Panamanian government/UNDP method of execution, whereby UNDP and the UTPP jointly prepare the project document containing the activities to be carried out and the outputs that UNDP will deliver. Once cleared by the Bank, that document will become the basis of the assistance to be provided by UNDP.
- 2.9 For this TC, a flexible approach will be needed, one that can adapt to the gradual evolution of the structure and specific requirements dictated by the composition and structure finally adopted for the banking, securities market and pension funds regulatory agencies. These will largely take shape with the design and passage of the laws establishing those agencies. Progress has already been made in some cases, while others are still in their early design stages.
- 2.10 The TC will be carried out following Bank-established standards and procedures. The MIPPE will request that the Bank deposit the proceeds of the UNDP loan, in a special UNDP account in Panama. The UTPP will carry the accounting records according to generally accepted accounting standards and pursuant to the clauses of the TC loan contract and prevailing legislation. It will also keep the budget records for each category of expenditure and will be audited by a firm of independent public accountants.
- 2.11 The project team for the program (PN-0056) will bear basic and technical responsibility for the program. The administration of the operation will be handled by the Bank's Country Office in Panama, with technical support from the Finance and Basic Infrastructure Division of Region 2 (RE2/FI2) and in collaboration with the project team.

III. PROGRAM COSTS AND FINANCING

1. Cost of the technical cooperation

- 3.1 The total cost of the technical cooperation program is the equivalent of US\$14.93 million. As Table 1 illustrates, the Bank's contribution will be the equivalent of US\$10.13; the local counterpart funding will be the equivalent of US\$3.6 million. A MIF grant of US\$1.2 million will be provided in parallel to the TC loan. A breakdown of these costs appears in Table II of this document.
- 3.2 To support preparation and implementation of some of the components of this program, the Bank has approved the following loans: (i) letter of agreement 866/OC-PN, in the amount of US\$200,000, which has already been fully disbursed; and (ii) letter of agreement 982/OC-PN, in the amount of US\$750,000, repayable from the first disbursement of this technical cooperation loan. The funds disbursed under these two agreements, totalling US\$950,000, will be repaid from the first disbursement of this loan. A special item was included in the table of costs, identified as Recognition MAPPs, in the amount of US\$950,000.

TABLE 1
TECHNICAL COOPERATION PROGRAM
(thousands of US\$)

Subprogram/component	Financing		
	IDB	LOCAL	TOTAL
1. Financial regulation	2,200	1,500	3,700
2. Government banking	2,300	200	2,500
3. Social security	1,500	200	1,700
4. Public debt	1,150	100	1,250
5. Special studies	700	300	1,000
6. Contingencies	629	-	629
7. Recognition investments (MAPPs)	950	-	950
8. Executing unit (UTPP)	600	-	600
9. UNDP fees (3%)	-	400	400
10. Inspection and supervision	101	-	101
TOTAL	10,130	2,700	12,830
Percentages	79%	21%	100%

2. Implementation and disbursement periods

- 3.3 Because this TC will be coordinated with activities under the proposed program (PN-0056), the implementation and disbursement periods have been figured at 42 and 48 months, respectively, as of the effective date of the TC loan agreement. This time frame includes time needed for compliance with the conditions precedent, the call for proposals, contracting, and performance and settlement of contracts.
- 3.4 The IDB and MIF financing grant will be used to contract consultants and consulting firms to perform the activities planned under the program, all in accordance with the general IDB and MIF regulations on the use of resources, with the exception stipulated in the section on "Exceptions to Bank policy" in the executive summary of this plan of operations. The government's contribution will go toward the costs of administration and supervision, procurement of equipment and furnishings for the securities commission, and fees and expenses of any local consultants involved in the program.
- 3.5 The proceeds of the Bank's TC loan will be drawn from the US dollar resources of the Single Currency Facility of the ordinary capital.

In keeping with the regulations in force, the terms of this operation will be as follows: (i) amortization period: 20 years; (ii) variable interest rate, in accordance with the Bank's policy on interest rates; (iii) disbursement period: 48 months; (iv) credit fee: 0.75% on undisbursed balances; and (v) inspection and supervision: 1% of the loan amount.

IV. MONITORING AND REPORTING

A. Project monitoring

- 4.1 The Bank's project team will continue to function for the duration of the program and, in coordination with the Country Office, will bear technical and operational responsibility for the operation's implementation. Reports will be prepared by the executing agency, the MIPPE, and forwarded to the Bank following the agreed upon work program.

B. Project reporting

- 4.2 The MIPPE, through its UTPP, will prepare and submit the monitoring reports described below, a copy of which will be sent to the MIPPE and to the Bank:

1. Initial report (work program)

- 4.3 As a condition precedent to the first disbursement, the executing agency is to submit a work program satisfactory to the Bank and containing the timetable for carrying out the program components and activities. This program is to describe all the activities and indicate benchmarks and means of verification for each activity.

2. Progress reports and monitoring meetings

- 4.4 Within 30 days after the end of each six-month period throughout the duration of the program, starting the date on which the work program is submitted, a brief six-month report is to be submitted showing the progress made and any problems encountered. The latter will be the basis of any discussions needed with the Bank's project team and for preparation of the work program and plan of operations for the next six-month period. Attached to the progress reports will be revised lists of the activities carried out and consulting services hired for that period.
- 4.5 As part of the program monitoring, two meetings will be held with the project team, on the same dates scheduled for the periodic evaluation and monitoring meetings held for the financial sector reform program. At these meetings, the progress reports will be

reviewed to decide what changes, if any, are needed and to evaluate the results of each stage.

3. Final report

- 4.6 Based on the progress reports submitted to the Bank and within the two months following completion of the TC components, the final report will be submitted. It will briefly describe the activities carried out and the results obtained, and compare them with the objectives originally proposed for the operation.

**TABLE 2
TECHNICAL COOPERATION PROGRAM**

**ITEMIZED BUDGET
(US\$ thousands)**

No.	SUBPROGRAM COMPONENT	FINANCING OF THE TC			
		GPN	MIF	IDB	TOTAL
1.	FINANCIAL REGULATION	2,400	1,200	2,200	5,800
1.1	Creation and strengthening of the office of the banking supervisor	1,500	-	1,700	3,200
1.2	Strengthening of the national securities commission (See Annex IV).	900	1,200	-	2,100
1.3	Development of the regulatory framework, creation and strengthening of the pension funds oversight agency	-	-	500	500
2.	GOVERNMENT DEVELOPMENT BANKS	200	-	2,300	2,500
2.1	Privatization of the BHN, the BDA and the C.A.	200	-	2,300	2,500
3.	SOCIAL SECURITY	200	-	1,500	1,700
3.1	Implementation of SIACAP			50	50
3.2	Diagnostic study of the CSS administration	-	-	350	350
3.3	Design of the plan for separating the health program from the social security program	-	-	100	100
3.4	Plan for strengthening the pensions area	200	-	800	1,000
3.5	Alternatives for reform of the pensions system	-	-	200	200
4.	PUBLIC DEBT	100	-	1,150	1,250
4.1	Integration of public debt management	50	-	550	600
4.2	Strengthening of treasury, domestic debt market	50	-	400	450
4.3	Design of the financial administration act	-	-	200	200
5.	SPECIAL STUDIES	300	-	700	1,000
5.1	Agreed-upon studies (paragraph 1.15)	300	-	700	1,000
SUBTOTAL OF COMPONENTS (1+2+3+4+5)		2,600	1,200	8,450	12,250
6.	CONTINGENCIES	-	-	629	629
7.	RECOGNITION INVESTMENTS (MAPP)	-	-	950	950
8.	EXECUTING UNIT (UTPP)	-	-	600	600
9.	UNDP FEES (3%)	400	-	-	400
10.	INSPECTION AND SUPERVISION	-	-	101	101
TOTAL COST		3,600	1,200	10,130	14,930
PERCENTAGE OF FINANCING (%)		24	8	68	100

PROPOSED RESOLUTION

PANAMA. NONREIMBURSABLE TECHNICAL COOPERATION FOR A PROJECT
TO STRENGTHEN THE SECURITIES COMMISSION OF PANAMA.
(TECHNICAL COOPERATION FOR A PROGRAM TO SUPPORT THE
FINANCIAL SECTOR PROGRAM)

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the República de Panamá and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT-____, with respect to a Technical Cooperation for a Project to Strengthen the Securities Commission of Panama, which is part of the Technical Cooperation for a Program to Support the Financial Sector Program, referred to in Document PR-_____.

2. That up to the amount of US\$1,200,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.