



# Board of Executive Directors

For information

Expires: **28 June 2005**

PR-2945

21 June 2005

Original: Spanish

**To:** The Board of Executive Directors  
**From:** The Secretary  
**Subject:** Panama. Executive summary of the proposal for a sector facility loan for an international trade capacity building project

**Inquiries to:** Mr. Fabrizio Operti (extension 1225)

**Remarks:** This operation is being presented in accordance with Resolution DE-30/00, adopted on 22 March 2000 (document GN-2085-2), approving “New flexible lending instruments: Sector facilities”.

On **28 June 2005**, the date on which the five-day circulation period required for this document expires, the President, or such officer as he may designate, will approve this operation.

**References:** GN-1838-1(7/94), DR-398-5(5/03), GN-2085-2(3/00), DE-30/00

**Other  
distribution:** Representative in Panama

# INTERNATIONAL TRADE CAPACITY BUILDING IN PANAMA

## (PN-L1001)

### EXECUTIVE SUMMARY

<b>Borrower :</b>	Republic of Panama	
<b>Executing agency:</b>	Ministry of Trade and Industry (MICI)	
<b>Amount and source:</b>	IDB (OC):	US\$4,700,000
	Government contribution:	US\$2,300,000
	Private sector contribution:	US\$ 100,000
	Total:	US\$7,100,000
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Grace period:	4½ years
	Disbursement period:	4½ years
	Interest rate:	variable
	Inspection and supervision:	0.0%
	Credit fee:	0.25%
<b>Objectives:</b>	<p>The objective of the project is to improve the management of Panama's foreign trade by strengthening the capacity to formulate, negotiate, and implement effective foreign trade and investment policy. The specific objective is to modernize and strengthen the public sector's capacity to: (i) present and negotiate initiatives favorable to the country in bilateral, regional, and multilateral international trade negotiations; (ii) effectively administer and enforce commitments (rights and obligations) arising from existing trade agreements; (iii) actively promote the growth and diversification of Panama's exports worldwide, and attract investment in the country; (iv) support the private sector in order that it might benefit from new trade opportunities arising from trade agreement negotiations; and (v) consult with and report to the private sector and civil society on the formulation, negotiation, and implementation of the country's trade policy.</p>	
<b>Components:</b>	<p>To achieve these proposed objectives, the project consists of three components: (i) strengthening technical capacity for negotiating and administering trade agreements; (ii) strengthening technical capacity for promoting exports and attracting investment; and (iii) designing</p>	

and implementing a strategy for consultation, dissemination, and participation. The project will include execution of activities that are grouped under each component:

**Strengthening technical capacity for negotiating and administering trade agreements.** This component includes activities to improve the technical and managerial capacity of Panama's public sector, particularly that of the MICI and of the Office of the Deputy Minister of Foreign Trade (VICOMEX), for designing and implementing trade policy, especially in negotiating and implementing trade agreements.

**Strengthening technical capacity for promoting exports and attracting investment.** This component includes activities that promote sustained growth and diversification of Panama's exports, and the attraction of investment in the country.

**Designing and implementing a strategy for consultation, dissemination, and participation.** This component includes activities that increase levels of public knowledge and awareness of the growing importance of foreign trade and of the challenges and opportunities it brings to the country, through the implementation of mechanisms for coordination and consultation, dissemination, training, and participation involving the private sector and civil society.

**Special contractual clauses:**

The following are conditions precedent to the first disbursement of project funds: (i) the project execution team (PET) will be formed and given the respective legal powers for executing the project, VICOMEX staff will be appointed to the team, and the manager and the procurement specialist will be selected and hired, in accordance with the terms of reference approved by the Bank; (ii) the program's Operating Regulations will be approved and put into effect, under terms previously approved by the Bank; and (iii) the administration firm will be chosen and contracted, in accordance with the terms of reference previously approved by the Bank. See paragraphs 3.1 and 3.8 of the project report.

**The Bank's country and sector strategy:**

The Bank's current strategy for Panama targets four priority areas: (i) mount a frontal attack on poverty and enhance equity; (ii) promote economic reforms that increase competitiveness and growth; (iii) consolidate the regulatory, legal, and institutional framework for sustainable growth; and (iv) undertake institutional reforms that increase governance and transparency. The project is consistent with this strategy, insofar as strengthening technical capacity for negotiating and implementing trade agreements and for capitalizing on opportunities arising from those agreements encourages better

government practices, stimulates competitiveness in the private sector within a context of increased economic integration, and in turn fosters human capital development in order to address the challenges of greater trade liberalization.

The demands of the international trade agenda have caused countries in the region to carefully examine the institutional challenges they face. In anticipation of those challenges, the Bank created a rapid-approval trade facility, by which borrowing countries may request funds for strengthening and modernizing public institutions responsible for foreign trade.

**Coordination  
with other  
donors:**

The World Bank has a public policy reform technical assistance project under way. This project funds, among other activities, the production of studies on exportable supply, which will serve as technical inputs for the export promotion activities described in the second component of the proposed project. Also, the Canadian International Development Agency (CIDA) supported the design of this operation through a nonreimbursable technical-cooperation operation, funding the analysis, design, and formulation of the institutional, organizational, functional, operational, and technological arrangements and mechanisms necessary for implementation of a functional system to promote exports and to attract investments in Panama, which are an element of the project proposed here.

**Environmental  
and social  
review:**

The project is environmentally feasible. Despite its not having a direct environmental impact, the project could have a positive indirect environmental impact as a result of changes and improvements to environmental legislation. In this regard, the project will fund technical advisory support services for the design of environment-related legal modifications resulting from the implementation of trade agreements and activation of mechanisms for coordination and information exchange with the private sector, including analysis of the environment variable and its implications on trade, among other issues. The project will also fund training activities on the handling of international trade-related environmental issues for officials who participate in trade negotiations. The project report was reviewed and approved by the Committee on Environment and Social Impact (CESI), at its meeting on 20 May 2005.

The project does not involve any direct social impact. Notwithstanding, improvement of the country's foreign trade relations is a positive social factor in the sense that increasing exports and investment are key factors for economic growth and job creation.

**Benefits:**

By concentrating its activities and resources on strengthening the institutions responsible for Panama's foreign trade, this project will be

beneficial in that it will improve the performance of the country's public sector. Likewise, this project will strengthen Panama's position in the various international trade negotiation forums, and will promote exportable supply and investment in the country, creating new business opportunities for the private sector. Furthermore, the project aims to leverage participation of the private sector and Panamanian civil society, particularly that of groups that play an important role in forming public opinion, such as legislators, mayors, and journalists.

**Risks:**

The success of the project hinges on good relations among the public sector agencies and among the latter, the private sector, and civil society, regarding the foreign trade sector. Although coordination mechanisms have been established in the past, these have not proved totally effective because of weak representation of the private sector in existing consultation and coordination forums. Additionally, public agencies with responsibilities in the foreign trade sector have not made systematic efforts to improve the quality of coverage of foreign trade in the media, nor have they provided civil society with easily accessible channels for communication and participation. The project seeks to mitigate these risks through the following actions: first, by reengineering the government's work processes, particularly at VICOMEX, with a view to institutionalizing ongoing coordination mechanisms, both among government institutions and among the public and private sectors and civil society; second, by creating and implementing channels of communication with civil society and the private sector that are open and transparent; and third, through training efforts for groups that shape public opinion, such as Representatives, mayors, and journalists.

**Poverty-targeting and social sector classification:**

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

**Exceptions to Bank policy:**

The project does not provide for exceptions to the Bank's policies.

**Procurement:**

The selection and contracting of consulting services and all procurement planned in the project will be undertaken in accordance with the Bank's pertinent procedures and policies. The procurement plan can be found in Annex II to the project report.

**Key performance indicators:**

The project's key performance indicators are grouped by component. For the **strengthening technical capacity for negotiating and administering trade agreements** component, the following indicators are included: the creation and implementation of ongoing mechanisms for technical advisory support on the implementation of

free trade agreements, including the collection of data and updating of trade commitments, the updating of regulations, coordination with other state agencies, and methodologies for evaluating the impact of trade liberalization; greater participation in and presentation of the government's negotiating positions in the country's various negotiation forums, based on negotiation strategies and sector technical studies; and improved coordination and processing of requests for monitoring rules of origin and compliance with technical, sanitary, and phytosanitary standards. For the **strengthening technical capacity for promoting exports and attracting investment** component, the following indicators are included: improvement in the quality and quantity of information and analysis of export markets and current and potential foreign direct investment; more trade contacts cultivated through government trade promotion programs; reduction in the time and number of procedures required for exporting and investing; and increase in the number of private-sector export agents and trained public-sector agents advising the export sector. For the **design and implementation of a strategy for consultation, dissemination, and participation** component, the following indicators are included: an increase in governmental channels for communication and public access on matters of State trade policy; improved coverage and quality of information on foreign trade issues in the country's media, on the part of journalists trained under the project; and more participation in and better presentation of foreign trade positions by Representatives in legislative debates, and by mayors in the formulation of municipal policies and programs. Performance indicators, by activity, can be found in the logical framework of the project.

**Information  
shared by the  
Bank and the  
executing  
agency:**

Project activities will be carried out in accordance with annual schedules established in the annual work plans (AWPs), which will be broken down by component and will be agreed upon with the Bank at yearly monitoring meetings. The AWPs will contain, in accordance with the project's logical framework, at least the following information: (i) an evaluation of activities carried out and progress made during the immediately preceding period; (ii) a list of activities to be performed in a given year; (iii) the objectives and targets for each six-month period, by component, including the indicators to be used for measuring their achievement; (iv) six-month execution timelines, including costs; and (v) the funding needs for the period.

In order to facilitate an objective and effective evaluation process during the project's execution, the first and all subsequent AWPs will include qualitative and quantitative baseline measures of the major indicators in the logical framework, which will allow valid comparison and proper corrective action, if necessary. Within the first quarter of each year, throughout the life of the project, the project

execution team (PET) will present the AWP for the calendar year, to the Bank's satisfaction. The PET and the Bank's Country Office, with support from Headquarters, will hold annual monitoring meetings, based on that year's AWP, to evaluate the previous year's progress and compliance with established criteria for disbursements and technical execution of the project, as well as to agree on the annual plans.

Annually, within 120 days of the end of the fiscal year, the PET will present the project's financial statements to the Bank. The PET will also present a final report within 120 days of the final disbursement for the project. These financial statements will be audited by an independent external auditing firm acceptable to the Bank, based on the terms of reference previously approved by the Bank (AF-400) and using the Bank's standard procedures for selection of external auditing services (AF-200).