

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

**ECONOMIC DIVERSIFICATION AND
COMPETITIVENESS PROMOTION PROGRAM II**

(PN-L1167)

LOAN PROPOSAL

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ABBREVIATIONS

AIG	Autoridad Nacional para la Innovación Gubernamental [National Authority for Government Innovation]
AIP	Asociación de Interés Público [public interest association]
ANTAI	Autoridad Nacional de Transparencia y Acceso a la Información [National Transparency and Access to Information Authority]
ATP	Autoridad de Turismo de Panamá [Panama Tourism Authority]
CAMTUR	Cámara Nacional de Turismo [National Chamber of Tourism]
CCIs	Creative and cultural industries
CNC	Centro Nacional de Competitividad [National Competitiveness Center]
DGI	Dirección General de Ingresos [Directorate General of Revenue]
DMCE	Sistema de Declaración de Movimiento Comercial Electrónico [Electronic Commercial Movement Declaration System]
GCI	Global Competitiveness Index
ICTs	Information and communication technologies
INDICATIC	Instituto Nacional de Investigación Científica Aplicada en Tecnología de Información y Comunicaciones [National Institute for Applied Scientific Research in Information and Communication Technology]
INEC	Instituto Nacional de Estadística y Censo [National Statistics and Census Institute]
MEF	Ministerio de Economía y Finanzas [Ministry of Economy and Finance]
OECD	Organisation for Economic Cooperation and Development
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PNCI	Programa Nacional de Competitividad Industrial [National Program for Industrial Competitiveness]
PPP	Public-private partnership
SENACYT	Secretaría Nacional de Ciencia, Tecnología e Innovación [National Department of Science, Technology, and Innovation]
STEM	Science, technology, engineering, and mathematics
TFP	Total factor productivity

PROJECT SUMMARY
PANAMA
ECONOMIC DIVERSIFICATION AND COMPETITIVENESS PROMOTION PROGRAM II
(PN-L1167)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility^(a)	
Republic of Panama			Amortization period:	20 years
Executing agency:			Disbursement period:	1 year
The borrower, through the Ministry of Economy and Finance (MEF)			Grace period:	3.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	US\$150 million	100%	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	US\$150 million	100%	Weighted average life:	11.75 years
			Currency of approval:	United States dollars
Project at a Glance				
<p>Project objective: The general objective of the programmatic series and this second operation is to promote Panama's sustainable economic growth by enhancing the country's competitiveness and advancing emerging sectors. The specific objectives are: (i) to improve the country's competitive conditions by promoting an enabling digital environment for business and strengthening the national quality system; and (ii) to advance the development of emerging sectors that generate sources of growth for the economy.</p> <p>This operation is the second of two financially independent but technically linked operations under the programmatic policy-based loan modality.</p>				
<p>Special contractual conditions precedent to the sole disbursement of the loan: The first and sole disbursement is subject to fulfillment of the policy reform conditions, as established in the Policy Matrix (Annex II), the policy letter, and the other conditions established in the loan contract (paragraph 3.4).</p>				
Exceptions to Bank policy: None.				
Strategic Alignment				
Challenges:^(d)	SI <input type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes:^(e)	GE <input type="checkbox"/> and DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

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

^(b) 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.

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

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

^(e) 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 This operation is the second of two operations under the programmatic policy-based loan (PBP) modality. The first program (4899/OC-PN) was approved and its full amount of US\$200 million was disbursed in 2019. Its objective was to promote Panama's sustainable economic growth by enhancing the country's competitiveness and advancing emerging sectors. This programmatic series focuses on the following areas: (i) an enabling digital environment for business; (ii) the National Business Quality System; (iii) the cultural and creative ecosystem; (iv) the new digital economy; and (v) the tourism sector.
- 1.2 Some of the policy conditions supported in the first operation are: (i) approval and enactment of the Law Creating the Public-Private Partnership (PPP) Regime; (ii) approval and enactment of the Personal Digital Data Protection Law; (iii) regulation of the Industrial Promotion and Development Law; (iv) approval and enactment of the Law Establishing the Ministry of Culture; and (v) adoption of the Panama Digital Hub Strategy. This second operation will help to further develop and build on these reforms, in alignment with the objectives of the programmatic series.
- 1.3 **Economic context.** In 2020, as a result of the COVID-19 crisis, Panama's GDP contracted by 17.9%,¹ the sharpest drop in Latin America,² and unemployment rose to 18.5%. Between 2007 and 2019, prior to the COVID-19 crisis, Panama continued the economic expansion that had begun in the mid-2000s, achieving average annual growth of 6.54% of GDP,³ although growth has slowed in recent years. The economy was largely based on accumulation of capital (as a result of public and private investment in construction, trade, and logistics services related to the Panama Canal expansion), whereas total factor productivity (TFP) contributed less than one-fifth of this growth. Despite the current economic crisis, Panama is still one of the countries with the highest per capita income in Latin America and the Caribbean, and its inflation rate has been below 1% since 2015. In addition, it had a debt-to-GDP ratio of 38.55% in 2010-2019, which rose to 69.82% at year-end 2020.⁴ Nonetheless, even before the crisis, the country faced significant subnational inequalities with respect to its economic development, as well as a slowdown in growth. Panama now faces the challenges of building a path to economic growth,⁵ especially in the wake of the COVID-19 crisis, creating new sources of employment, and distributing income more equitably.

¹ National Statistics and Census Institute (INEC), 2021.

² Peru -11.1% (Central Reserve Bank of Peru), Argentina -10.2% (National Statistics and Census Institute), Honduras -9% (Central Bank of Honduras), Mexico -8.5% (National Statistics and Geography Institute).

³ World Economic Outlook Data, International Monetary Fund. October 2020.

⁴ Ministry of Economy and Finance (MEF), 2021.

⁵ According to the World Bank, Panama's economic growth is projected to be 9.9% (2021) and 7.8% (2022). March 2021.

- 1.4 The COVID-19 crisis hit Panama at a time when its competitiveness was steadily declining. Panama's position in the 2019 Global Competitiveness Index (GCI)⁶ clearly showed the difficulties of sustaining the Panamanian economy's competitiveness based on the strength of the macroeconomic environment, logistics services, and financial system. In 2019, the GCI ranked Panama 66th out of 141 countries, behind Colombia, Peru, Uruguay, Mexico, Costa Rica, and Chile in Latin America and the Caribbean. Panama's scores for the GCI pillars that measure competitiveness made it clear that Panama has the task of strengthening its greatest weaknesses, such as: (i) the enabling environment, specifically institutional quality (with a score of 51/100) and ICT adoption (with a score of 50/100); (ii) human capital, specifically skills development (with a score of 58/100) and labor market flexibility (with a score of 56/100); and (iii) the innovation ecosystem, specifically business dynamism (with a score of 59/100) and innovation capability (with a score of 37/100, the lowest of all the pillars). The main factors determining Panama's position in these areas include: (i) weak capacity to convert knowledge into goods and services, which is a reflection of limited spending on research and development;⁷ and (ii) limited ICT dissemination.
- 1.5 **Challenges in the business environment.** In terms of enhancing its business environment, one of the big challenges for Panama is making its institutions more efficient and its digital environment more conducive to business. The country is facing weaknesses in government performance, reflected mainly in the regulatory burden (GCI 2019, 81st position) and the efficiency of the regulatory framework (GCI 2019, 110th position). In line with these results, the World Bank's Doing Business 2020 report identified a number of regulations restricting business activity, including the payment of taxes (176th)⁸ and the management of building permits (100th). With respect to its digital environment, Panama has major gaps when it comes to digital capacities, online procedures, and the government's use of technology. Despite being ranked as a high-income economy, Panama performs below expectations based on its development level and continues to have an unfavorable position, as shown by the 2020 Global Innovation Index (73rd out of 131 countries, as compared with Chile in 54th position and Costa Rica in 56th position). Panama's areas of improvements are online government services (80th out of 131), ICT access (69th), ICT use (72nd), ICT services imports (114th),

⁶ The World Economic Forum proposes a metric for annually measuring a country's competitiveness. The metric, called the Global Competitiveness Index (GCI), measures the determinants of total factor productivity (TFP). TFP can be interpreted as how intelligently means of production are used (capital, land, and labor), and is the main determinant of long-term economic growth. The GCI looks at 12 pillars in four broad areas: an enabling environment for economic growth (institutions, infrastructure, information and communication technology (ICT) adoption, macroeconomic stability); human capital (health and skills); markets (final goods, labor, and financial markets, and market size); and innovation ecosystem (business dynamism and innovation capability). Countries are given a score from 0 to 100 in each area, with 100 being the highest. In 2020, the report was published as a recommendation document and not as a country ranking.

⁷ Spending on research and development in Panama is low and consistent with these results. Panama spends 0.15% of GDP, compared with 0.45% in Costa Rica, 0.42% in Uruguay, 0.36% in Chile, and 0.58% in Latin America on average (Ibero-American and Inter-American Network for Science and Technology Indicators (RICYT), 2019).

⁸ It takes 36 steps and 408 hours every year to pay taxes in Panama, compared to the respective LAC figures of 28.2 and 317.1 (Doing Business 2020).

and ICT services exports (81st). Panama's Internet penetration rate is higher than the region's average (62%), with mostly mobile users. E-commerce in the country has mainly been driven by the increase in the number of households with Internet access, as well as by greater penetration of smart phones. However, there are still challenges to be tackled. According to the United Nations Conference on Trade and Development B2C E-commerce Index, Panama is ranked 83rd out of 152 economies, below Chile (60th) and Costa Rica (61st).

- 1.6 **The challenge of boosting investment.** Given that the investments required in Panama exceed the government's capacities, private investment is needed to continue developing the country's infrastructure. Thus, one major challenge is regulating the new legal framework for PPPs,⁹ which will provide good practices and strengthen institutions,¹⁰ and which was a recognized reform under the first program of this series. In this regard, regulation of the PPP law will promote incentives for private investment, an institutional and technical framework for coordination between various entities, and the incorporation of international best practices and lessons learned in the region.
- 1.7 **Regional imbalances.** Despite the economic growth that occurred prior to the pandemic, significant regional imbalances persist. Panama's economic success has been concentrated in the terminal port cities of the Panama Canal. In fact, according to INEC data regarding the high economic growth that Panama experienced until 2019, the provinces of Panamá and Colón contributed the most heavily to the country's GDP growth (65.3% and 24.4%, respectively), whereas the remaining provinces only contributed 10.3%. There are also considerable imbalances in the tourism sector, as 57% of accommodations are concentrated in Panama City, in addition to inequalities in basic infrastructure for tourism activities and visitor experience.
- 1.8 **Weak capacity in the industrial sector.** From 1997 to 2008, exports of goods produced in Panama grew from US\$648 million to US\$1.144 billion but then trended downward and fell to US\$672 million in 2018, which is a reduction of 41% in barely 10 years. A diagnostic assessment of the complexity of Panama's economy¹¹ reveals that goods exported by the country account for approximately 1% of GDP and consist mainly of low-complexity agricultural and mining products, owing to the insufficient competitiveness of national production. In fact, the considerable growth in exports in 2019, reaching US\$1.237 billion was due to the start of operations at the new copper mine. In light of this context, Panama's economic growth may not be sustainable if its exported products do not become more complex and competitive. The Panamanian government has put policies in place to promote manufacturing, including the Industry Law, the National Program for Industrial Competitiveness (PNCI), and the Special Law for the Establishment and Operation of Multinational Companies for the provision of manufacturing-related services. A key factor for achieving these instruments' expected results, improving competitiveness for access to international markets,

⁹ [Law 93 of 19 September 2019](#).

¹⁰ Infrascopes 2019, conducted by the Economist Intelligence Unit and commissioned by the IDB.

¹¹ Hausmann, Morales, and Santos (2016).

and preserving local markets is to strengthen the national quality infrastructure,¹² so that the country can meet export, food security, and consumer protection requirements. This requires strengthening standards, accreditation, and metrology capabilities,¹³ as well as safety and confidence in productive processes, enabling access to quality products and services and, therefore, greater competitiveness nationally and internationally.

- 1.9 **The challenge of diversifying to achieve greater growth.** This scenario is characterized by a fairly uneven distribution of productive activity, an environment not always conducive to competitiveness, and construction-heavy economic sectors. In addition to this are the economic challenges of the COVID-19 crisis in 2020, which could adversely affect the logistics sector due to disruptions in value chains, the slowdown of high foreign direct investment, credit access and cost, public debt, and the current account deficit. This context offers opportunities for increasing the participation of high-potential sectors by changing the long-term growth strategy, with an inclusive view and openness to additional sources for generating income with productive and export potential.
- 1.10 The identification of these growth areas should be based on leveraging Panama's comparative advantages, considering their export potential, indirect impact on the development of other sectors, and potential to influence more balanced regional development. In that regard, Panama has comparative advantages that offer the opportunity to develop additional sources of growth that can be tapped.
- 1.11 **Creative and cultural sector.** Before the pandemic, the creative and cultural sector was highly dynamic and contributed to the growth of the Panamanian economy. The National Competitiveness Center (CNC) estimates that in 2016, creative and cultural industries (CCIs) produced US\$1.041 billion and employed 103,579 individuals, putting CCIs in eighth position in terms of employment, with both of these figures having doubled in under 10 years.¹⁴ Since March 2020, the COVID-19 crisis has had a major impact on CCIs by causing these activities to shut down. According to the results of a survey conducted by the Bank,¹⁵ in the first six months of the pandemic (from March to September 2020), most (61%) of Panama's creative businesses lost over 80% of their sales. At the same time, the crisis has created new opportunities that are increasingly connected to digital technologies. Many companies in the sector have redesigned their business models to adapt them to the massive change in consumption (from physical to digital) that the COVID-19 crisis has generated. According to the same Bank survey, before the pandemic, creative companies in Panama offered approximately 25% of their goods and services digitally, on average. The current

¹² National quality infrastructure means all aspects of quality metrology, standardization, testing, and administration, including certification and accreditation. This includes public and private institutions, as well as the regulatory framework within which they operate (Sanetra, 2007).

¹³ Metrology is the science of accurate and reliable measurements. It is fundamentally important for foreign trade, since parties to a transaction must measure the products being traded in a uniform manner.

¹⁴ CNC. Case study: *Las Industrias Creativas y Culturales en Panamá* (2019).

¹⁵ Sasso, S. and Cathles, A. (2021). *Las Industrias Culturales y Creativas frente a la pandemia: resultados de las encuestas regionales a trabajadores y empresas*. IDB: Washington, D.C.

- crisis has accelerated their digital transformation and increased the number of creative goods and services offered online to over 55%, thereby bolstering their resilience to possible future crises. However, the survey indicates that an even greater number of creative products (60.6% on average) could be offered digitally in the near future.
- 1.12 The main institutions supporting CCIs are the Ministry of Culture, the Ministry of Trade and Industry, the Panama Tourism Authority (ATP), and the Ministry of Economy and Finance (MEF). In addition, Panama's Chamber of Commerce, Industry, and Agriculture has a creative industries commission. Private sector activities are mainly concentrated in cinema, music, gastronomy, and technology developers.
- 1.13 The harnessing of CCIs is still limited¹⁶ in Panama due to: (i) lack of information and statistics for guiding policy decisions; (ii) institutional weakness in managing the sector; (iii) lack of policy instruments; (iv) lack of public-private coordination; (v) lack of human capital and significant mismatch between the knowledge and skills required by the sector and the formal education and training offered in the country; (vi) low adoption and untapped export potential; and (vii) insufficient protection of intellectual property rights. The creation of the Ministry of Culture in August 2019 is a step in the right direction, but weaknesses persist that are typical of a new institution in the process of being strengthened, particularly with regard to strategic planning capacity and promoting dialogue with the private sector by availing itself of mechanisms that have been created, such as the Creative Industries Coordinating Group.¹⁷
- 1.14 **ICT industry.** Due to its geographic position, over the last 20 years Panama has leveraged its capacity to become a connection point for subsea cables crossing the isthmus like a "Panama Canal for data,"¹⁸ making it a strategic location for international communications. Panama's position in terms of international bandwidth per inhabitant is good, and even above the countries of the Organisation for Economic Co-operation and Development (OECD). These factors have helped Panama gain opportunities and advantages that it can use to promote the domestic ICT sector, which has great potential for export growth and attraction of investment. Despite the fact that in the last 10 years, Panama's exports of ICT services have trended slightly upward in absolute terms, their share of total exports of services decreased consistently from 4.83% in 2008 to 2.18% in 2019, compared with Costa Rica where they increased from 6.56% in 2008 to 13.9% in 2019. With respect to attracting investment, according to figures from the Ministry of Trade and Industry's Office of Multinational Companies, 20 high-tech ICT companies were established from 2008 to 2018. Unlike other sectors during the COVID-19 pandemic, the ICT sector has had

¹⁶ These weaknesses are being addressed through technical cooperation funding for operation Support for the Creative and Cultural Ecosystem of Panama (ATN/OC-16676-PN).

¹⁷ The Creative Industries Coordinating Group was created on 26 November 2019 and is composed of the main CCI agents in the public and private sectors. Its aim is to provide coordination that helps promote the creative and cultural ecosystem.

¹⁸ The following subsea cables cross Panama: ARCOS-1, SAC, PAN-AM, PCCS, AURORA, PAC, MAYA-1, and more recently, Google's Curie cable.

opportunities related to the ability of technology to facilitate social distancing and remote work. In all, 70% of small and medium-sized enterprises worldwide have stepped up their use of digital technology during the pandemic; these changes are here to stay given that some of these investments are irreversible, and their impact on productivity has been demonstrated.¹⁹ As the world becomes more digitalized, the risks of non-adoption translate into lower productivity of businesses at the micro level; and at the macro level, greater inequality between businesses, places, and populations that adopt new digital technologies and those that do not.²⁰ In Panama, important elements are needed in the regulatory and policy framework are needed to increase ICT adoption throughout the entire economy, including sectors that are traditionally the most competitive (finance and logistics), and to stimulate the production of Panamanian digital technologies or solutions that can enter the global market. The main ICT sector institutions in Panama are: in the public sector, the National Department of Science, Technology, and Innovation (SENACYT) and the National Authority for Government Innovation (AIG); in the private sector, the Panamanian Chamber of Information Technology and Telecommunications; and, in the academic sector, the University of Technology of Panama and the University of Panama.

- 1.15 **Tourism.** In 2019, Panama's tourism sector accounted for a significant percentage of the economy and employment compared with the rest of Latin America, reaching 13.6% of GDP and 14.7% of employment (compared with 8.1% and 7.9% in Latin America, respectively). At the same time, it accounted for 21.7% of exports and 5.25% of investment. In the 2015-2019 period, Panama's tourism sector stagnated, while tourism expanded internationally, growing 4% in 2019 compared with 1.2% in Panama, which had lost its share of the global market. This loss of competitiveness in the area of tourism is due to several structural factors, including the lack of ongoing promotion of the country as a destination, a comprehensive system for tourism quality, and interagency coordination. The main institutions in the tourism sector are the ATP, the National Chamber of Tourism (CAMTUR), and more recently the Tourism Office, which is coordinated by the Office of the President of Panama, as well as the [Tourism Promotion Fund](#). The sector was one of the hardest hit during the COVID-19 pandemic, and in 2020, tourism activity is estimated to have fallen by 74% worldwide, 69% in the Americas, and 75% in Panama. A slow recovery of three to four years is expected for the sector, owing to the pandemic. Because of the country's tourism potential, which stems from its geographic location and biodiversity, its major conservation research centers, and the climate vulnerability of communities with greater tourism potential, mainstreaming the variable of climate change in tourism activities is key. Panama is highly vulnerable to extreme climate events, such as intense rainfall and long and intense periods of drought. These, coupled with climate change impacts like rising sea levels, may significantly affect the country through such impacts as reduced availability of water during the summer. Climate change scenarios project a temperature increase of up to 3°C by 2050 and 5°C by 2080.

¹⁹ The Digital Transformation of SMEs, OECD Studies on SMEs and Entrepreneurship. OECD, 2021. <https://doi.org/10.1787/bdb9256a-en>.

²⁰ Idem.

Precipitation is expected to increase by 80% overall by 2080, under certain climate scenarios. Future climate conditions will increase the variability and intensity of extreme events.²¹

- 1.16 **Advances and challenges in the implementation of policy reforms.** Panama has been making efforts to increase its competitiveness. In the public sector, the Strategic Secretariat for Development and Competitiveness was established within the Office of the President to promote this agenda at the highest level. In the private sector, in 2006 the Panamanian Association of Business Executives created the [National Competitiveness Center](#) (CNC), which holds annual events for public-private-academic dialogue. In terms of a more enabling business environment, the National Authority for Government Innovation (AIG) was created by the government in 2009 to promote the use of ICTs in order to modernize public administration and expand citizen services. During the COVID-19 pandemic, the AIG has been playing a key role in coordinating the implementation and use of technology tools to help citizens more readily access various health and social assistance services. At the same time, progress has been made in digitalizing 190 bureaucratic processes in 35 institutions through the [Panama Online](#) initiative.
- 1.17 In terms of the actions taken by the government in the productive, industrial, and quality sector, Panama implemented Industrial Promotion Certificates in 2009, which grant tax incentives to promote productive investment. In 2017, the Industrial Promotion Law was enacted, which also created the National Program for Industrial Competitiveness (PNCI). This law calls for monitoring of progress and expected outcomes, such as strengthening specialized human capital, developing micro, small, and medium-sized enterprises (MSMEs), and fostering technological innovation in companies. Panama also developed a regulatory framework to promote quality by regulating technical standardization, compliance evaluation, accreditation, quality certification, metrology, and conversion to the International System of Units. Despite this progress, international best practices recommend that the quality system pillars be financially and administratively independent, which will remain a pending task, even after this programmatic series. Additionally, the quality system's components need to receive international accreditation. While the National Metrology Center of Panama, a public interest association, received international accreditation in 2008, renewable every five years, the National Accreditation Council has not yet been internationally recognized. This means that national laboratories and companies that wish to obtain international accreditation must apply to entities in other countries, putting them at a disadvantage and making these processes more costly.
- 1.18 In terms of advances in the promotion of emerging sectors, in the ICT sector the Panamanian Chamber of Information Technology and Telecommunications has been firmly established as a cluster of ICT companies that implement actions to promote their industry. As for the government, it has carried out calls for proposals through the SENACYT to support open innovation by financing small businesses'

²¹ Data from Panama's 2018 Third National Report and the World Bank's Climate Change Knowledge Portal.

projects for technology solutions involving anchor companies. In the creative and cultural sector, the Bank has provided support for measuring the impact of CCIs on the economy and for dialogue with the National Statistics and Census Institute (INEC) to promote the creation of a cultural satellite account, which is in the institute's immediate interest. However, progress in this area has been delayed by planning for other satellite accounts and the National Census. In addition, the creation of the Ministry of Culture has brought about a major change in the approach to the sector, as evidenced by the support that the sector has received in the past two years. Lastly, in the tourism sector, the creation of the Tourism Office has enabled public-sector actors to coordinate project execution in the sector, and resources have been created and allocated to the Tourism Promotion Fund to ensure continuity in promotion activities. One pending task is institutional strengthening to ensure greater sustainability of the sector's activities.

- 1.19 **First operation and program advances.** The first operation (4899/OC-PN) (paragraphs 1.1 and 1.2) had three components: (i) macroeconomic sustainability; (ii) promotion of a more competitive economy; and (iii) promotion of a more diversified economy, by implementing policy actions to promote an enabling digital environment for business, increase infrastructure investment capacity for competitiveness through the private sector, and strengthen the national quality system. At the same time, regional innovation capacities were strengthened, and efforts were undertaken to promote the development of sectors with the potential to stimulate Panama's economy, including CCIs, ICT industries, and the tourism sector. The 21 legislative and administrative measures supported by the first operation were fulfilled in their entirety ([optional link 2](#)).
- 1.20 **Promotion of a more competitive economy.** In order to promote an enabling business climate and private investment, the process of simplifying and digitalizing procedures related to construction has continued, a process that has been consolidated in the municipio of Panamá, where progress is being made in monitoring the time needed for each step of the process. The enactment of the PPP law included the establishment of the National Secretariat for Public-Private Partnerships and the identification of new potential projects. Certain measures moved forward quickly due to the COVID-19 crisis, particularly the use of digital tools, which continues to enhance the digital environment for business. These measures included the approval of the implementing regulations of the Personal Digital Data Protection Law, and the process of explaining and publicizing the law included virtual training sessions and workshops with various sectors involved in implementation. In addition, several public institutions adopted the electronic signature to continue providing digital processes and services. The need to continue commercial movement in the Colón Free Zone accelerated the implementation of the Electronic Commercial Movement Declaration System (DMCE) ahead of schedule. At the same time, efforts continue to develop the industrial sector and the national quality system, through the creation of a working group, evaluation of progress, and implementation of a system for monitoring the PNCI. Similarly, legal instruments were disseminated and approved to consolidate the advances made in the national quality system.
- 1.21 **Promotion of a more diversified economy.** High-potential emerging sectors continued increasing their contributions to the economy. The Ministry of Culture continued making tangible progress in leading the sector and strengthening its

institutions. During the COVID-19 crisis, artists were included in the list of beneficiaries of cash transfers.²² In the meantime, the strategic planning process was formalized, and directors were trained in institutional processes and tools. The Law on Culture was successfully approved, with the inclusion of instruments to support the sector and strengthen the training of human capital for the sector. In addition, public-private coordination activities continued in the sector through meetings of the Creative and Cultural Industries Coordinating Group. As for the ICT sector, Panama Digital Hub activities were incorporated into the activities of the Strategic Secretariat for Development and Competitiveness, driving initiatives to promote Panama as a business hub for the digital sector. Due to its broad scope, the Law for Financial Sector Modernization and Competitiveness in Panama was not further discussed in the National Assembly; however, the government continues to see the need to promote new financial models that leverage digital technologies and facilitate electronic payments. Electronic invoicing continued to facilitate collection, and the government has decided to encourage a gradual implementation process for businesses and to promote broader use. Due to delays caused by the COVID-19 crisis, the National Institute for Applied Scientific Research in Information and Communication Technology (INDICATIC – AIP), a public interest association, experienced delays in launching operations, transferring resources, and launching an international competitive process to appoint its director. Lastly, due to the significant impact on tourism activity, the tourism sector experienced delays in executing the Tourism Office's activities, implementing the Tourism Promotion Fund, and implementing sector standards, which are reflected in the evaluations that were prepared as a condition for fulfillment of the program.

- 1.22 **Pending challenges.** This second operation continues the measures that address the challenges originally identified, using an approach that promotes the implementation, advancement, and evaluation of policy instruments promoted under the first program. It also furthers activities for institutional strengthening. As a whole, the series will help close gaps related to institutional weaknesses, while supporting competitiveness and better use of emerging sectors with the potential to stimulate the economy. Despite the progress described in previous paragraphs, even after the programmatic series is complete, Panama will have to work on critical institutional constraints to increase its competitiveness, such as accountability, transparency, and bureaucratic efficiency. Specifically, it must strengthen its institutional capacity to ensure a good process for statistics production, collection, and transparency. This includes the ability to analyze these vital data for assessment and decision-making for the implementation of public policies, which the Bank has been supporting through technical cooperation and projects for fiscal sector investment and e-government (paragraph 1.30). In terms of the sectors proposed in this program for increasing their participation in the economy, the creative and cultural sector is in the early stages following the creation of the new ministry, meaning that a long-term vision

²² Cash transfers are part of the Plan Panamá Solidario [Panama Solidarity Plan], which provides financial resources and food so that individuals whose contracts have been suspended can meet their priority needs, such as buying food and medicine, as an emergency response and social assistance to provide relief to individuals affected by the COVID-19 pandemic.

is needed to build it up as a model for a customer-service approach and management. It must also strengthen its internal processes in order to tackle the challenge of implementing instruments that support and strengthen human capital in this sector. The ICT sector has major gaps in human capital for the digital economy, which requires improving education in science and math so that more students can enter engineering and programming and sustain the sector's progress and growth. Lastly, the tourism sector will still face the challenges of resuming its activities once COVID-19 restrictions have been lifted, as well as promoting its image as a safe destination for potential visitors.

- 1.23 **The Bank's experience in the country and lessons learned.** The Bank has considerable experience in supporting the strengthening of competitiveness, the business environment, innovation, and emerging sectors in Panama. The Bank has delivered support through a series of projects to improve competitiveness, as follows: the Competitiveness and Trade Development Program (1941/OC-PN) for US\$51 million, which closed in June 2014; the Multiphase Program for Technological Transformation (1987/OC-PN) for US\$19.7 million, which closed in September 2015; and the Innovation Program for Social Inclusion and Productivity (3692/OC-PN) for US\$30 million, which is still in execution. The lesson learned from these programs is the need to build the country's innovation capacity, including increased public and private spending on innovation activities. This lesson has been incorporated into the design of this program, with priority given to policy conditions that foster a more innovative productive sector, a legal framework that promotes quality systems, and building of innovation capacity in the regions outside of the capital city.
- 1.24 Technical cooperation projects for competitiveness have provided support to the National Competitiveness Forum and supported the analytical capacity of the National Competitiveness Center (ATN/FI-13496-PN) for US\$375,000, which closed in September 2015. These activities have taught the value of mechanisms for public-private sector dialogue on the various competitiveness enhancement activities. The program includes policy conditions that strengthen these dialogue mechanisms, particularly for the creative ecosystem. In the creative economy, the Bank has spearheaded sector support in the country with knowledge products, such as the study "Industrias Creativas Culturales en Panamá: Diagnóstico del Sector y Relevancia Económica," as well as specific actions, such as the creation of the City of Knowledge Creative Industries Cluster. These advances have helped to identify the creative industries as a high-potential sector.
- 1.25 **The Bank's experience in the sector and lessons learned.** The Bank has implemented a wide range of competitiveness reform programs such as the one proposed in this programmatic series. These programs include: Boosting Resilient and Inclusive Growth in The Bahamas (5091/OC-BH); the Productive Development and Creative Economy Support Program (5053/OC-CO); the Formalization and Productivity Improvement Program in the Dominican Republic (3326/OC-DR and 4375/OC-DR); the Competitiveness Enhancement Program in Jamaica (1972/OC-JA, 2297/OC-JA, and 3147/OC-JA); the Business Climate and Innovation Program in Suriname (3401/OC-SU); and the Program to Enhance Productivity and Competitiveness in Peru (2325/OC-PE, 2849/OC-PE, and 3299/OC-PE). Lessons learned from the Bank's operations in the sector

- include the need to give priority to reforms that are to be included as part of competitiveness programs, so as to ensure the effectiveness and relevance of the actions, and the importance of combining reforms to support the business environment with other reforms to support business development, innovation, and productive diversification. This experience has been incorporated in order to identify policy conditions that directly address the gaps identified, particularly those related to strengthening the business environment, innovation, and the national quality infrastructure.
- 1.26 **International evidence.** Various international experiences in policy implementation have fostered the business environment, innovation, and quality, resulting in the public policy instruments to promote competitiveness and economic diversification that were incorporated into the operation, including the following: (i) public-private partnerships: evidence in Latin America shows that appropriate management of public infrastructure investment processes require rigorous comparative studies to select the best investment and development option, with a focus on the efficient use of public resources; (ii) regional innovation systems: over the past few decades, various European regions, and more recently Latin America, have been advancing and strengthening these regional systems to promote knowledge transfer and the contribution of specific local capacities to drive innovation; and (iii) national quality system: the system promotes the development of quality in goods and services with the aim of strengthening the metrology system as a support tool for measurements and equivalences in quality promotion.
- 1.27 Among policies to promote high-potential emerging sectors, some relevant initiatives include the following: (i) ICT industry: Uruguay's Digital Government Plan 2020, which shows the type of policies that the government can implement to encourage intensive use of technologies, such as the Internet, government services, and stakeholder ownership. Uruguay is currently considered the digital leader in Latin America and the Caribbean; (ii) creative industries: (a) policy for district development through clusters in Buenos Aires, promoting collaboration between developers and enterprises, access to technology, and training; and (b) facilitation of financing in Uruguay: funds to finance cultural infrastructure development, strengthen artistic institutions, and stimulate artistic training and creation; and (iii) tourism: (a) the European Regional Development Fund, which supports tourism competitiveness, sustainability, and quality at the regional and local levels by promoting and financing investment related to the preservation, protection, promotion, and development of natural and cultural heritage; and (b) an investment guide to encourage regional tourism in cities that are tourist destinations.
- 1.28 **Coordination with other international development agencies.** With the [Inter-American Competitiveness Network of the Organization of American States](#), the Bank has collaborated with working groups of competitiveness experts with the objective of promoting the hemisphere's competitiveness through the sharing of international experiences with subnational competitiveness and knowledge of various methodologies. The IDB took part in dialogue with the World Bank to update the diagnostic assessment on reforms to be implemented by the country to enhance the business environment; and in dialogue with the OECD to conduct a study on the Regulatory Improvement Policy in the country. The IDB and the World Bank also coordinated support for the regulatory framework of the

PPP law. In terms of creative industries, the IDB coordinated the design of the program [Crea Panamá](#) [Panama Creates] with the United Nations Educational, Scientific, and Cultural Organization (UNESCO). With the Economic Commission for Latin America and the Caribbean (ECLAC), the Initiative to Strengthen the Digital Animation Value Chain was coordinated, which identified restrictions that must be addressed for the development of this subsector, consistent with the sector diagnostic assessment (insufficient human capital, limited access to public support instruments, lack of sector statistics, and fragmentation of actors). With the United Nations Development Programme (UNDP), the Bank coordinated the Sistema Integral de Gobierno [Integrated Government System], which promotes changes in management culture to increase the focus on citizens and transparency. The system facilitates interaction between citizens and institutions and the State, using document management platforms that enable processes to be recorded, monitored, and managed internally/externally. For this reason, electronic signature is key for transparency, agility, and document traceability.

- 1.29 **The Bank's added value and complementarity with other IDB Group operations.** The Bank has provided technical support to help fulfill the measures under this operation, which include designing and executing the project Support for the Creative and Cultural Ecosystem of Panama (ATN/OC-16676-PN) for US\$400,000, which is still in execution. The project promotes the creative and cultural ecosystem through the following actions: support for the design of the creative and cultural satellite account to strengthen the sector's statistical capacities; a program to train the trainers of creative and cultural entrepreneurs;²³ strengthening the institutional planning capacity of the Ministry of Culture team; international legal support for developing the implementing regulations of the Law on Culture; and evaluating execution of the Cultural Diplomacy Strategy. With the project Strengthening Capacity for Economic Diversification and Competitiveness Promotion (ATN/OC-17998-PN) for US\$350,000, the Bank has provided support since 2020 for designing processes to digitalize and automate building permits; support for the PPP team developing the implementing regulations of the PPP law; international advisory services specialized in personal data protection, the design of statistics collection methodology, and the technological design of databases to monitor regional competitiveness; support for the design and analysis of legal instruments for the national quality system; evaluation and recommendations for Panama's ICT industry strategy; and strengthening institutions in the tourism sector.
- 1.30 In addition, the Bank is executing specific programs to address the weaknesses described (paragraphs 1.4 and 1.5) in education (2734/OC-PN and 4357/OC-PN), which are in execution for US\$70 million and US\$100 million, respectively; labor markets and professional training (4689/OC-PN), which is in execution for US\$20 million; and fiscal management (5126/OC-PN), which is in execution for US\$40 million. This program will thus focus on addressing aspects that strengthen enabling environment factors and the conditions for productive innovation and development. The Bank is also executing projects related to this operation, particularly the Panama Online Program (3683/OC-PN), which

²³ This course is offered by the innovative foundation Nesta (www.nesta.org.uk).

contributes to improved competitiveness, simplification of bureaucratic processes, and promotion of the ICT industry; the program Support for the Conservation and Management of Cultural and Natural Heritage (4450/OC-PN), which supports the creative economy and the restoration of cultural heritage; and the Program of Comprehensive Urban Development of Cities with Tourism Potential (4944/OC-PN), which supports the urban and socioeconomic development of small and medium-sized cities with tourism potential by improving public services, infrastructure, and community development. In terms of alignment with gender equity measures, the programmatic series of the Program to Support Gender Equality Policies (4777/OC-PN) is recognized for the innovation of having “a national strategy for integrating girls and young people into STEM disciplines and jobs, as a measure to promote more and better jobs and equal opportunities for women.” Technical cooperation operations now in execution include: Promoting Creativity and Innovation in Latin America and the Caribbean (ATN/OC-16258-RG); and Support for Creative Industries in Latin America and the Caribbean for Their Recovery from the COVID-19 Pandemic (ATN/OC-18268-RG). There are also the following IDB Lab projects: Latin American Cinema from Panama, Central America, and the Caribbean (ATN/OC-17604-PN); Sandbox: an Integration Space for Technology and the Performing Arts (ATN/ME-17953-PN); Animation Nation (ATN/ME-18379-BA); Innovation Vouchers in Creative Industries in Uruguay (ATN/ME-15756-UR); Promotion of the Creative Economy in Paraguay (ATN/ME-16081-PR); and Development of Creative Entrepreneurs in Mendoza (ATN/ME-16655-AR). This enables the Bank to provide the country with support and value-added in the design and implementation of competitiveness reform programs and support for emerging sectors.

- 1.31 **Strategic alignment.** The program is consistent with the Second Update to the Institutional Strategy 2010-2020 (document AB-3190-2) and strategically aligned with the development challenge of productivity and innovation, by promoting an enabling environment for business and innovation ecosystems. It is also aligned with the crosscutting themes of: (i) institutional capacity and rule of law, through technical cooperation financing to strengthen the capacities of the National Transparency and Access to Information Authority (ANTAI), the Ministry of Trade and Industry, and the Ministry of Culture, and through policy conditions that support the business environment, transparency in the use of personal digital data, and the creation and strengthening of institutions to support CCI, ICTs, and tourism (paragraph 1.32); and (ii) climate change, by addressing the climate change challenges in the tourism sector (paragraph 1.42). [According to the joint methodology of the multilateral development banks for tracking climate change adaptation finance](#), and as established in the procedures for sovereign guaranteed operations, approximately 3.7% of the operation's resources are invested in climate finance for policy condition 3.12, the Master Plan for Sustainable Tourism Development, which will promote activities that protect Panama's natural resources. The program will also contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12), through the indicator “agencies with strengthened digital technology and managerial capacity.” The operation is consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8), under the priority dimensions of improving the business and innovation climate. It is aligned with the IDB Group Country Strategy with Panama 2021-2024 (document GN-3055), through the following strategic

objectives: “enhance the effectiveness of the tax administration,” “promote the digital transformation of public administration,” and “develop services for sustainable and inclusive growth of tourism and agriculture.” The operation is included in the 2021 Operational Program Report (document GN-3034). It is also consistent with the Strategic Plan of the Government of Panama, specifically with respect to the “Competitive, Job-Creating Economy” pillar, which promotes the development of a competitive economy and the promotion of emerging sectors for economic growth.

- 1.32 **Institutional capacity and rule of law considerations.** The proposed program includes policy actions to strengthen institutional capacity and the rule of law through the incorporation of multiple public institutions that are adopting digital signatures, which contributes to efficiency and accountability in their respective activities; the commercial movement declaration system in the Colón Free Zone; and the expanded use of electronic invoicing, which supports accountability and transparency in tax collection. The creation of the system of indicators for the National Program for Industrial Competitiveness (PNCI), a Regional Competitiveness Observatory, and the Culture Satellite Account are monitoring and evaluation instruments for tracking and reporting on the effectiveness of policy implementation. In addition, the actions to strengthen the Ministry of Culture support program development capacity following methodologies that use best practices in planning. Lastly, the evaluation of the Tourism Promotion Fund supports reporting that enables checks and balances in the management of the fund.
- 1.33 **Gender considerations.** A gender focus is included in several program activities, such as: open calls for bids that foster entrepreneurial innovation and support women-led businesses; a gender focus in the creation of the creative industries scholarship program; and support for female entrepreneurs. Specific gender considerations are also included in the Law on Culture, which promotes women’s participation in cultural and artistic activities under equitable conditions (paragraph 1.40). Lastly, the Bank is currently preparing a second policy-based loan program in the programmatic series 4777/OC-PN that is exclusively focused on the issue of gender equality in Panama. It includes policy conditions for the strategy for inclusion of women and girls in science, technology, engineering, and math (STEM) activities and jobs, which will complement this program’s actions (paragraph 1.30).

B. Objectives, components, and cost

- 1.34 **Objective.** The general objective of the programmatic series and this second operation is to promote Panama’s sustainable economic growth by enhancing the country’s competitiveness and advancing emerging sectors. The specific objectives are: (i) to improve the country’s competitive conditions by promoting an enabling digital environment for business and strengthening the national quality system; and (ii) to advance the development of emerging sectors that generate sources of growth for the economy.
- 1.35 **Component I. Macroeconomic sustainability.** The objective of this component is to contribute to macroeconomic stability, consistent with the program objectives as established in the policy matrix and in the [policy letter](#).

- 1.36 **Component II. Promotion of a more competitive economy.** This component aims to promote a business environment that leverages the progress and penetration of digital technology to facilitate business efficiency and foster the development of productive-sector capabilities and innovation. The reforms to be addressed focus on digitalizing processes in high demand, such as building permits in the country's municipios; implementing the trade movement system in the Colón Free Zone; strengthening protection of personal digital data; and digital signature in the public sector. It also seeks to incentivize private investment, promote the use of indicators to monitor the National Program for Industrial Competitiveness (PNCI), and advance the national quality system and the monitoring of regional competitiveness.
- 1.37 **Promoting an enabling digital environment for business.** In order to promote the use of digital technologies that simplify, modernize, and increase the efficiency of various processes, scale up private investment, and advance the national quality system, the second operation aims to: (i) simplify and digitalize processes for obtaining building permits in the municipios of Chitré and Antón (2.1); (ii) obtain approval for the implementing regulations of the PPP law (2.2); (iii) obtain approval for the implementing regulations of the Personal Digital Data Protection Law (2.3); (iv) implement digital signature in at least 18 pilot public institutions (2.4); (v) implement and operate the Electronic Commercial Movement Declaration System in the Colón Free Zone (2.5); (vi) implement a system of indicators that can be used for online monitoring of the PNCI (2.6); and (vii) create the Regional Competitiveness Observatory to monitor the progress of the regional visions (2.7).
- 1.38 **Strengthening the national business quality system.** In order to update the legal and institutional framework that supports the national quality system, the second program includes the following: (i) approval of the Metrology Law's implementing regulations (2.8); (ii) approval of the National Strategy for the National Metrology Infrastructure (2.9); and (iii) submittal of the Draft Law for the Modernization of the National Quality System to the National Assembly (2.10).
- 1.39 **Component III. Promotion of a more diversified economy.** This component aims to promote three industries with growth potential that contribute to the diversification of the productive infrastructure: CCIs, ICTs, and tourism. The policies that were recognized aim to strengthen the institutional structure, public-private coordination, and the internationalization of CCIs in Panama, and to strengthen human capital for creativity and culture. The policies also seek to promote a strategy for the development of the ICT industry that includes the promotion of new digital financial models, electronic invoicing, and ICT research. They further aim to strengthen governance of the tourism sector, increase the efficiency and effectiveness of Panama's public policies and tourism investments, and bolster the sector's sustainability and resilience.
- 1.40 **Promoting the cultural and creative ecosystem.** This second operation includes: (i) the enactment of the Law on Culture, which includes the promotion of women's participation in cultural and artistic activities under equitable conditions, development of the cinematographic and audiovisual industry, and rules governing copyright (3.1); (ii) the approval of the implementing regulations of the Law Establishing the Ministry of Culture, which strengthens the sector's

- institutions (3.2); (iii) the creation of the Ministry of Culture's planning committee, which formalizes strategic planning and strengthens the sector's institutions (3.3); (iv) the design of methodology for a creative and cultural satellite account to measure the sector's contribution to the economy and facilitate decision-making (3.4); (v) the execution and evaluation of the first phase of the strategy for promotion of the cultural and creative economy through the CCI coordinating group (3.5); (vi) the execution and evaluation of the first phase of the strategy for internationalization of the creative economy (3.6); and (vii) the creation of postgraduate support programs abroad for advanced human capital training in key segments of the creative industries (3.7).
- 1.41 **Promoting the exploitation of opportunities offered by the new digital economy.** The second program advances these reforms through the following: (i) the execution and evaluation of actions and tasks for promotion of the ICT industries called for in the Panama Digital Hub strategy (3.8); (ii) the approval of the Telework Law (3.9.a), and the regulations implementing the law, which recognizes the rights and responsibilities of workers and employers with respect to the implementation of telework (3.9.b.); (iii) the approval of new operating models to gradually expand electronic invoicing by creating qualified authorized suppliers (3.10); and (iv) the launch of an international competitive process to select the director of INDICATIC in order to further develop research in the ICT sector (3.11).
- 1.42 **Promoting the tourism industry.** The second program includes conditions for the following: (i) approval of the Master Plan for Sustainable Tourism Development 2020-2025, which promotes recognition of Panama as a sustainable tourist destination, ensures protection of natural and cultural resources, and addresses climate change challenges in the sector (3.12); (ii) evaluation of the actions and tasks implemented by the Tourism Office and the Panama Tourism Authority (ATP) (3.13); (iii) execution and evaluation of the international promotion strategy conducted by the Tourism Promotion Fund, once its trust has been funded (3.14); and (iv) evaluation of the implementation of sustainable tourism standards (3.15).
- 1.43 **Changes to policy measures.** In this operation, 15 measures were kept, 5 were added, 6 were strengthened, and 1 was eliminated. Component III eliminated the condition regarding the implementing regulations of the Law for Financial Sector Modernization and Competitiveness in Panama. Moving forward with this reform was not feasible, owing to the fact that priority is being given to the broad moratorium on lending currently in place. As for the condition on electronic invoicing, changes were made to the language of the commitment to approve standards that promote the use of electronic invoicing through the creation of operational models that allow for a fully digitalized invoicing method. This will continue the objective of gradually expanding and implementing electronic invoicing. Instead of establishing at least two research groups in INDICATIC, a proposal was made to launch an international competitive process for the institute's director, which was an intermediate milestone scheduled for 2020. However, that process could not move forward due to the restrictions imposed by the COVID-19 pandemic. In addition, new measures are being introduced, such as enacting the new Law on Culture, strengthening the culture sector's planning capacities, and developing a culture satellite account; a new law regulating telework; and the establishment of a strategic framework to promote tourism

sector recovery and development. The changes incorporated do not affect the expected outcomes, nor the program's proposed scope, but will instead strengthen them. See the [comparative matrix](#).

- 1.44 **Beneficiaries.** Given the sweeping nature of the reforms, this program is expected, under the first specific objective, to benefit the country's enterprises in general, and micro, small, and medium-sized enterprises in particular (which according to Directorate General of Revenue (DGI) administrative records total approximately 51,000 for the formal sector in 2019). Under the second specific objective, the direct beneficiaries are enterprises in the creative industries, digital, and tourism sectors (which according to DGI administrative records total approximately 4,400 for the formal sector), and there will also be a spillover effect for enterprises in their value chains.

C. Key results indicators

- 1.45 **Impact and outcome indicators.** The program's general objective will be measured through impact indicators: (i) the percentage of the GDP annual growth rate attributable to changes in total factor productivity (TFP); (ii) the Global Competitiveness Index; and (iii) the participation of emerging sectors (percentage of sales of promoted sectors versus total formal sector sales). The first specific objective will be measured through the following indicators: (i) time taken to approve the registration of regular plans (not miscellaneous or specialized plans) in the municipal governments of Chitré and Antón; (ii) the Network Readiness Index (businesses sub-pillar score); and (iii) the number of internationally recognized metrological capabilities (calibration and measurement). The second specific objective will be measured through: (i) annual value-added tax collected through electronic invoicing; (ii) average annual sales of ICT sector enterprises; (iii) average annual sales of tourism sector enterprises; and (iv) average annual sales of creative sector enterprises.
- 1.46 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects²⁴ and the results of the Review of Good Practice Standards for the Evaluation of Policy-based Lending, prepared by the Evaluation Cooperation Group (ECG) comprised of the independent evaluation offices of multilateral development banks,²⁵ as described in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (document GN-2489-5), indicating, inter alia, that there is no need to include an analysis of efficiency in the use of financial resources,²⁶ it was decided not to perform an economic analysis for loans of this type, as reported to the Bank's Board of Executive Directors. Thus, this operation does not include an economic analysis.

²⁴ Document RE-397-1: "Currently, the Economic Analysis section is computed as the maximum between the CBA (cost benefit analysis) and the CEA (cost effectiveness analysis). Yet neither a CBA nor a CEA is applicable to PBLs (policy-based loans) and PBP (programmatic policy-based loans)."

²⁵ Working Group on Public Sector Evaluation, 2012.

²⁶ The Evaluation Cooperation Group calls for policy-based loans to be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion because policy-based loans are sized according to the country's financing gap, independent of project benefits.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation was structured under the programmatic policy-based loan (PBP) modality and is the second operation in a programmatic series of two contractually independent but technically linked operations, as established in the guidelines of document CS-3633-2, "Policy-based Loans: Guidelines for Preparation and Implementation." This instrument was selected in response to ongoing policy dialogue with the country that will help develop an execution strategy for this programmatic series and the institutional strengthening carried out since design of the first operation began. Additionally, the selection of this modality is related to the government's demonstrated determination and capacity to execute sustainable reforms in order to strengthen competitiveness and lay the groundwork for developing areas that enable economic diversification.
- 2.2 **Dimensioning of operation.** The dimensioning of the operation is justified by the public sector's financial requirements and is not directly related to the agreed reform-related costs under the operation, as established in paragraph 3.27(b) of document CS-3633-2. The amount of this operation is US\$150 million from the Bank's Ordinary Capital resources, equivalent to 2.5% of the gross financing needs of Panama's public system, which are estimated at US\$6 billion for 2021 and account for 1.8% of Panama's multilateral financing as of 31 January 2021.

B. Environmental and social safeguard risks

- 2.3 In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (OP-703), an ex ante impact classification is not required for this program. The operation supports policy development, management tools, and other institutional strengthening measures. Thus, no direct or significant negative socioenvironmental impacts are expected.

C. Fiduciary risks

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

D. Other key risks and issues

- 2.5 A medium-high economic and financial risk was identified. If the severe impact of the crisis caused by the COVID-19 pandemic continues or worsens worldwide or within Panama's economy, this may adversely affect economic recovery efforts and prolong the period of crisis, impacting public and private revenue and the overall capacity to reactivate the economy. Although managing this risk is outside of the program's scope, it will be mitigated through continuous monitoring of the country's macroeconomic situation via ongoing dialogue with government counterparts and other relevant stakeholders, in order to identify actions that provide appropriate support.
- 2.6 **Sustainability.** The policies supported in this operation are consistent with the measures pursued by the government in recent years to promote competitiveness and economic diversification (paragraphs 1.16 and 1.17). At the same time,

strategic pillar three in the government's Strategic Plan is the promotion of a "Competitive, Job-Creating Economy." This pillar puts priority on actions consistent with this program, such as supporting the public-private partnership model, facilitating government e-procedures, implementing the PNCI, supporting the network of regional competitiveness centers, supporting quality to ensure international market access for Panamanian products, promoting the Ministry of Culture and CCIs through support instruments, creating the Tourism Office, promoting a tourism quality system, launching the Tourism Promotion Fund, and promoting private investment in technology and innovation. The implementation of reforms fulfilled in the first program and continued and furthered in this program are indicative of the political commitment made by the Government of Panama to lead an active agenda in the promotion of competitiveness and advancement of emerging sectors, so the reforms are expected to remain in effect in the medium term. Additionally, the Bank has provided assistance to help fulfill the measures proposed for the second operation, with the ongoing execution of technical cooperation operations Support for the Creative and Cultural Ecosystem of Panama (ATN/OC-16676-PN) and Strengthening Capacity for Economic Diversification and Competitiveness Promotion (ATN/OC-17998-PN), currently in execution (paragraphs 1.29 and 1.30). Execution of these operations will continue in order to support the sustainability of the policy reforms and contribute to: increasing the number of municipios that automate their building permit processes; offering technical support for PPPs; strengthening the quality system; implementing the culture satellite account; and strengthening institutions in the tourism sector.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Panama, and the executing agency will be the Ministry of Economy and Finance (MEF). The MEF has served as technical coordinator for the project since the first operation. The MEF National Public Policy Directorate is the technical counterpart for this first operation in the series. The frontline government institutions that promote public policy reforms and adjustments play a highly important counterpart role, given the multisector nature of the proposed project.
- 3.2 The executing agency will be responsible for: (i) coordinating with the institutions and ministries responsible for the actions set out in this operation in all relevant respects; (ii) providing evidence that the policy commitments have been fulfilled, as well as any other program-related evidence that the Bank needs to approve the respective disbursement; (iii) once the program disbursement has been secured, gathering information from the performance indicators used to evaluate the program outcomes; and (iv) periodically tracking the plan for fulfillment of the indicative policy actions for a second operation.
- 3.3 **Coordination mechanism.** The institutional functions and missions of the executing agency include carrying out the development strategies adopted by the government and supporting the formulation, promotion, and evaluation of key institutional reforms and public policies for their implementation. The executing agency will lead the supervision, evaluation, monitoring, and control of this

program in close cooperation with each of the different institutions involved, as it has done during program preparation. The executing agency will be tasked with engaging the institutions involved and tracking timely fulfillment of the indicative commitments for the second operation. The institutions responsible for this operation's activities are the AIG, ANTAL, the Colón Free Zone, SENACYT, the Ministry of Trade and Industry, the Ministry of Culture, the Ministry of Foreign Affairs, the Ministry of Economy and Finance, and the ATP. Specifically, the executing agency will coordinate interaction between all of the institutions involved in policy implementation through interagency coordination, which is defined and supported with technical assistance and nonreimbursable technical-cooperation funds provided by the Bank. With the Ministry of Trade and Industry, this involves progress on industry promotion and development and strengthening of the national quality system, while the Ministry of Culture will be responsible for advances related to the cultural and creative ecosystem. Additionally, to facilitate the program's strategic coordination, the executing agency will be supported by the National Competitiveness Forums of the National Competitiveness Center (competitiveness, tourism, and ICT), in the Creative and Cultural Industries Coordinating Group.²⁷ Coordination with local governments will be coordinated with the National Decentralization Authority.²⁸

- 3.4 **Special contractual conditions precedent to the sole disbursement of the loan. The first and sole disbursement is subject to fulfillment of the policy reform conditions, as established in the Policy Matrix (Annex II), the [policy letter](#), and the other conditions established in the loan contract.**

B. Summary of arrangements for monitoring results

- 3.5 **Monitoring.** Given the nature of the project, monitoring will focus on verifying fulfillment of the policy actions by the Government of Panama for the first and sole disbursement of the loan for this second operation, as described in the [monitoring and evaluation plan](#), the Policy Matrix (Annex II), and the [means of verification matrix](#), once the program disbursement has been made. The executing agency will be responsible for delivering a six-monthly report to the Bank on implementation of the plan for fulfillment of the indicative policy actions for the second operation, once the first and sole disbursement has been made for the second operation. A single administration mission is planned, to analyze implementation.
- 3.6 **Evaluation.** The program final evaluation, which will be reflected in the program completion report and assess achievement of the objectives through change in the impact and outcome indicators established in the program Results Matrix (Annex III), will be conducted upon completion of the programmatic series. The evaluation methodology for the program indicators will be reflexive ("before and after" comparison) or nonexperimental (difference in differences combined with propensity score matching), based on available information. The program evaluation will rely on the use of administrative data regularly collected by the DGI (see [monitoring and evaluation plan](#)).

²⁷ The Coordinating Group includes representation from public institutions, the private sector, and universities.

²⁸ See www.descentralizacion.gob.pa.

IV. POLICY LETTER

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

Development Effectiveness Matrix		
Summary		PN-L1167
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Agencies with strengthened digital technology and managerial capacity (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3055	The operation is aligned with the strategic objectives of "Enhance the effectiveness of the tax administration"; "Promote the digital transformation of public administration"; and "Increase productivity, resilience, and sustainability of Panamanian agricultural producers".
Country Program Results Matrix	GN-3034	The intervention is included in the 2021 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		7.6
3.1 Program Diagnosis		1.9
3.2 Proposed Interventions or Solutions		1.9
3.3 Results Matrix Quality		3.8
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury. Procurement: Information System.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The design and implementation of the operation were supported by the technical cooperations of Support for the Creative and Cultural Ecosystem of Panama (ATN/OC-16676-PN) and Capacity Building for the Promotion of Competitiveness and Diversification of the Economy (ATN/OC-17998-PN) currently under implementation.

The program, in the amount of USD150MM, is the second operation in a PBP with Panama. The general objective of the programmatic series and of this second operation is to promote sustainable economic growth in Panama through improvements in the country's competitiveness and through promoting emerging sectors. The specific objectives are: (i) to improve the country's conditions for competitiveness through promoting a favorable digital environment for business and by strengthening a quality national system; and (ii) to promote the development of emerging sectors that will generate sources of growth for the economy.

The loan proposal presents a solid diagnostic of the problem, as well as a review of good practices. The supported public policies are appropriate to favor the digital environment of the economy. The Results Matrix is congruent with the project's vertical logic, presenting indicators adequate at the results and impact level. Among others, the results expected in the medium term include: a reduction in the average time it takes to register ordinary blueprints in two municipalities given that the project promotes the digitalization and simplification in the process of obtaining construction permits in these places; an increase in the collection of the Value Added Tax through digital invoice; and an increase in the average annual sales of firms in ICT sectors. Among others, in the long-term, it is expected that Panama will improve its position in the Global Competitiveness Index of the WEF. At closure, a reflexive methodology will be used to assess most of the program results. This will be complemented by a quasi-experimental impact evaluation based on differences-in-differences with matching to evaluate the increase in the average sales of firms in the ICT sector against a control group.

POLICY MATRIX

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

Components/Policy objectives	Policy conditions Programmatic loan I	Policy conditions Programmatic loan II	Fulfillment status of Programmatic loan II conditions ¹
Component I: Macroeconomic sustainability			
a. Contribute to macroeconomic stability	1.1 Maintain a macroeconomic policy framework consistent with the program objectives.	1.1 Maintain a macroeconomic policy framework consistent with the program objectives.	Fulfilled
Component II. Promotion of a more competitive economy			
a. Promote an enabling digital environment for business	2.1 Simplification and digitalization of the process of obtaining building permits ² from the municipio of Panamá, to improve efficiency and shorten times.	2.1 Simplification and digitalization of the process of obtaining building permits in the municipios of Chitré and Antón.	Pending fulfillment (Q3 2021)
	2.2 Enactment of the law creating the Public-Private Partnership Regime as an incentive for private investment.	2.2 Approval of the regulations implementing the Public-Private Partnership Law.	Fulfilled (Q4 2020)
	2.3 Enactment of the Personal Digital Data Protection Law, to strengthen surveillance over the use of personal data when using ICTs.	2.3 Approval of the regulations implementing the Personal Digital Data Protection Law.	Fulfilled (Q2 2021)

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

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

Components/Policy objectives	Policy conditions Programmatic loan I	Policy conditions Programmatic loan II	Fulfillment status of Programmatic loan II conditions ¹
	2.4 Implementation of digital signature in at least one public sector body, to contribute to the development of digital platforms in the public administration.	2.4 Implementation of the digital signature in at least 18 pilot public institutions.	Fulfilled (Q2 2021)
	2.5 Adoption of the Electronic Commercial Movement Declaration System in the Colón Free Zone, to facilitate and authorize the secure and reliable exchange of information.	2.5 Electronic Commercial Movement Declaration System up and running in the Colón Free Zone.	Fulfilled (Q1 2021)
	2.6 Approval of the regulations implementing the Industry Promotion and Development Law for effective monitoring of the National Industrial Competitiveness Program (PNCI).	2.6 Implementation of a system of indicators that can be used for online monitoring of the PNCI.	Fulfilled (Q2 2021)
	2.7 Approval of a long-term strategy to foster Regional Innovation Systems contributing to the sustainable development of areas outside Panama City.	2.7 Creation of the Regional Competitiveness Observatory, to monitor the progress of regional visions.	Fulfilled (Q2 2021)
b. Promote the strengthening of the National Business Quality System	2.8 Approval by the National Metrology Center of proposed regulations implementing the Metrology Law to strengthen the institutional structure of the national quality infrastructure.	2.8 Approval of the regulations implementing the Metrology Law.	Pending fulfillment (Q3 2021)
	2.9 Approval by the Board of Directors of the National Metrology Center of a proposed National Strategy for the National Metrology Infrastructure, as a basis for public policy decision-making.	2.9 Approval of the National Strategy for the National Metrology Infrastructure.	Pending fulfillment (Q3 2021)
	2.10 Development of a new law for the modernization of the National Quality System through consensus with the system's main institutions, incorporating lessons learned and international best practices.	2.10 Submittal of the Draft Law for the Modernization of the National Quality System to the National Assembly.	Pending fulfillment (Q3 2021)

Components/Policy objectives	Policy conditions Programmatic loan I	Policy conditions Programmatic loan II	Fulfillment status of Programmatic loan II conditions ¹
Component III. Promotion of a more diversified economy			
a. Promote the cultural and creative ecosystem		3.1 Enactment of the Law on Culture, which promotes women's participation in cultural and artistic activities under equitable conditions, and also strengthens the cinematographic and audiovisual industry and rules governing copyright.	Fulfilled (Q4 2020)
	3.1 Creation of the Ministry of Culture with an institutional mandate that includes development of the creative and cultural economy, copyright, and the cinematographic and audiovisual industry.	3.2 Approval of the regulations implementing the Law Establishing the Ministry of Culture, which strengthens the sector's institutions.	Pending fulfillment (Q3 2021)
		3.3 Creation of the Ministry of Culture's planning committee, which institutionalizes strategic planning and strengthens the sector's institutions.	Fulfilled (Q4 2020)
		3.4 Design of the methodology for a creative and cultural satellite account that can measure the sector's contribution to the economy and facilitate decision-making.	Fulfilled (Q2 2021)
	3.2 Creation of the Cultural and Creative Economy Coordinating Group as a public-private committee to set strategic priorities, facilitating the coordination of sector public policies.	3.5 Execution and evaluation of the first phase of the strategy to promote the creative and cultural economy through the CCI Coordinating Group.	Fulfilled (Q2 2021)
	3.3 Approval of a strategy for internationalization of the creative economy to promote Panamanian cultural and creative products and services.	3.6 Execution and evaluation of the first phase of the strategy for internationalization of the creative economy.	Fulfilled (Q3 2021)

Components/Policy objectives	Policy conditions Programmatic loan I	Policy conditions Programmatic loan II	Fulfillment status of Programmatic loan II conditions ¹
	3.4 Creation of a Creative Industries Diploma program at Universidad Tecnológica de Panamá, to strengthen human capital training offerings in the sector.	3.7 Creation of postgraduate support programs abroad for advanced human capital training in key segments of the creative industries.	Pending fulfillment (Q3 2021)
b. Promote the exploitation of opportunities presented by the new digital economy	3.5 Adoption of the Panama Digital Hub Strategy to promote the ICT industry.	3.8 Execution and evaluation of actions and tasks for promotion of the ICT industries called for in the Panama Digital Hub Strategy.	Fulfilled (Q2 2021)
		3.9.a Approval of the Telework Law.	Fulfilled (Q1 2020)
		3.9.b Approval of the regulations implementing the Telework Law, which recognizes the rights and responsibilities of workers and employers in the implementation of telework.	Fulfilled (Q3 2020)
	3.6 Submittal to the National Assembly of the Law for the Modernization and International Competitiveness of the Financial System of the Republic of Panama, which promotes the emergence of new financial models, such as fintech.		
	3.7 Authorization by the MEF Directorate General of Revenue (DGI) for a group of selected enterprises ³ to implement a pilot plan for the use of electronic invoicing in order to promote the digitalization of business operations and modernize tax management and collection.	3.10 Approval of new operating models for the gradual expansion of electronic invoicing through the creation of authorized qualified suppliers.	Fulfilled (Q4 2020)

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

Components/Policy objectives	Policy conditions Programmatic loan I	Policy conditions Programmatic loan II	Fulfillment status of Programmatic loan II conditions ¹
	3.8 Establishment of the National Institute for Applied Scientific Research in Information and Communication Technology (INDICATIC) as a public interest association.	3.11 Launch of an international competitive process for the director of INDICATIC, in order to strengthen research in the ICT sector.	Fulfilled (Q2 2021)
c. Promote the tourism industry		3.12 Approval of the Master Plan for Sustainable Tourism Development 2020-2025, which promotes recognition of Panama as a sustainable tourist destination, protects natural and cultural resources, and addresses the sector's climate change challenges.	Fulfilled (Q3 2020)
	3.9 Creation of the Tourism Office as the coordinating, advisory, and executing agency for priority actions and tasks in the tourism sector.	3.13 Evaluation of the actions and tasks implemented by the Tourism Office and the Panama Tourism Authority (ATP).	Pending fulfillment (Q3 2021)
	3.10 Approval of the regulations implementing the Law on the Tourism Promotion Fund to promote the tourism industry.	3.14 Execution and evaluation of the international promotion strategy conducted by the Tourism Promotion Fund, once its trust has been funded.	Pending fulfillment (Q3 2021)
	3.11 Approval of the regulation adopting international quality criteria or parameters for the sustainable development of tourism activities.	3.15 Evaluation of the implementation of standards for sustainable tourism.	Pending fulfillment (Q3 2021)

RESULTS MATRIX

Project objective:	The general objective of the programmatic series and this second operation is to promote Panama's sustainable economic growth by enhancing the country's competitiveness and advancing emerging sectors. The specific objectives are: (i) to improve the country's competitive conditions by promoting an enabling digital environment for business and strengthening the national quality system; and (ii) to advance the development of emerging sectors that generate sources of growth for the economy.
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General development impact

Indicators	Unit of measure	Baseline	Baseline year	Expected year achieved	Target (2023)	Means of verification	Comments
General development objective: To promote Panama's sustainable economic growth by enhancing the country's competitiveness and advancing emerging sectors							
Percentage of the GDP annual growth rate attributable to changes in total factor productivity (TFP)	%	12	2019	2024	18	Penn World Table 10.0	Percentage of GDP annual growth attributable to TFP. See monitoring and evaluation plan .
Global Competitiveness Index	Index	61.6	2019	2024	62.7	Global Competitiveness Report of the World Economic Forum	Panama's ranking in the Index. See monitoring and evaluation plan .
Participation of emerging sectors (% of sales of promoted sectors versus total formal sector sales)	%	4.2	2019	2024	4.2	Administrative records of the Directorate General of Revenue (DGI)	Sales of formal firms operating in sectors promoted by the program. See monitoring and evaluation plan .

Specific development objectives

Indicators	Unit of measure	Baseline	Baseline year	Expected year achieved	End of project	Means of verification	Comments
Specific development objective 1: To improve the country's competitive conditions by promoting an enabling digital environment for business and strengthening the national quality system							
Average time taken to approve the registration of regular plans (not miscellaneous or specialized plans) in the municipios of Chitré and Antón	Number of days	45	2020	2024	30	Reports from the municipal governments of Chitré and Antón	Baseline and target estimated based on reports produced by the municipal governments of Chitré and Antón. The target is to reduce average times by 50%. The evaluation will be reflexive, using a before and after comparison.
Network Readiness Index (businesses sub-pillar score)	Index	35.42	2020	2024	40.59	Portulans Institute	The businesses sub-pillar of the Network Readiness Index (NRI) indicates the level of ICT use by a country's businesses and their participation in the digital economy. The baseline corresponds to the sub-pillar score in the 2020 edition of the report. The expected target is to attain Colombia's score in the current index, thereby moving up four places in the current sub-pillar ranking. The evaluation will be reflexive, using a before and after comparison. See monitoring and evaluation plan .
Number of internationally recognized metrological capabilities (calibration and measurement)	Number of recognized metrological capabilities	37	2020	2024	42	International Bureau of Weights and Measures	The indicator reflects the number of metrological capacities (measurement and calibration) in eight areas. The baseline is extracted from the Bureau's annual statistics and measures the number of metrological capacities recognized by the Bureau for Panama. The evaluation will be reflexive, using a before and after comparison. See monitoring and evaluation plan .
Specific development objective 2: To advance the development of emerging sectors that generate sources of growth for the economy							
Annual value-added tax collected through electronic invoicing	Percentage	0.22	2020	2024	1	Ministry of Economy and Finance (MEF) DGI administrative records	This indicator reflects the percentage of value-added tax declared through electronic invoicing over total value-added tax declared in the country. Estimated baseline and target from DGI administrative records. The evaluation will be reflexive, using a before and after comparison.

Indicators	Unit of measure	Baseline	Baseline year	Expected year achieved	End of project	Means of verification	Comments
Average annual sales of ICT sector enterprises	Percentage points	0	2019	2024	10	Ministry of Economy and Finance (MEF) DGI administrative records	This indicator corresponds to the percentage difference in sales between ICT sector enterprises and a control group. The target is an increase of 10 percentage points compared to the base year. The difference-in-difference matching (DDM) method will be used for evaluation with comparable enterprises in sectors other than those covered.
Average annual sales of tourism sector enterprises	US\$ million	0.23	2019	2024	0.23	Ministry of Economy and Finance (MEF) DGI administrative records	Information on sales of active enterprises (with revenue greater than zero) in the sector was considered for 2019. The target considers average sales of active enterprises in the sector in 2024. Considering the adverse situation caused by the current COVID-19 crisis, which has disproportionately affected the tourism sector, the expected target is to at least maintain pre-crisis levels of average sales. The evaluation will be reflexive, using a before and after comparison.
Average annual sales of creative sector enterprises	Percentage points	0	2019	2024	5	Ministry of Economy and Finance (MEF) DGI administrative records	This indicator corresponds to the percentage difference in sales between creative sector enterprises and a control group. Considering the adverse situation caused by the current COVID-19 crisis, which has disproportionately affected certain subsectors in the creative sector, the expected target is an increase of five percentage points compared to the base year. The DDM method will be used for evaluation with comparable enterprises in sectors other than those covered.

Outputs

Indicators	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Entity Responsible
Component II. Promotion of a more competitive economy						
2.1 Processes for obtaining building permits in the municipios of Chitré and Antón, simplified and digitized.	Number of municipios with simplified and digitized processes	0	2020	2	Formal letter from the Executive Office of the General Administrator of the National Authority for Government Innovation (AIG) with the digitalization agreements established with municipios, and a report from the Department of Digitalization on the implementation status of the digitalization and systematization of building permits in the municipios in the Republic of Panama	AIG
2.2 Regulations implementing the Public-Private Partnership Law, approved.	Number of regulations approved	0	2020	1	Executive Order 840 of the President of the Republic of 31 December 2020, published in Official Gazette 29189	Ministry of Economy and Finance
2.3 Regulations implementing the Personal Digital Data Protection Law, approved.	Number of regulations approved	0	2020	1	Executive order of the President of the Republic with the regulations implementing the Personal Digital Data Protection Law	ANTAI
2.4 Digital signature implemented in at least 18 pilot public institutions.	Number of pilot public institutions	0	2020	18	Formal letter from the Executive Office of the General Administrator of the AIG, with the agreements on digital signature use; and certificates issued by the Public Registry for public institutions that have adopted digital signature in their document management processes	AIG
2.5 Electronic Commercial Movement Declaration System (DMCE) in the Colón Free Zone, up and running.	Number of systems implemented	0	2020	1	Resolution OAL-050-2021 of 3 February 2021 of the General Manager of the Colón Free Zone, stating that the Colón Free Zone has implemented the DMCE	Colón Free Zone
2.6 System of indicators that can be used for online monitoring of the National Industrial Competitiveness Program (PNCI), implemented.	Number of systems implemented	0	2020	1	Letter from the Executive Office of the Ministry of Trade and Industry reporting on the implementation status of a system of indicators that can be used for online monitoring of the PNCI	Ministry of Trade and Industry

Indicators	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Entity Responsible
2.7 Regional Competitiveness Observatory to monitor the progress of regional visions, created.	Number of observatories created	0	2020	1	Cooperation framework agreement signed by the National Department of Science, Technology, and Innovation (SENACYT), the Ministry of the President, the Network of Regional Competitiveness Centers, and the National Competitiveness Center (CNC), to designate the CNC's National Development Observatory as the Regional Competitiveness Observatory	SENACYT
2.8 Regulations implementing the Metrology Law, approved.	Number of regulations approved	0	2020	1	Executive order of the President of the Republic with the regulations implementing the Metrology Law	Ministry of Trade and Industry
2.9 National Strategy for the National Metrology Infrastructure, approved.	Number of strategies approved	0	2020	1	Letter from the Executive Office of the Ministry of Trade and Industry approving the National Strategy for the National Metrology Infrastructure	Ministry of Trade and Industry
2.10 Draft law for the Modernization of the National Quality System, submitted to the National Assembly.	Number of draft laws submitted	0	2020	1	Resolution of the Cabinet Council authorizing the Ministry of Trade and Industry to submit the Draft Law for the Modernization of the National Quality System to the National Assembly	Ministry of Trade and Industry
Component III. Promotion of a more diversified economy						
3.1 Law on Culture, which promotes women's participation in cultural and artistic activities under equitable conditions, and strengthens the cinematographic and audiovisual industry and rules governing copyright, enacted.	Number of laws approved	0	2020	1	Law 175 of 3 November 2020 of the National Assembly, published in Official Gazette 29151-A	Ministry of Culture
3.2 Regulations implementing the Law Establishing the Ministry of Culture, which strengthens the sector's institutions, approved.	Number of regulations approved	0	2020	1	Executive order of the President of the Republic regulating implementation of the Law Establishing the Ministry of Culture, which includes strengthening the cinematographic and audiovisual industry and rules governing copyright	Ministry of Culture

Indicators	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Entity Responsible
3.3 Ministry of Culture planning committee, which institutionalizes strategic planning and strengthens the sector's institutions, created.	Number of committees created	0	2020	1	Ministry of Culture Resolution 144-20/MC/DAJ of 17 November 2020, which creates the planning committee (COPLAN) that will monitor the execution and fulfillment of the annual work plans and the institutional strategic plan	Ministry of Culture
3.4 Methodology for a creative and cultural satellite account that can measure the sector's contribution to the economy and facilitate decision-making, designed.	Number of methodologies designed	0	2020	1	Letter from the Executive Office of the Ministry of Culture stating that Panama's culture satellite account has been designed	Ministry of Culture
3.5 First phase of the strategy to promote the creative and cultural economy through the CCI Coordinating Group, executed and evaluated.	Number of strategies executed and evaluation	0	2020	1	Letter from the Executive Office of the Ministry of Culture with the evaluation of the first phase of the strategy to promote the creative and cultural economy through the CCI Coordinating Group	Ministry of Culture
3.6 First phase of the strategic to internationalize the creative economy, executed and evaluated.	Number of strategies executed and evaluated	0	2020	1	Official letter from the Executive Office of the Ministry of Foreign Affairs with the execution and evaluation report for the first phase of the strategy to internationalize the creative economy	Ministry of Foreign Affairs
3.7 Postgraduate support programs abroad for advanced human capital training in key segments of the creative industries, created.	Programs created	0	2020	1	Agreement between the Ministry of Culture and the Institute for Training and Leveraging Human Resources (IFARHU), for the creation of postgraduate support programs abroad for advanced human capital training in the creative industries	Ministry of Culture
3.8 Actions and tasks for promotion of the ICT industries called for in the Panama Digital Hub Strategy, executed and evaluated.	Number of strategies executed and evaluated	0	2020	1	Letter from the Executive Office of SENACYT with the evaluation of actions and tasks undertaken to promote the ICT industries called for in the Panama Digital Hub Strategy	SENACYT
3.9.a Telework Law approved.	Number of laws approved	0	2020	1	Law 126 of 19 February 2020 in Official Gazette 28965-A	Ministry of Economy and Finance

Indicators	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Entity Responsible
3.9.b Regulations implementing the Telework Law, which recognizes the rights and responsibilities of workers and employees in the implementation of telework, approved.	Number of regulations approved	0	2020	1	Executive Order 133 of 16 September 2020 in Official Gazette 29115-A	Ministry of Economy and Finance
3.10 New operating models for the gradual expansion of electronic invoicing through the creation of authorized qualified suppliers, approved.	Number of operating models approved	0	2020	1	Executive Order 766 of the President of the Republic of 29 December 2020 Resolution 201-0295 of the DGI of 20 January 2021	DGI
3.11 International competitive process for the director of INDICATIC, to strengthen research in the ICT sector, launched.	Number of competitive processes launched	0	2020	1	Letter from the Executive Office of SENACYT with evidence that the competitive process for the director of INDICATIC was launched and that funds were allocated to begin operations	SENACYT
3.12 Master Plan for Sustainable Tourism Development 2020-2025 to promote recognition of Panama as a sustainable tourist destination, protect natural and cultural resources, and address the sector's climate change challenges, approved.	Number of plans approved	0	2020	1	Resolution 010/2020 of 17 September 2020 of the National Tourism Council of the Panama Tourism Authority (ATP) in Official Gazette 29176, approving the general guidelines set out in the Master Plan for Sustainable Tourism Development 2020-2025	ATP
3.13 Actions and tasks implemented by the Tourism Office and the ATP, evaluated.	Number of strategies evaluated	0	2020	1	Letter from the Executive Office of the ATP on the evaluation of the actions and tasks implemented by the Tourism Office	ATP
3.14 International promotion strategy conducted by the Tourism Promotion Fund, executed and evaluated.	Number of strategies executed and evaluated	0	2020	1	Letter from the Executive Office of the ATP with the evaluation of the international promotion strategy conducted by the Tourism Promotion Fund, once its trust has been funded	ATP
3.15 Implementation of standards for sustainable tourism, evaluated.	Number of standards implemented and evaluated	0	2020	1	Letter from the Executive Office of the ATP with the evaluation of the implementation of standards for sustainable tourism	ATP

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Panama. Loan ____/OC-PN to the Republic of Panama
Economic Diversification and Competitiveness Promotion Program II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Economic Diversification and Competitiveness Promotion Program II. Such financing will be for the amount of up to US\$150,000,000 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 __ _____ 2021)