

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

**GLOBAL CREDIT PROGRAM FOR PROMOTING
THE SUSTAINABILITY AND ECONOMIC RECOVERY OF PANAMA**

(PN-L1165)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Christian Schneider (IFD/CMF), Team Leader; Daniel Fonseca (IFD/CMF), Alternate Team Leader; Gabriela Andrade, María Carmen Fernández, Isabelle Braly-Cartillier, Javier Gavilanez, Claudia Márquez, and Ana Lucía Lozano (IFD/CMF); Ezequiel Cambiasso and David Ochoa (VPC/FMP); Carlos Garcimartín and Annabelle Wever (CID/CPN); Galileo Solís (IFD/CTI); Jan Petter Eskildsen (INO/FLI); Vida Bobic (SPD/SDV); Esteban de Dobrzynski (LEG/SGO); Giovanni Leo Frisari and Omar Samayoa (CSD/CCS).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING.....	1
A.	Background, problem addressed, and rationale.....	1
B.	Objectives, components, and cost.....	14
C.	Key results indicators	15
II.	FINANCING STRUCTURE AND MAIN RISKS.....	15
A.	Financing instruments.....	15
B.	Environmental and social safeguard risks.....	15
C.	Fiduciary risks	16
D.	Other key risks and issues.....	16
III.	IMPLEMENTATION AND MANAGEMENT PLAN.....	17
A.	Implementation arrangements	17
B.	Arrangements for monitoring results	20

APPENDICES

Proposed resolution

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements (simplified format)

LINKS
REQUIRED <ol style="list-style-type: none">1. Simplified monitoring and evaluation plan2. Environmental and social management report (ESMR)
OPTIONAL <ol style="list-style-type: none">1. Economic viability rationale2. Diagnostic assessment of problems faced by MSMEs3. Bibliography4. Summary of the main economic, monetary, and financial policy measures adopted in response to the COVID-19 global pandemic emergency5. Panama: Vulnerability of productive sectors to the spread of COVID-196. Credit Regulations7. Structural elements and sector-level conditions of postpandemic economic recovery: Panama's situation in the Latin American and Caribbean context8. Safeguard Policy Filter (SPF)

ABBREVIATIONS

AMPYME	Autoridad de la Micro, Pequeña y Mediana Empresa [Micro, Small, and Medium-sized Enterprise Authority]
BNP	Banco Nacional de Panama [National Bank of Panama]
CAF	Development Bank of Latin America
CNC	Centro Nacional de Competitividad [National Competitiveness Center]
EAP	Economically active population
ECLAC	Economic Commission for Latin America and the Caribbean
ESMR	Environmental and social management report
FIDEMICRO	Fideicomiso para el Microcrédito en Panamá [Panama Microcredit Trust Fund]
FUDIS	Fundacion para el Desarrollo Integrado Sustentable [Foundation for Integrated Sustainable Development]
GHG	Greenhouse gas
IFC	International Finance Corporation
IMF	International Monetary Fund
INEC	Instituto Nacional de Estadísticas y Censos [National Statistics and Censuses Institute]
MDB	Multilateral development bank
MEF	Ministry of Economy and Finance
MEP	Monitoring and evaluation plan
MICI	Ministry of Commerce and Industries
MIGA	Multilateral Investment Guarantee Agency
MSMEs	Micro, small and medium-sized enterprises
NDC	Nationally Determined Contribution to climate change mitigation
PROFIPYME	Programa de Financiamiento para las Micro y Pequeñas Empresas [Micro and Small Enterprise Financing Program]
SBP	Superintendencia de Bancos de Panamá [Superintendency of Banks of Panama]
SDGs	Sustainable Development Goals
SMEs	Small and medium-sized enterprises
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
WHO	World Health Organization

PROJECT SUMMARY

PANAMA GLOBAL CREDIT PROGRAM FOR PROMOTING THE SUSTAINABILITY AND ECONOMIC RECOVERY OF PANAMA (PN-L1165)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility ^(a)	
Republic of Panama			Amortization period:	25 years
Executing agency:			Disbursement period:	2 years
Banco Nacional de Panamá (BNP)			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	US\$150 million	100%	Credit fee:	(c)
Total:	US\$150 million	100%	Inspection and supervision fee:	(c)
			Weighted average life:	15.25 years
			Currency of approval:	U.S. dollar
Project at a Glance				
Project objective/description: The general objective of the program is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) amid the crisis caused by the COVID-19 pandemic, as a mainstay of employment in Panama. The specific objective is to promote the economic recovery of MSMEs affected by the crisis by facilitating access to production-oriented finance.				
Special contractual conditions precedent to the first disbursement of the loan proceeds: The following will be special contractual conditions precedent to the first disbursement of the loan proceeds: (i) the entry into force of a subsidiary agreement between the Ministry of Economy and Finance (MEF), on behalf of the borrower, and Banco Nacional de Panamá (BNP), as executing agency, for the transfer of the loan proceeds and related obligations on terms previously agreed upon with the Bank; and (ii) approval and entry into force of the Credit Regulations on the terms previously agreed upon with the Bank (see paragraph 33.8).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges: ^(d)	SI <input checked="" type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(e)	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input 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 the 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 applicable policies.

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

^(e) GE (Gender Equality) 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 **Background.** On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic. COVID-19 is a respiratory disease caused by the 2019 novel coronavirus, or nCoV2019. As of 11 March 2021, the WHO had recorded over 118 million confirmed cases, resulting in more than 2.6 million deaths. Nearly 22 million cases of COVID-19 and 701,400 deaths have been reported in Latin America and the Caribbean, including Panama with over 345,000 cases and 6,000 deaths.¹
- 1.2 **Macroeconomic and/or social context.** Panama experienced a sharp economic contraction in the first half of 2020 and has had a slower recovery since then. According to the latest available data, GDP shrank by a cumulative 20.4% year-on-year from January to September 2020. Nonetheless, the country's medium-term outlook is favorable, with the International Monetary Fund (IMF) projecting growth of 4% in 2021 and 5% on average between 2022 and 2025 (for comparison, the Latin American average for this period is 3.1%). The slump in activity resulted in lower fiscal revenues (as of December, central government current revenue was down 22.5% year-on-year). Both the Ministry of Economy and Finance (MEF) and the IMF are forecasting a deficit of at least 9% of GDP for 2020, a year when the government amended the fiscal rule to raise the deficit ceiling from 2.75% to the forecasted level mentioned above. As of December 2020, the debt had increased by US\$5.941 billion, or 19.1%, year-on-year. For 2021, the government submitted a budget with a deficit of 7.5% of GDP. The economic contraction has also had a major impact on unemployment, which rose from 7.1% in August 2019 to 18.5% in October 2020. Importantly, Panama has had one of the strictest quarantine regimes in the entire region with repeated total and partial lockdowns impacting commercial and business activity. According to the National Statistics and Censuses Institute (INEC), activity in the principal sectors of the economy declined 56% from March to September 2020,² and the forecast is that this decline may be even worse with the closures in the last three months of the year.
- 1.3 The impact of the pandemic has elicited a change in societal behavior worldwide, causing the pace of demand to slacken with a medium-term effect on the economy. From a macroeconomic perspective, in addition to shrinking domestic demand, the Economic Commission for Latin America and the Caribbean (ECLAC) sees at least five channels for transmission of the crisis impacts to the region's economy:³ (i) slowing economic activity of key trading partners that will impact the demand for exports; (ii) less demand for tourism services; (iii) interruption of global value chains; (iv) falling commodity prices; and

¹ See: WHO COVID-19 Situation Dashboard at [COVID19.who.int](https://covid19.who.int) (March 2021).

² Between January and September, manufacturing industry activity fell 26.2%, commerce fell 24.6%, and services (hotels and restaurants) fell 51.4%. INEC. Informe de Resultados del Tercer Trimestre 2020.

³ See: [ECLAC press release](#) (March 2020).

(v) worsening financial terms. For general aspects of the intervention, see [optional link 2](#).

- 1.4 **Current constraints on access to finance for micro, small, and medium-sized enterprises (MSMEs) in Panama.**⁴ Estimates show that there are some 200,000 MSMEs in Panama, which account for 96.3% of all businesses and 49% of the country's total formal jobs.⁵ The average number of employees in Panama for microenterprises is 3; for small enterprises, 11; and for medium-sized enterprises, 26. According to 2016 data, formal MSMEs as a whole generated US\$6.5 billion in revenues, broken down as follows: (i) small enterprises contributed 41.6%; (ii) medium-sized enterprises, 40.9%; and (iii) microenterprises, 17.5%.⁶
- 1.5 Unlike other countries of the Latin America and the Caribbean region, Panama has a relatively well-developed financial market.⁷ In the 2019 World Economic Forum ranking, it placed 33rd out of 141 countries in terms of credit to the private sector as a percentage of GDP, and 44th in terms of financing of small and medium-sized enterprises (SMEs) ([1] of [optional link 3](#)). Although MSMEs receive good tenor conditions when they do obtain access to finance, there is a clear difference between their overall access and that of large companies. A 2017 analysis by the International Finance Corporation (IFC) of the World Bank Group found that the MSME sector in Panama had a financing shortfall of US\$21 billion (only US\$6 billion of the US\$27 billion demand is financed). This gap is equivalent to 41% of GDP and represents just 26% of the system portfolio.⁸ The same source reports that Panama is one of four countries of the region with the greatest constraints on MSME financing, mainly owing to the loan eligibility requirements imposed by financial intermediaries, as well as the type of collateral and percentage coverage.
- 1.6 The MSME financing disparity is based on: (i) the inability of these companies to provide the substantive, high-quality credit information required by financial institutions; (ii) the influence of the institutional and regulatory environment, particularly adequate specification of property rights, enforcement of financial contracts, and management of macrofinancial risks; (iii) the overall uncertainty and information asymmetry that can lead to a suboptimal allocation of credit; and (iv) the scaling-up costs of offering access to finance to more fragmented segments.⁹ Although the historical shortfall in Panama can be attributed to all these factors, the financial system has overcome these barriers and gradually

⁴ See: Bibliography ([optional link 3](#)).

⁵ Law 8 creating the Micro, Small, and Medium-sized Enterprise Authority (AMPYME) in 2000 defines MSMEs as economic units generating gross income or annual billing of up to US\$2.5 million (microenterprises up to US\$150,000, small enterprises between US\$150,000 and US\$1 million, and medium-sized enterprises between US\$1 million and US\$2.5 million).

⁶ INEC data as of 2016.

⁷ The financial market is regulated and supervised by the Superintendency of Banks of Panama (SBP).

⁸ MSME Finance Gap. [IFC](#).

⁹ Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7). IDB, July 2017.

focused on the need to go beyond economies of scale to allocate a larger proportion of available capital for MSME lending.

- 1.7 **Women-owned or women-led businesses¹⁰ and their limitations.** Recent estimates suggest that women own or lead 22.4% of firms that employ workers in Panama, and account for 29.5% of entrepreneurs or own-account workers. Although insufficient data is available to understand the financial condition of women-owned or women-led businesses, the existing information points to limitations in access to credit for these businesses. An estimated 18% of women's businesses are totally restricted financially, versus an estimated regional average of 14%, and the financing shortfall they face may be at least US\$831 million.¹¹
- 1.8 Although the lack of disaggregated data and analysis prevents an accurate diagnosis of the specific barriers faced by women's businesses in Panama, the international and regional literature shows that the constraints typically faced by MSMEs (see paragraph 11.6) are even more severe in the case of those run by women. Reasons for this include the fact that they tend to have fewer assets to their name, and their businesses tend to be concentrated in sectors where collateral is less available. There are also specific supply-side constraints, such as gender biases (conscious and unconscious) in the practices of financial institutions and the lack of financial products and services with a suitable value proposition for women entrepreneurs. This situation needs to be addressed and highlights the need for a gender perspective in the way public financing programs operate, to avoid reducing women's participation in businesses and the proportion of loans granted to women's MSMEs.
- 1.9 The existing gap in terms of both access to finance and the constraints facing women-owned or women-led businesses could widen even further in the current crisis conditions, owing to an increase in the risk profile of MSMEs, which could force financial institutions to increase provisioning in this portfolio. The initial effects of the pandemic can already be discerned in the financial system, where, according to the Superintendency of Banks of Panama (SBP), in November 2020 banks had to constitute provisions totaling US\$1.028 billion. This was 98.5% more than reported in the year-earlier period, denoting an increase in risk of the businesses. The same source reports that new lending has declined 44% in relation to the same period the prior year, which is a clear sign that the financing gap is widening.¹² Although the financial system has a sizeable liquidity buffer (62% of deposits as of November 2020), Panama does not have a central bank that can act as a lender of last resort, so it relies heavily on international financiers.¹³ Accordingly, the government has sought to promote economic recovery through public financing programs that seek to mobilize the liquidity of

¹⁰ Generically defined as "a company in which the total share owned by women is greater than or equal to 51%."

¹¹ MSME Finance Gap 2017. IFC.

¹² Informe de Actividad Bancaria. SBP, November 2020.

¹³ Document requesting assistance from the Rapid Financing Instrument. IMF, April 2020.

the private financial system with a view to stimulating credit under appropriate conditions and thus enable MSMEs to overcome the current economic troubles.¹⁴

- 1.10 A better understanding of how MSMEs can participate in the economic recovery can be gained by analyzing their future prospects. A survey conducted by the National Competitiveness Center (CNC) in July 2020 ([2] of [optional link 3](#)) found that 13.9% of firms had already largely or totally shut down their operations, and 77% estimated that it would take more than six months to get back to a break-even point. Although more recent data is not available, the extended shutdown is likely to have affected a large segment of MSMEs even more severely. Therefore, to support recovery, short- and medium-term financing programs are crucial to ease the heavy cash flow pressures weighing on MSMEs, to compensate for the drop in their revenues. More specifically, United Nations data show MSMEs in the agroindustry, commerce, and services sectors have been the hardest hit by the pandemic, sustaining losses estimated at US\$1.639 billion as of May 2020, and these firms will require the greatest recovery efforts.¹⁵ Another study conducted in June 2020 by the Foundation for Integrated Sustainable Development (FUDIS)¹⁶ found that only 12% of the MSMEs surveyed had managed to adapt their operations to the new normal, whereas 85% had identified new business opportunities but required additional resources to take advantage of them. The key public policy recommendations for recovery include the importance of financing formulas to stimulate MSME activity, particularly those that can be adjusted to the tenor and flexibility needs of this segment. Lastly, another CNC study¹⁷ advocates that the recovery of the Panamanian economy should emphasize the following, among other factors: (i) greater diversification of the economy; (ii) economic growth and job creation through policies aimed at improving productivity, promoting innovation and competitiveness in the key sectors of the economy; (iii) stimulating local investment for the creation and growth of high-productivity enterprises; and (iv) a policy to change production patterns.
- 1.11 In response to the challenges outlined above, the government has proposed the Economic Recovery Plan¹⁸ to support the following actors, among others: (i) new microentrepreneurs or those engaging in new activities (through a program executed by the Micro, Small, and Medium-sized Enterprise Authority (AMPYME) with a total of US\$20 million in public funding); (ii) MSMEs (through a US\$300 million program executed by Banco Nacional de Panama (BNP) that includes both the program proposed here and IDB program [5040/OC-PN](#) approved in 2020; for more information, see paragraph 11.28), and guarantees (through a program also executed by AMPYME with a total of US\$50 million in

¹⁴ La Banca después de la COVID-19. KPMG. June 2020.

¹⁵ Análisis socioeconómico del impacto del COVID-19 en Panamá. Estudio complementario: escenarios económicos prospectivos y alcance de las opciones de política en Panamá. United Nations Development Programme (UNDP). June 2020.

¹⁶ FUDIS. The impact of COVID-19 on Panamanian MSMEs: Analysis and recommendations. June 2020.

¹⁷ Roger Durán, Rosemary Piper, Ninotshka Tan-CNC, Los retos de aprovechar el desarrollo para Panamá [], 2020.

¹⁸ Republic of Panama, National Government, Plan para la recuperación económica, September 2020.

- public funding); and (iii) the banking system (through a US\$500 million financing fund)¹⁹ via an IMF credit line for the hardest-hit sectors, such as construction, commerce, restaurants, hotels, innovation, science and technology, agroindustry, manufacturing, exports, storage and distribution, and tourism.
- 1.12 This plan will seek to mobilize resources from Panama's financial sector, which historically has had limited capacity to provide financing for MSMEs in sufficient amounts. In this regard, the anchor of a public financing program will serve to mobilize the private financial system, focusing recovery on the productive development of MSMEs, mainly through fixed asset investments that will enable them to adapt and prepare for a future upturn in demand, integration into global value chains, and the attraction of foreign direct investment.
- 1.13 **MSME digitalization, sustenance, and recovery.** The lockdown measures triggered an extension of digitalization in the business world and in the economy at large. For MSMEs, digitalization was seen as a tool enabling them to stay in business and offset their loss of income due to the crisis. The digitalization of a business entails incorporating new products and services into production and logistics processes to obtain productivity gains, add value, and enhance competitiveness. However, digital transformation is not a simple process, and there are barriers that maintain the digital divide at SMEs, including low investment capacity, constraints on the ability to implement technology, insufficient access to financial resources, bottlenecks in logistics chains, and infrastructure shortcomings.²⁰
- 1.14 In relation to this, an April 2020 study by the CAF Digital Ecosystem Observatory provides empirical evidence of the importance of the digital transformation process as a mitigating factor for the disruption caused by a pandemic. The study is based on an econometric analysis of the economic impact of the earlier SARS-CoV virus in 2003, and concludes that countries with a developed connectivity infrastructure were able to mitigate the effects of the pandemic, at least partially. Panama is regarded as having an intermediate ecosystem for the digitalization of its economy; its main strengths include its high Internet coverage (96%), high Internet use in homes (51%), and the existence of public policies geared toward promoting technological innovation in businesses.
- 1.15 **Challenges and progress.** Panama has been making major efforts to support MSME development, seeking to maximize the number of commercially viable firms, especially since AMPYME was created under the Ministry of Commerce and Industries (MICI). This entity, oriented mainly toward development of the MSME sector, has programs including the Micro and Small Enterprise Financing Program (PROFIPYME)²¹ and the Panama Microcredit Trust Fund (FIDEMICRO)²² that have contributed to the development of entrepreneurship and of the microenterprise

¹⁹ This fund is set up as a trust in which the MEF acts as trustor and the BNP as administrator.

²⁰ La pendiente transformación digital de las PYMES latinoamericanas. CAF, September 2020.

²¹ [PROFIPYME Financing Program](#). This guarantee fund offers partial credit guarantees for microenterprises and small businesses.

²² [FIDEMICRO Panama](#). This trust fund supports financial institutions targeting SMEs with funding lines.

sector as an important element of the economy, given its capacity to create jobs. In August 2020, as part of the country's Economic Recovery Plan (see paragraph 11.16), in this case to assist microenterprises affected by the pandemic, AMPYME launched the Banca de Oportunidades program, through which microentrepreneurs and new or reinventing entrepreneurs can obtain loans of between US\$2,000 and US\$5,000 for working capital and the purchase of fixed assets. The program has thus far benefited 3,300 microentrepreneurs for a total amount of US\$6.5 million.

- 1.16 Banco Nacional de Panamá (BNP) has been another key player in promoting financing for the productive sector and is playing an important role in serving businesses affected by the pandemic. According to December 2020 data, the MSME sector represents 14% of BNP's total portfolio, with the agriculture sector accounting for 47%, commerce and services for 27%, and industry for 11%. As the MSME sector has been hard hit by the current conditions, BNP has expanded its lending capacity with an increase in operating capacity that has resulted in a 14% increase in its lending between March and December 2020.
- 1.17 In late 2020, BNP adopted the Women's Empowerment Principles (WEP)²³ of the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). As such, it was the first public bank in Panama to join the initiative and show its commitment to develop a gender-targeted financing agenda. In addition, aware of the importance of promoting green finance in the country, BNP is a signatory of the Green Finance Protocol of Panama,²⁴ the main objectives of which are to promote governance that incorporates sustainable issues, develop risk methodologies based on social and sustainable variables, and, mainly, promote green finance products.
- 1.18 In the current circumstances, public efforts to promote MSME financing risk being insufficient, so the challenge now is to promote a sustainable economic recovery that will support the largest number of firms. In response to the COVID-19 crisis, and in addition to the support programs mentioned above, Panama has been supporting MSME access to finance through: (i) a tax moratorium for all sectors of the economy; (ii) plans to inject liquidity by creating specific programs with public-sector banks as intermediaries; and (iii) temporary modification of loan terms and conditions until mid-2021.
- 1.19 The effects of the pandemic and other phenomena have impacted vulnerable sectors that are important for income generation and employment and have key roles to play in supporting the country's recovery. Among these, the agriculture sector employs 14.2% of Panama's economically active population (EAP) with 256,946 direct jobs (supporting over 1.5 million people, or 35.7% of the country's total population), 80% of whom are small-scale farmers.²⁵ The sector is particularly critical since rural areas display income gaps of up to 40.9%. In

²³ [Women's Empowerment Principles: Bringing Gender Equality into the Corporate Sustainability Framework at Rio+20](#), June 2012.

²⁴ [Sustainable Finance Protocol of Panama](#).

²⁵ CNC calculations based on 2016 data from the National Statistics and Censuses Institute (INEC).

November 2020, the sector was hard hit by Hurricanes Eta and Iota, which caused losses estimated at more than US\$20 million, seriously impacting the production of smallholder farmers.²⁶ This could drive up prices and cause shortages of certain products. Financing for the agricultural sector has historically been challenging in Panama because the scattered locations of potential clients limits the opportunities for the financial system to serve the sector effectively. With its development role, BNP has done much to coordinate financing for the sector, seeking to provide support directly and indirectly. According to 2020 data,²⁷ financing to the sector has represented 17% of the system total, with BNP accounting for nearly 90% of lending to the country's agricultural MSMEs.

- 1.20 To better support the recovery of the agricultural sector, it is important to understand how the crisis created by the COVID-19 pandemic has affected its supply chain. Firstly, the industrial sector is an important source of demand for the agricultural sector, since food processing accounts for 50% of the country's industrial output. It employs 7.7% of the EAP (146,116 people) with a 47% women's participation rate and contributes 4% to GDP.²⁸ According to the CNC, the manufacturing sector has great potential as a driver of the national economy with its capacity to foster human development and business initiatives aimed at economic recovery. The sector could play a leading role in this recovery phase, given its link to the creation of development hubs, which could increase private sector investment, exports, and the use of new technologies for innovation.²⁹
- 1.21 The commerce sector has also been an important source of demand for the agricultural sector, employing 16.9% of Panama's EAP, and makes the second largest contribution to the country's GDP. Women account for 54% of the jobs in this sector. Panama is expected to enter a growth phase driven by domestic demand, beginning in the second half of 2021.³⁰ This would be an opportunity for MSMEs operating in the commerce sector to prepare themselves by making medium-term investments to enable them to absorb demand, reactivating employment contracts and generating a similar momentum to before the pandemic. The country will have significant growth this year (see paragraph 11.2), and 61% of that growth will depend largely on commerce.³¹
- 1.22 Social distancing and mobility restrictions have had a major impact on the service sector, particularly subsectors such as tourism and gastronomy. The sector as a whole is important not only as a job creator but also for its suppliers, the vast majority of which are MSMEs. The break in the supply chain has already caused the temporary suspension of more than 273,000 jobs (30% of formal jobs in Panama).³² When the economy reopens fully, this sector will need to make

²⁶ Estimation of losses caused by Hurricanes Eta and Iota in Panama. Ministry of Agricultural Development, December 2020.

²⁷ SBP data as of November 2020.

²⁸ Data from the Sindicato Industrial de Panamá [Panama Industrial Union] as of May 2020.

²⁹ MICI. [National Industrial Competitiveness Program of Panama](#). December 2020.

³⁰ Panama Pandemic Response and Growth Recovery," loan document. World Bank, November 2020.

³¹ November 2020 estimates by the Chamber of Commerce, Industries, and Agriculture of Panama.

³² Data from the Ministry of Labor and Social Development as of December 2020.

investments to adapt to the new normal (biosafety and/or business restructuring) and introduce technologies to optimize its business model.

- 1.23 Building on the public policy support measures deployed, and because MSMEs have major financing needs, the government will seek to prioritize these sectors as part of its medium- and long-term recovery and transformation strategy. The recovery stage is an opportunity for Panama to strengthen its productive fabric, which consists mainly of MSMEs, by providing support through financing programs.
- 1.24 The Bank has conducted a vulnerability analysis,³³ to better understand the sectors being affected by the crisis. This analysis looks at the sectors broadly without getting into detail regarding MSME financing in each of the affected sectors. It highlights services (including tourism/hospitality), industry (mainly textiles), and agrifood (food grain supply and processing) as the sectors most vulnerable to the pandemic. The Bank has also done an analysis of structural conditions related to the postpandemic³⁴ economic recovery that identifies one of the country's relative strengths as the ability to support the recovery of credit with public sector intervention, and identifies agriculture, forestry, and fishing as one of the sectors with the best outlook for private credit intermediation and recovery in the region and in Panama.³⁵
- 1.25 **Program targeting.** Bank operation [5040/OC-PN](#) (for more information, see paragraph 1.28) has been prioritizing agriculture, so this operation will continue supporting that sector, while also providing financing for vulnerable sectors in the agrifood chain that are a priority for the government and play an important role in the recovery. The proposed program will therefore seek to prioritize productive investments by MSMEs in the agrifood chain, specifically in the following activities: (i) agricultural production; (ii) food processing; and (iii) commerce related to food consumption (restaurants, hotels, and retail). Through this operation, the Panamanian government will deepen its commitment to food security and its strategic importance in the country's economic recovery, seeking to: (i) contribute to addressing the limitations in the financing provided for the sector; (ii) mobilize resources from the private sector, so it can participate more intensively in the economic recovery; and (iii) accelerating the recovery potential for strategic buyers in the chain that have been affected by the pandemic crisis, to stimulate their demand.³⁶
- 1.26 **The Bank's experience.** The Bank has extensive experience in designing sovereign guaranteed loan programs aimed at improving MSME access to finance through financial intermediaries ([3] of [optional link 3](#)). These programs have been implemented in times of economic expansion, when support focuses on access to long-term finance for production-oriented investments, as well as

³³ See: [optional link 5](#).

³⁴ See: [optional link 7](#).

³⁵ By preserving operational capacity, demand, and the value of its assets, relative to other sectors.

³⁶ This prioritization reflects the sector's importance in the country and is consistent with the demand observed by the BNP in the current circumstances.

- cycles of economic recession, when support focuses on ensuring that MSMEs do not lose access to the liquidity they need to continue their economic activity. In the most financial crisis faced by the region in 2007, the Bank played a countercyclical role by expanding both the amount of financing and the facilities used to mitigate the lack of access to credit faced by the region's MSMEs.
- 1.27 For example, liquidity programs for economic growth sustainability were approved in 2008 and 2009³⁷ with the aim of restoring the productive sector's access to finance for working capital and foreign trade. This helped to temporarily offset part of the insufficiency of financing flows to MSMEs resulting from the international financial crisis. With the same objective of stimulating the supply of credit to finance productive sectors, the postcrisis period (2009-2013) saw the approval of contingent credit lines³⁸ to supply liquidity to the financial sector, as well as multisector global credit programs and, chiefly, specific programs of production-oriented financing for MSMEs ([4] of [optional link 3](#)).
- 1.28 In Panama specifically, the Bank has recently supported actions to promote access to finance for the productive sector through the "Global Credit Program for Safeguarding the Productive Fabric and Employment" (loan [5040/OC-PN](#)) for US\$150 million, which was approved in June 2020 and began executing in September. This project's general objective is to support the sustainability of MSMEs as employment providers in Panama amid the COVID-19 crisis. Its specific objectives are to: (i) support the short-term financial sustainability of MSMEs; and (ii) promote the economic recovery of MSMEs through access to production-oriented finance. This operation mainly serves the agriculture sector, as well as its value chain, and has focused primarily on providing short-term credit lines to meet the immediate needs of MSMEs affected by the pandemic. The operation is being executed through a trust fund set up specifically for the program, with the MEF acting as trustor, and BNP as trustee and executing agency.
- 1.29 Although there were some delays in starting program execution (mainly because it was the first operation where BNP acted as the Bank's executing agency), 90% of the amount approved had been disbursed by the end of January 2021, benefiting nearly 2,000 MSMEs countrywide.³⁹ These businesses, which had shut down, have been able to resume operations, reviving over 7,000 jobs. The businesses in question are concentrated mainly in agriculture (sale of grains, fruits, vegetables, and processing), retail commerce (general stores, sale of cleaning products), and services (hotels, inns, restaurants). The lessons learned by BNP as executing agency in the previous operation will serve as a basis to guarantee efficient execution of the present operation. The proposed program

³⁷ In 2008, the IDB created the Liquidity Program for Growth Sustainability in the emergency lending category (document GN-2492-1).

³⁸ Contingent Credit Line for Development Sustainability under the Proposal to Establish a Set of Contingent Lending Instruments of the IDB (document GN-2667-2).

³⁹ In all, 90% percent of the program's resources have been disbursed to 27 financial intermediaries, and thus far US\$77 million of that amount has been disbursed to 2,000 beneficiary MSMEs (75% of these are microenterprises and small businesses). All these businesses were commercially viable at the time they received the resources.

will seek to provide continuity to the previous operation, emphasizing recovery among the affected MSMEs,⁴⁰ particularly in the current context where there have been new closures owing to a partial lockdown imposed until mid-March 2021.

- 1.30 Likewise, the technical cooperation operation [ATN/OC-16709-PN](#), “Strengthening Financial Institutions and Infrastructure in Panama,” has objectives that include the creation of a payment system that increases financial transactions by facilitating cash injections for sectors underserved by the financial system. This technical cooperation operation has made progress in 2020, and a proposal to draft a law is currently being circulated among the main participants of the financial system.
- 1.31 IDB Invest, for its part, has targeted the SME sector in operations centered on providing funding to the financial sector, seeking to narrow the disparity in access to finance through the following operations: (i) a gender bond issued by Banistmo Panama to finance projects with a high positive social impact in the country, targeting women-led SMEs (loan [12174-02](#)); (ii) a senior loan to Global Bank targeting SMEs (loan [11881-02](#)); (iii) a senior loan to BAC International Bank Inc. targeting SME internationalization (loan [3098A/OC-PN](#)); and (iv) a revolving line of credit to Multibank Panama targeting SMEs (loan [PN-3757A-02](#)), among others. As part of the proposal to support the country’s economic recovery, IDB Invest is weighing the creation of a shared risk facility for various sectors, which could complement and leverage resources from this project under a combination of the two interventions.
- 1.32 In conjunction with the National Science, Technology, and Innovation Department (SENACYT) and AMPYME, the Bank launched the “Digital Checkup” tool, which allows MSMEs in Panama to perform a self-diagnostic of their level of digitalization free of charge. This enables them to identify their strengths, weaknesses, and opportunities before embarking on a technological transformation process. With this information, businesses can apply for advisory plans to enhance their strengths and work on their weaknesses. In addition, e-commerce has been emerging as an important commercial modality during the pandemic and beyond. Before the onset of the pandemic, in 2014-2019 Panama recorded 12% growth in online commercial transactions, and sales under this modality are expected to expand to US\$270 million by 2024. This would represent an increase of 41.1% over the 2019 level.⁴¹ To take advantage of this potential in the region’s countries, including Panama, the Bank is designing a tool to promote this activity specifically in the following areas: (i) development of online sales channels; (ii) digital payments system; (iii) logistics and distribution of products online; and (iv) management, marketing, and communication. This tool has been developed for the region with support from technical cooperation operation

⁴⁰ The proposed operation includes an intervention focused on the economic recovery stage, targeting various segments with medium-term financing for productive investments. It also proposes a gender focus (see paragraph 1.38), support for the development of a green finance strategy (see paragraphs 1.39 and 1.40), and the promotion of digital tools for beneficiary MSMEs (see paragraph 1.41).

⁴¹ Informe e-Pais: El comercio electrónico en Panamá. June 2020.

[ATN/OC-16243-RG](#) and will be disseminated and piloted with businesses in conjunction with ConnectAmericas.

- 1.33 **Lessons learned.** The Bank has extensive experience and has accumulated substantial knowledge on the design and implementation of policies to support MSME finance, with a special focus on certain sectors or value chains ([3] of [optional link 3](#)). For these public policy solutions to be effective, it is crucial to: (i) identify the market failure to be addressed; (ii) strengthen cooperation among public actors with expertise in the relevant area; (iii) strengthen cooperation between the public and private sectors, since the latter can help find solutions to problems; (iv) focus actions on overcoming the obstacles encountered; (v) identify the financial instrument or set of instruments that can be implemented in each situation; and (vi) use the most cost-effective combination of instruments for each situation. This operation has been designed in keeping with the growing need for MSME financing in coordination with the public institutions in charge of this sector and validation of the proposal with the private sector. The proposed financing instrument and the execution mechanism both address the pressing need to deal with the problems that the country's MSMEs are experiencing in terms of access to finance (see paragraph 11.4). As noted in paragraph 11.29, program [5040/OC-PN](#) has faced a number of challenges for the start of execution. Among the main lessons learned is the need for close coordination between the government agencies and institutions involved (MEF and BNP) with Bank support to ensure that deadlines are met promptly for the eligibility of the operation. This is crucial for making sure resources are available on a timely basis, considering the situation generated by the COVID-19 pandemic.
- 1.34 The Bank also has relevant experience in designing solutions to mitigate the problems of access to finance that MSMEs and value chains will face. The following lessons have been learned from these actions as a whole: (i) leverage the countercyclical role of this type of operation when credit conditions are tight; (ii) target resources to segments where lending has greatest impact on the functioning of the economy (logistics chains) and on the well-being of society (the most vulnerable productive sectors); (iii) supervise the financial terms on which the resources are provided to end-users, to prevent market distortions; (iv) guarantee that the executing agency's institutional capacity is sufficient to implement the intervention, and evaluate and monitor the subloans and guarantees issued; and (v) systematically compile, manage, and maintain program data so that the results can be analyzed and continue to be used in future interventions.⁴²
- 1.35 **Coordination with other Bank projects.** The program will coordinate efforts with the Global Credit Program for Safeguarding the Productive Fabric and Employment (loan [5040/OC-PN](#)), expanding its scope by targeting economic recovery with medium-term production-oriented financing, including

⁴² Section IV of the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) reviews a more extensive and detailed set of lessons learned from the Bank's experience in the sector. It also considers the experience of other multilaterals, academic researchers, and other major stakeholders in the design of public policies to support MSMEs.

other vulnerable MSME segments affected by the COVID-19 pandemic (see paragraphs 11.25, 11.28 and 11.29). It will also coordinate efforts with the reformulation of the Sanitation Program for the Districts of Arraiján and La Chorrera (PSACH), Stage I (loan [3799/OC-PN](#)) to support vulnerable populations affected by coronavirus in Panama. This involves a modification of the US\$123 million project approved by the Bank's Board of Executive Directors in December 2020, which is in its initial phase of execution. As a whole, this coordination of initiatives seeks to leverage synergies that will boost the impact of the Bank's actions in support of MSME financial conditions, to alleviate financing costs and maintain employment.

- 1.36 **Coordination with other multilateral and/or cooperation agencies.** Since Panama's MSMEs have major financing needs arising from the pandemic, it is essential to align efforts with other multilaterals to optimize the availability of resources. In this connection, the Bank is coordinating with the Multilateral Guarantee Agency (MIGA) of the World Bank Group, which has recently approved a US\$500 million guarantee to enable BNP to secure funding from external sources for channeling to SMEs. This coordination complements efforts to leverage resources for the country's productive fabric, with the MIGA operation lending greater amounts to larger firms. The IMF has also approved a US\$515 million emergency financial package, to support urgent balance of payments needs arising from the COVID-19 pandemic crisis, thereby providing generalized support for Panama's public finances.
- 1.37 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the following challenges: (i) social inclusion and equality, through an approach that combines support for MSMEs and the most vulnerable sectors; and (ii) productivity and innovation, through support for production-oriented finance for MSMEs and strategic value chains. The program is also aligned with the crosscutting themes of: (i) gender equality, since, in addition to strengthening the executing agency's institutional capacity in terms of gender-disaggregated data and strategies to serve women's MSMEs more effectively, it will also encourage the targeting of resources exclusively to this segment with the goal of 32% of resources directed to finance such businesses (see paragraph 1.38); and (ii) climate change, since 12% of the operation's resources are invested in climate change mitigation and/or adaptation activities, according to the [joint methodology of the multilateral development banks](#) (MDBs) for tracking climate finance. These resources contribute to the IDB's climate finance goal of 30% of the volume of annual approvals. The operation is also consistent with the strategic focus area of resource mobilization, through the proposed mechanisms to stimulate the mobilization of private financial sector resources for MSME finance, as well as shareholders' own funds. The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: the number of MSMEs financed and jobs supported, and women beneficiaries of economic empowerment initiatives. The program is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), as part of the support for safeguarding the productive fabric and employment, and is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), which underscores the importance

of promoting productive sector access to finance. Lastly, the program is included in the 2021 Operational Program Report (document GN-3034).

- 1.38 **Gender considerations.** To address the financing gaps and systematic lack of disaggregated data in Panama, the Bank will support BNP, as part of this program and with resources from regional technical cooperation [ATN/OC-18036-RG](#), in the collection, monitoring, and analysis of gender-disaggregated data on business leaders or owners, following best practices, as well as in strengthening institutional capacity for the development of strategies to better serve women's businesses. These strategies will include key issues such as promotion and information activities on credit lines targeting women entrepreneurs, gender training and awareness activities for loan officers, and recommendations on BNP processes and products. In addition, to mitigate the potential widening of the gender gap due to the COVID-19 crisis, at least 32% of enterprises financed through this program will be MSMEs defined as women's MSMEs.⁴³ Steps will be taken under the [Credit Regulations](#) to correct any significant deviations observed (< 32%), and an action plan will be developed, if necessary, with specific measures for doing so with regional technical cooperation resources ([ATN/OC-18036-RG](#)).
- 1.39 **Climate change considerations.** In December 2020, the Panamanian government updated its ambitions in its Nationally Determined Contribution (NDC) to Climate Change Mitigation⁴⁴ under the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC). This includes an integrated approach to adaptation and mitigation actions in different sectors of the economy (with targets relating to energy, forests, integrated watershed management, coastal marine system, biodiversity, agriculture, sustainable livestock and aquaculture, resilient human settlements, public health, sustainable infrastructure, and circular economy), aligned to the United Nations Sustainable Development Goals (SDGs). Despite only accounting for about 0.036% of global emissions, Panama aims to reduce its greenhouse gas (GHG) emissions relative to the business-as-usual scenario by an estimated cumulative 60 million tons of CO₂ equivalent in 2022-2050 and by up to a cumulative 10 million tons of CO₂ equivalent in 2022-2030.
- 1.40 Support for MSME investments that can result in climate change adaptation and/or mitigation measures, and the promotion of biodiversity and the SDGs, could play an important role in Panama meeting its commitments under the UNFCCC. The Bank and BNP will thus work with funds from technical cooperation operation [ATN/FI-17637-RG](#) to develop a classification mechanism for green financing lines. This support will include setting classification criteria that can be applied by loan officers, determining the information to be captured

⁴³ This target reflects the estimated maximum absorption capacity considering the nature of the operation, its execution period, and reflecting the following factors: (i) the total financing shortfall for the whole universe of women's MSMEs in the country, estimated at US\$831 million; (ii) the resources available from other programs (see paragraph 1.31); and (iii) the number of businesses expected to benefit directly as part of the program (see paragraph 1.44).

⁴⁴ [The Republic of Panama's Nationally Determined Contribution \(NDC\) to Climate Change Mitigation under the United Nations Framework Convention on Climate Change \(UNFCCC\)](#).

and stored in BNP systems, as well as supporting integration of the methodology in BNP processes. A training program will also be developed for BNP personnel involved in this type of operation. The rating system will be based on available best practices and market standards, in addition to being aligned with the MDB climate finance criteria. The program will also utilize a taxonomy to facilitate at least 12% of its resources (US\$18 million) being invested in subloans related to climate change mitigation and adaptation activities under the MDB joint methodology. Steps will be taken under the [Credit Regulations](#) to correct any significant deviations observed (< 12%), and an action plan will be developed, if necessary, with specific measures for doing so with regional technical cooperation resources ([ATN/FI-17637-RG](#)).

- 1.41 **MSME digitalization considerations.** As mentioned in paragraphs 11.13 and 11.14, one of the main obstacles for the digitalization of MSMEs is their limited access to financial resources to support a transformation process, a situation that is being exacerbated by the pandemic. The project will promote the use of tools being developed by the Bank among the beneficiary MSMEs, so that they can analyze their current situation and determine their investment needs for restructuring and/or adaptation in their digital transformation process (see paragraphs 1.32 and 1.43). These investment needs may be related to the firm's operational digitalization processes or investments to enter e-commerce.

B. Objectives, components, and cost

- 1.42 **Objectives.** The general objective of the program is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) amid the crisis caused by the COVID-19 pandemic, as a mainstay of employment in Panama. The specific objective is to promote the economic recovery of MSMEs affected by the crisis by facilitating access to production-oriented finance.
- 1.43 **Sole component. Support for access to production-oriented finance for economic recovery (US\$150 million).** The resources of this component will be used to support economic recovery by providing production-oriented finance to MSMEs affected by the crisis created by the COVID-19 pandemic. MSMEs will be given access to medium-term financing to: (i) support the restoration of productive capacity; (ii) support productive restructuring and adaptation needs in the digital transformation process driven by the crisis; and (iii) address an isolated spike in demand that may occur as a consequence of the crisis, focusing on the agrifood chain, specifically including the following activities: (a) agricultural production; (b) food processing; and (c) commerce related to food consumption (restaurants, hotels, and retail) (see paragraph 1.25). The component's resources will be channeled through loans to eligible financial intermediaries (see paragraph 3.4), which will lend on to eligible MSMEs (see paragraph 3.5).
- 1.44 **Beneficiaries.** The operation will target its resources to MSMEs affected by the COVID-19 crisis, focusing on the agrifood value chain, given the opportunity it represents for recovery from the pandemic and its potential for contributing to improvement in employment and economic activity. The program is expected to directly benefit a total of approximately 1,667 MSMEs.

C. Key results indicators

- 1.45 **Expected results.** In terms of impact, the program is expected to support the sustainability of MSMEs amid the COVID-19 crisis, as measured by the following: (i) MSME sales revenue in the sectors supported by the program; and (ii) employment in the sectors supported by the program as a percentage of total MSME employment in Panama. The following specific indicators will be included: (i) relative arrears rate of the relevant portfolio supported with program resources compared to the arrears rate on MSME loans in the national banking system; (ii) proportion of medium-term credit (over 18 months) in the MSME portfolio; (iii) total leveraging of medium-term financing achieved as a result of program support; (iv) total amount of the relevant portfolio for production-oriented finance achieved as a result of program support; (v) percentage of program resources allocated to finance women's MSMEs; and (vi) percentage of program resources allocated to finance operations contributing to the reduction of GHG emissions and/or adaptation to climate impacts.
- 1.46 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits consist of the economic value of the reduction in sales revenue losses, the benefits derived from a higher rate of business survival, and the benefits of jobs preserved as a result of the program. Calculations of the aforementioned flows, discounted at 12%, yield benefits of US\$33.7 million and an internal rate of return of 16%. A sensitivity analysis shows that the program is robust to variations in the key parameters ([optional link 1](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The total cost of the program will be US\$150 million, financed with resources from the Bank's Ordinary Capital. The operation will be structured as a Global Credit Program, since it involves financial intermediation to the beneficiary MSMEs. The disbursement period will be two years.

Table 1. Disbursement schedule (US\$ million)

Source	Year 1	Year 2	Total
IDB	75	75	150
%	50	50	100

B. Environmental and social safeguard risks

- 2.2 Since this operation involves financial intermediation, it cannot be classified ex ante under directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703). The environmental and social due diligence was performed in compliance with directive B.13, analyzing the program's potential socioenvironmental risks and the executing agency's capacity to manage them. Based on the due diligence findings, and given the low risk profile of the eligible financing with program resources, this operation is regarded as

posing low financial intermediation risk. Given their size and nature, the loans will be classified as category “C”. Category “A” and “B” loans will not be eligible.

- 2.3 Proceeds from the subloans will not be used to finance any activity on the IDB’s project exclusion list (annex C of the environmental and social management report ([ESMR](#)), including: (i) activities/sectors that involve high socioenvironmental risk (category “A”); (ii) activities that entail: (a) involuntary physical or economic resettlement; (b) negative impact on indigenous groups; (c) damage to critical or other cultural sites; (d) negative impact on protected areas or Ramsar Convention sites; or (e) the use of invasive species.
- 2.4 The requirements for the management and mitigation of potential environmental and social impacts will form the project’s Environmental and Social Risk Management System, which will be integrated into the [Credit Regulations](#), the approval of which is a condition precedent to the first disbursement (see paragraph 33.8) (see [ESMR](#)).

C. Fiduciary risks

- 2.5 The institutional capacity assessment of the executing agency shows that it satisfies the conditions necessary to perform fiduciary management activities for the loan operation. Banco Nacional de Panamá (BNP) is currently executing loan 5040/OC-PN, so the fiduciary risk has been determined to be low. Moreover, the institutional capacity assessment of BNP revealed no weaknesses for financial management.

D. Other key risks and issues

- 2.6 **Development risk.** There are two high and one medium development risks: (i) a high risk that the resources will be insufficient to meet the demand for MSME finance. To mitigate this risk, the Bank has designed the intervention to have the maximum possible impact and has sought to coordinate with all stakeholders, to ensure that the response is commensurate with MSME financing needs, considering the placing power of the system. It will also work with the authorities and the private sector to identify ways to meet medium-term demand with other sector stakeholders; (ii) a high risk that the businesses served by the liquidity credit lines will ultimately not survive because the crisis lasts longer than expected, commercially viable businesses are not identified, or the businesses fail to repay the loans. To mitigate this risk, the financial intermediaries and BNP have the experience to identify and select businesses that may have the economic viability to weather the crisis, have the capacity to recover potential losses through administrative and judicial channels, and also have sufficient capitalization and solvency levels to absorb potential losses; and (iii) a medium risk that the eligibility conditions and criteria for accessing the program may be restrictive, considering the situation of MSMEs in the COVID-19 pandemic context (see paragraphs 1.9 and 1.10). To mitigate this risk, the Bank and the executing agency have validated the proposed conditions with the main private sector associations, and this coordination and dialogue will be maintained during program execution.
- 2.7 **Public management and governance risk.** There is a medium risk that the liquidity measures for MSMEs will not reach the productive sectors hardest hit by the health emergency on a priority basis, and the impact will be less than

expected. To mitigate this risk, the Bank has designed a program that addresses the sectors most affected by the current conditions, based on up-to-date figures for the impact and recovery outlook. It will also coordinate closely with the country on a diagnostic assessment of vulnerabilities and on an analysis of structural conditions related to the postpandemic economic recovery. This will facilitate sector prioritization and provide ongoing monitoring to ensure that the focus is effective (see paragraphs 1.12 and 1.14).

- 2.8 **Fiscal sustainability risk.** There is a medium risk that the combination of the health and economic crisis and external factors, such as the slump in global demand for goods and services and other items, will significantly affect the country's fiscal and debt position, jeopardizing fiscal sustainability. To mitigate this risk, the Bank is working with other international organizations to provide technical assistance to Panama in preparing and monitoring the implementation of postpandemic economic and fiscal recovery plans that will make it possible to put the public finances back on a sustainable path (see paragraph 1.36).
- 2.9 **Sustainability.** Although the program is expected to help ease the temporary difficulties faced by MSMEs as a consequence of the COVID-19 pandemic, it also offers the country the opportunity to leave support mechanisms in place for future emergencies. The demonstration effect of the program's actions should make it possible to develop preventive programs that reduce MSME vulnerability. By serving as executing agency for the program, BNP will be gaining experience in the design of specific programs for responding to situations such as the present one. In so doing, it will continue the government's efforts to support the economic recovery by targeting MSMEs, which constitute the most important sector of the economy.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Implementation arrangements

- 3.1 **Borrower and executing agency.** The Borrower of this operation will be the Republic of Panama; and the executing agency will be BNP, acting through a trust specially created to execute the program's resources.⁴⁵ The executing agency will be responsible for the administration, execution, control and monitoring of the operation's resources. The borrower, acting through the MEF, will sign a subsidiary agreement for the transfer of the loan proceeds to a trust set up at BNP, which will grant subloans to eligible MSMEs, through the financial intermediaries (see paragraph 33.8).
- 3.2 **Execution and administration.** Founded in 1904, Banco Nacional de Panamá (BNP)⁴⁶ is an autonomous State entity with legal personality, its own assets, and administrative, functional, budgetary, and financial autonomy. It is subject to the oversight of Panama's Executive Branch and supervisory bodies. BNP is the

⁴⁵ This trust fund for program execution had already been set up in 2020.

⁴⁶ Created by Laws 74 of 1904, 27 of 1906, 6 of 1911, and 11 of 1956, reorganized by Law 20 of 1975, subrogated by Decree Law 4 of 2006, as amended by Law 24 of 2017.

- State's financial agency and its objective is to conduct banking business by securing the financing necessary to develop the country's economy. In addition, BNP has operational capacity to supply first- and second-tier financial products, since it is one of the main agencies providing services to local financial intermediaries. These include banks, financial institutions, and microlenders incorporated in Panama and duly licensed by SBP, as well as savings and loan cooperatives duly regulated by the Autonomous Institute for Cooperatives of Panama (IPACOO). With a network of 42 branches, the organization covers every department in Panama, mainly serving the agriculture, services, and commerce sectors. As of 30 September 2020, the agriculture, commerce, and manufacturing sectors (specifically in operations with MSMEs) jointly account for 33% of the total portfolio. In conjunction with this sector-level concentration, mortgage loans account for 29.3%; SMEs account for 17.4%; and financial institutions, 5.5%. Since its founding, BNP has fostered development in the agriculture and SME sectors in Panama. The organization's solid experience in the design, promotion, risk management, and monitoring of credit facilities for these sectors makes BNP the entity best-prepared to execute the proposed program given the current situation (see paragraph 22.5).
- 3.3 The executing agency will have fiduciary responsibility for the program resources and perform the following functions: (i) making disbursements to eligible financial intermediaries for onlending to eligible beneficiaries, and thus meet the program objectives under the [Credit Regulations](#); (ii) preparing execution and physical/financial progress reports for the Bank; (iii) monitoring compliance with environmental and social safeguards; and (iv) program monitoring and evaluation.
- 3.4 **Implementation considerations.** Following the dynamics of the previous operation, the Republic of Panama will channel the resources to the trust set up at BNP, to enable this vehicle to make loans to the eligible financial intermediaries for onlending to the eligible MSMEs. The financing of economic units will be channeled through those eligible financial intermediaries with a record and activities more oriented toward that market segment. BNP, acting through its fiduciary management team (see the Credit Regulations for more duties and responsibilities of the management team), will be tasked with managing the financial, accounting, and monitoring and evaluation aspects of the program. The trustor will be the Ministry of the Economy and Finance (MEF). To be eligible, financial intermediaries must: (i) be one of the financial institutions authorized and supervised by the country's compliance and oversight body for the financial sector; (ii) comply with the country's regulatory requirements for capital, portfolio quality and provisioning, liquidity, and governance; and (iii) pledge to fulfill BNP's specific requirements, including those of the Bank program. BNP will determine whether all financial intermediaries satisfy the above requirements, to remain eligible to receive project resources.
- 3.5 To be eligible, MSMEs must: (i) be an economic unit incorporated under the laws of Panama; (ii) possess the licenses and permits required to operate under the

- laws of Panama⁴⁷ (iii) meet the requirements to qualify as an MSME in Panama; (iv) be solvent and creditworthy and satisfy the credit requirements of the financial intermediaries and BNP, with the exception of any factor that has deteriorated as a result of the COVID-19 crisis; and (v) operate in the agrifood chain, specifically including the following activities: (i) agricultural production; (ii) food processing; and (iii) commerce related to food consumption (restaurants, hotels, and retail). No subloan to MSMEs may exceed US\$1 million;⁴⁸ and all subloans greater than US\$250,000 must obtain the Bank's no-objection.
- 3.6 **Credit Regulations.** The [Credit Regulations](#) set out detailed responsibilities for the administration, risk management and coordination of the executing agency with the Bank. They also defined eligibility criteria for beneficiaries, subprojects and, if applicable, financial intermediaries. The document also includes agreements on management and monitoring, among other issues.⁴⁹
- 3.7 **Interagency coordination.** The borrower, acting through the MEF, will transfer the loan proceeds to the trust fund already established at BNP, which will make subloans to eligible MSMEs. The executing agency will coordinate with public entities such as the AMPYME and MICI, as well as private associations, to obtain information enabling them to reach more beneficiaries in the shortest possible time, provided they meet the eligibility criteria.
- 3.8 **Special contractual conditions precedent to the first disbursement of the loan proceeds.** The first disbursement of the loan proceeds will be contingent on: (i) the entry into force of a subsidiary agreement between the MEF, on behalf of the borrower, and BNP, as executing agency, for the transfer of the loan proceeds and related obligations on terms previously agreed upon with the Bank; and (ii) approval and entry into force of the Credit Regulations, under the terms previously agreed upon with the Bank. These conditions are necessary to define the structure, guidelines, and procedures to be followed by the executing agency for successful program execution.
- 3.9 **Procurement.** As a demand-driven financial intermediation program, no procurement of works, goods, or consulting services is likely to be required as part of execution. No project execution or procurement plan is therefore included in this proposal. Any procurement of nonconsulting or consulting services required as part of program management and/or evaluation will abide by the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), or their subsequent updates. For additional details, see the Fiduciary Agreements and Requirements (Annex III).

⁴⁷ MSMEs that are in the process of obtaining licenses may be considered provided they are authorized to operate at the time the subloan agreement is signed.

⁴⁸ In exceptional cases, subloans could attain this size, but will require the Bank's no objection.

⁴⁹ The Credit Regulations are at a very advanced stage of development, considering the history of the launch of the first operation with BNP, loan [5040/OC-PN](#).

- 3.10 **Disbursements.** The resources allocated to the program will be disbursed from the Bank to the trust established in Panama through the modality of advance and/or reimbursement of funds, as specified in the Financial Management Guidelines (Operational Policy OP-273-12), or in the Bank's current policies. Disbursements will be made to the trust fund either as advances or as reimbursement for transfers made to the financial intermediaries that have submitted subloan contracts in compliance with the eligibility conditions set forth in the program's [Credit Regulations](#). The disbursements will be reviewed ex post, subject to on-site review of the subloans granted.
- 3.11 **Financial statements and audit.** Throughout the original loan disbursement period and any extension thereof, the executing agency will submit the program's annual financial statements to the Bank within 120 days after the end of the fiscal year and within 120 days of the last disbursement of the loan proceeds. The financial statements will be audited by an independent firm of auditors acceptable to the Bank.

B. Arrangements for monitoring results

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

Development Effectiveness Matrix		
Summary		PN-L1165
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Jobs supported (#) -Micro / small / medium enterprises financed (#) -Women beneficiaries of economic empowerment initiatives (#)	
2. Country Development Objectives		
Country Strategy Results Matrix		
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)		See paragraphs 1.15-1.24 of the main document
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	7.5	
3.1 Program Diagnosis	1.8	
3.2 Proposed Interventions or Solutions	3.6	
3.3 Results Matrix Quality	2.1	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	7.0	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	4.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: Information System, Price Comparison, Contracting Individual Consultant.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	BNP will receive support from ATN / OC-18036-RG on gender issues and ATN / FI-17637-RG on issues of adaptation and / or mitigation to climate change.

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

The operation PN-L1165, in the amount of US\$150 million, is part of the Bank's operational response to the COVID-19 Pandemic, Global Credit Programs for the Protection of the Productive Sector and Employment. The general objective of the program is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Panama amid the COVID-19 crisis. The specific objective is to promote the economic recovery of MSMEs affected by the COVID-19 crisis through access to production-oriented financing.

The loan proposal presents a solid diagnosis of the problem, as well as a review of international evidence. The proposed solutions are an appropriate response to the problems identified in the proposal and their contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of outcomes and impacts. The outcome indicators are appropriately defined to measure the achievements of the project's specific objectives. The impact indicators – (i) sales revenue at MSMEs in the sectors supported by the program, and (ii) employment in the sectors supported by the program as a percentage of total MSME employment in the country - reflect the contribution to the final objectives of the operation.

The economic evaluation shows that the operation is efficient, with an internal rate of return of 16% and an NPV of US\$33.7 million. In a context of high uncertainty, the analysis considers the benefits which are derived from the reduction in sales revenue losses and a higher survival rate of firms that are beneficiaries of the program, as well as of jobs preserved in firms which survive as a result of the program. The monitoring and evaluation plan proposes a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by a qualitative study of the main challenges in the execution of the program and the proposed solutions. The monitoring and evaluation activities will be carried out by Banco Nacional de Panamá as the executing agency, in coordination with the Bank.

RESULTS MATRIX

Program objective	The general objective of the program is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) amid the crisis caused by the COVID-19 pandemic, as a mainstay of employment in Panama. The specific objective is to promote the economic recovery of MSMEs affected by the crisis by facilitating access to production-oriented finance.
--------------------------	---

EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Final target	Means of verification	Comments
Objective: To support the sustainability of MSMEs amid the COVID-19 crisis, as a mainstay of employment in Panama					
Indicator 1: MSME sales revenue in the sectors supported by the program.	US\$ thousand	324.7	324.7	Follow-up and monitoring data processed by Banco Nacional de Panamá (BNP) and data from the National of Statistics and Censuses Institute (INEC).	The baseline is equal to the weighted average income of MSMEs in Panama, calculated using the latest (2016) data from the Statistical Directory of Companies and Premises published by INEC. As the baseline it is expected to support multiple economic sectors, in addition to the agriculture sector, it is calculated as the multisector average. Consistent with the economic analysis, sales are expected to return to precrisis levels at some point after the end of the program.
Indicator 2: Employment in the sectors supported by the program as a percentage of total MSME employment in Panama.	%	TBD	Same baseline value	Tracking and monitoring data processed by BNP and labor market data compiled by INEC.	The baseline represents the share of national employment that is accounted for by MSMEs in the sectors supported by the program. This percentage is expected to return to its precrisis level after the end of the program. The baseline, and therefore also the target, will be precisely defined on the basis of data from Panama's labor market.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline 2021	Final target (2023)	Means of verification	Comments
Specific objective: Promote the economic recovery of MSMEs affected by the crisis by facilitating access to production-oriented finance					
Indicator 1: Relative arrears rate of the relevant portfolio supported with program resources compared to the arrears rate on MSME loans in the national banking system.	%	0.71	0.71	Program tracking and monitoring data compiled by BNP.	The baseline was calculated as follows: The numerator is the arrears rate on first-tier MSME loans granted I by BNP (equal to 2.9%). The denominator is the average arrears rate on loans to MSMEs in the national banking sector, estimated at 4%. The figures were calculated using February 2020 data and correspond to a precrisis scenario. This ratio is expected to return to precrisis levels by the end of the program (see the monitoring and evaluation plan (MEP) for further details).
Indicator 2: Proportion of medium-term credit (over 18 months) in the MSME portfolio.	%	30	32	Program tracking and monitoring data compiled by BNP.	This indicator is calculated as the proportion of medium-term loans, defined as those with maturities greater than 18 months but less than 36 months, in the BNP's total portfolio of first-tier MSME loans (excluding loans that have been refinanced under the special moratorium resulting from the COVID-19 crisis). This ratio is expected to remain at levels at least similar to the baseline. The baseline corresponds to the pre-crisis value, with February 2020 data.
Indicator 3: Total leveraging of medium-term financing achieved as a result of program support.	US\$ million	0	187.5	Program tracking and monitoring data compiled by BNP.	The target is calculated on the basis of the 20% cofinancing required by BNP for this type of funding. This requirement is expected to be maintained throughout the life of the program and will apply to subloans granted by first-tier banks.
Indicator 4: Total amount of the relevant portfolio for production-oriented finance achieved as a result of program support.	US\$ million	375.4	631.4	Program tracking and monitoring data compiled by BNP.	Baseline equal to the amount of BNP's medium-term MSME portfolio (includes the BNP's first- and second-tier medium-term MSME portfolio plus the amount allocated to medium-term lending by the first program (loan 5040/OC-PN)). The target represents the expected value of this portfolio at the end of the program, assuming a growth rate below the precrisis trend. For further details on these calculations see MEP . The calculations used January 2021 data.

Indicators	Unit of measure	Baseline 2021	Final target (2023)	Means of verification	Comments
Indicator 5: Percentage of program resources allocated to finance women's MSMEs.	%	0	32	Program tracking and monitoring data compiled by BNP.	Progender indicator This indicator measures the share of program resources allocated to finance women's MSMEs (as defined in the program's Credit Regulations , reflecting international best practices). The target is to allocate at least 32% of the program resources.
Indicator 5: Percentage of program resources allocated to finance operations contributing to the reduction of GHG emissions and/or adaptation to climate impacts.	%	0	12	Program tracking and monitoring data compiled by BNP.	This indicator measures the share of program resources allocated to finance climate change mitigation and adaptation operations, reflecting international best practices and the MDB joint methodology for tracking climate finance. The target is to allocate at least 12% of the program resources.

OUTPUTS

Outputs	Unit of measure	Baseline	Year 1	Year 2	Final target	Means of verification	Comments
Sole component: Support for access to financing for production for economic recovery (total cost = US\$150 million)							
Output 1: Amount of production-oriented finance granted to MSMEs in sectors identified as vulnerable by the program.	US\$ million	0	75	75	150	Tracking and monitoring data processed by BNP.	The final target value is cumulative over all years of execution.

Country: Panama

Sector: IFD/CMF

Project No.: PN-L1165

Year: 2021

Cofinancing: Not applicable

Coexecution: Not applicable

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Banco Nacional de Panamá (BNP)

Project name: Global Credit Program for promoting the sustainability and economic recovery of Panama

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the project¹

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

Applicable Laws/Norms: Budget Law of the Republic of Panama. State Procurement Law No. 22.

2. Fiduciary capacity of the executing agency

A fiduciary capacity assessment was performed in May 2020 for project [5040/OC-PN](#). As this is recent and the current project is similar, the same Institutional Capacity Analysis Platform (simplified and virtual ICAP) was used. This concluded that financial management and project coordination are adequate to administer the operation. Since this is a Global Credit Program, no procurement is foreseen, so no analysis was made of the capacity in question. The BNP has thus far demonstrated adequate execution of loan [5040/OC-PN](#).

3. Fiduciary risks and mitigation actions

Fiduciary risk:

☐ High

☐ Medium

☒ Low

Risk	Risk level (medium/high)	Mitigation plan
No fiduciary risks were identified.		

¹ Any system or subsystem that is subsequently approved could be applicable to the operation, depending on the terms of the Bank's validation.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

Exchange rate: The currency of legal tender in Panama is the balboa, which is equivalent to, and freely exchangeable with, the U.S. dollar.

Audited financial statements: The executing agency will submit annual audited financial statements for the program within 120 days following the end of each fiscal year during the original disbursement period or extensions thereof, and within 120 days following the date of the last disbursement of the loan proceeds. The financial statements will be audited by an independent firm of auditors acceptable to the Bank.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

Exceptions to policies and guidelines:

- No exceptions are foreseen.

Retroactive financing and/or advance procurement	<ul style="list-style-type: none"> The project will not have retroactive financing
Complementary procurement support	<ul style="list-style-type: none"> Not applicable.
Alternative procurement arrangements	<ul style="list-style-type: none"> Not applicable.
Projects with financial intermediaries	<ul style="list-style-type: none"> As this is a Global Credit Program that will provide funding to financial intermediaries for onlending or other forms of subfinancing, the agreements between the borrower and its financial intermediaries, and between the latter and the sub-borrowers, will include appropriate clauses on Bank-prohibited practices. Alternatively, if the circumstances of the project make it impossible or impracticable to include such clauses in the contracts, the project team may consider other ways to adopt acceptable controls and duly link the sanctions procedures to the applicable parties. Any such mechanisms, the design of which will be coordinated with the Office of Institutional Integrity and supported by the Legal Department, will be specified in the Credit Regulation.
Procurement agents	<ul style="list-style-type: none"> Not applicable.
Single-source selection	<ul style="list-style-type: none"> Not applicable.

Operating expenses will be financed: <input type="checkbox"/> Not applicable.	National preference: <input type="checkbox"/> Not applicable.
General project supervision method in procurement:	Not applicable.
Supervision method: Not applicable.	For: Not applicable.

Threshold amounts per country: www.iadb.org/procurement.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

Programming and budgeting	<ul style="list-style-type: none"> The BNP is an autonomous and independent entity that generates its own income. It defends its annual budget before the Budget Commission of the National Assembly.
Treasury and disbursement management	<ul style="list-style-type: none"> Disbursements will be made in the form of advances of funds and reimbursements. The disbursement mechanism will require the submission of physical disbursement requests. During the COVID-19 health emergency, signed and scanned disbursement request forms may be submitted via e-mail, sent from an institutional e-mail address and with each signatory authorizing the request via e-mail. Bank account: The BPN will hold the advances of funds in a trust fund exclusive to the program. Financial plan: Advances of funds will be made for a period of up to six months, depending on the demand for loans. Percentage of account rendering: 80% of the balance of advances yet to be justified. When the executing agency (BNP) delivers the funds to the first-tier financial institutions, this will be considered eligible expenditure. Information will be received from the final beneficiaries ex post for purposes of the project completion report. Flow of project resources: Funds are disbursed to the BNP in the trust account opened for the project, subject to MEF approval.
Accounting, information systems, and reporting	<ul style="list-style-type: none"> Specific accounting rules: The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), including IFRS 9, 15, and 16, among others. Accountability reporting: Statement of Cash and Disbursements Made and Statement of Cumulative Investments, prepared on the basis of information in e-IBS Core Banking. Accounting method and currency: A combination of accounting methods is used, depending on the item being recorded. The currency of account is the balboa, which is equivalent to, and freely exchangeable with, the U.S. dollar.
External control	<ul style="list-style-type: none"> The executing agency, in agreement with the Bank, will select and contract the services of an eligible auditor, pursuant to previously-agreed-upon terms of reference. The current auditor is KPMG.
Project financial supervision	<ul style="list-style-type: none"> Financial supervision will be maintained through visits to the BNP, working meetings, and review of audited financial reports.

V. INFORMATION PERTAINING TO THE OPERATION

Policies and guidelines applicable to the operation

Financial management	Procurement
<ul style="list-style-type: none"> Document GN-2811 [document OP-273-12] 	<ul style="list-style-type: none"> Document GN-2349-15 Document GN-2350-15

Records and files

The BNP has both digital and physical files, as well as procedures and instructions making it possible to keep adequate records and files.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Panama. Loan ____/OC-PN to the Republic of Panama
Global Credit Program for Promoting the Sustainability
and Economic Recovery of Panama

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 a "Global Credit Program for Promoting the Sustainability and Economic Recovery of Panama". 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)