

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

**CONTINGENT LOAN FOR NATURAL DISASTER AND
PUBLIC HEALTH EMERGENCIES**

(PN-O0008)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Hongrui Zhang, Project Team Leader; Christian Schneider, Alternate Project Team Leader; Juan José Durante, Annabella Gaggero, Andrea Terán, Eillim Flores, Millena Machado, Ana Lozano, and Fanny Porras (IFD/CMF); Cristina Villalba (CAN/CEC); Sergio Lacambra and Maria Alejandra Escovar (CSD/RND); Emmanuelle Monin (SCL/SPH); Maricarmen Esquivel (CSD/CCS); Ana Grigera (SCL/GDI); Ignacio Barragán (LEG/SGO); David Ochoa and Leonor Corriols (VPC/FMP); and Anabelle Wever (CID/CPN).

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.....	9
C.	Key results indicators.....	10
II.	FINANCING STRUCTURE AND MAIN RISKS.....	11
A.	Financing instruments.....	11
B.	Environmental and social safeguard risks	13
C.	Fiduciary considerations	13
D.	Other key risks and issues	13
III.	IMPLEMENTATION AND MANAGEMENT PLAN.....	14
A.	Summary of implementation arrangements.....	14
B.	Summary of arrangements for monitoring results	17

APPENDICES

Proposed resolution

ANNEXES	
Annex I	Development Effectiveness Matrix – Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

LINKS
REQUIRED
1. Monitoring and evaluation plan
OPTIONAL
1. Project economic analysis
2. Program Operating Regulations
3. Automatic redirection list (ARL)
4. Technical paper. Contribución a la Adaptación al Cambio Climático [Contribution to Climate Change Adaptation]
5. Technical paper. Alineación con el Tema Transversal de Equidad de Género [Alignment with the Crosscutting Theme of Gender Equality]
6. Bibliography
7. Integrated Natural Disaster Risk Management Plan (INDRMP)
8. Definitions, formulas, and sources for Results Matrix indicators

ABBREVIATIONS

ARL	Automatic redirection list
CCF	Contingent Credit Facility for Natural Disaster and Public Health Emergencies
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CGR	Contraloría General de la República de Panamá [Comptroller General of the Republic of Panama]
COVID-19	Novel coronavirus disease caused by the SAR-CoV-2 virus, 2019
DG-SINAPROC	Dirección General del SINAPROC [SINAPROC Administration]
DICRE	Dirección de Inversiones, Concesiones y Riesgo del Estado [Bureau of Investments, Concessions, and State Risks]
DRM	Disaster risk management
FAP	Fondo de Ahorro de Panamá [Panama Savings Fund]
FIN	Finance Department, IDB
IDAAN	Instituto de Acueductos y Alcantarillados Nacionales [National Water and Sewer Institute]
IDB	Inter-American Development Bank
iGOPP	Index of Governance and Public Policy in Disaster Risk Management
IHR	International Health Regulations
INDRMP	Integrated Natural Disaster Risk Management Plan
MEF	Ministry of Economy and Finance
MiAMBIENTE	Ministry of Environment
MINSA	Ministry of Health
NPV	Net present value
OIRDS	Oficina Integral de Riesgos y Desastres en Salud [Integrated Office of Health Risks and Disasters]
OVE	Office of Evaluation and Oversight
RFTP	Risk finance and transfer program for natural disaster and public health emergencies
SINAPROC	Sistema Nacional de Protección Civil [National Civil Protection System]
SPAR	State Party Self-assessment Annual Reporting platform
WAL	Weighted average life
WHO	World Health Organization

PROJECT SUMMARY

PANAMA CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES (PN-O0008)

Financial Terms and Conditions ^(a)					Flexible Financing Facility ^(b)	
Borrower: Republic of Panama				Amortization period:		20 years ^(c)
				Grace period:		5.5 years ^(c)
Executing agency: The borrower, acting through the Ministry of Economy and Finance (MEF)				Original WAL:		12.75 years ^(c)
				Coverage period:		5 years ^{(d) (e)}
Source	Amount (US\$)		%	Interest rate:		SOFR-based
IDB Ordinary Capital (OC):	Modality I	300 million	75%	Inspection and supervision fee:		(f)
	Modality II	100 million	25%	Drawdown fee:		(g)
Total:	400 million		100%	Currency of approval:		U.S. dollars
Project at a Glance						
Project objective: The general development objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the nation's public finances. The specific development objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies.						
Special contractual condition of general eligibility to request disbursements: The approval and entry into force of the program Operating Regulations on the terms previously agreed upon with the Bank (paragraph 3.4).						
Special contractual conditions precedent to the first disbursement for each eligible event:						
a) Disbursements under Modality I (natural disasters): (i) the Bank has verified the occurrence of an eligible event as defined in the program Operating Regulations (paragraph 2.3); and (ii) the Integrated Natural Disaster Risk Management Plan (INDRMP), previously agreed upon with the Bank, is being implemented to the Bank's satisfaction (paragraphs 2.7, 2.8, and 3.5); and						
b) Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public health state of emergency due to an eligible public health event as defined in the program Operating Regulations (paragraph 2.4); (ii) the borrower has submitted evidence that it is up to date with its progress reporting to the World Health Organization (WHO) on compliance with the International Health Regulations (IHR); (iii) the borrower has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific eligible event, in line with WHO/Pan American Health Organization (PAHO) recommendations, to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance with the agreed complementary risk retention financing measures and conditions (paragraph 3.5).						
In addition to the aforementioned contractual conditions, the borrower will have submitted, within 90 calendar days after the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s) and whether such disbursement(s) will be drawn from the regular lending program, undisbursed balances from the automatic redirection list (ARL), or a combination of these two sources. In the case of loans from the ARL , the request will identify the loans in question and the respective amount to be utilized (paragraph 3.6). For special contractual conditions for execution, see Annex III.						
Exceptions to Bank policies: None.						
Strategic Alignment						
Challenges: ^(h)	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>	EI	<input type="checkbox"/>
Crosscutting themes: ⁽ⁱ⁾	GE <input checked="" type="checkbox"/>	and	DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	and	ES <input type="checkbox"/>
						IC <input checked="" type="checkbox"/>

^(a) Financial terms and conditions of the contingent loan under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies, approved by the Board of Executive Directors pursuant to Resolution DE-40/20 of 12 May 2020.

- (b) 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.
- (c) Amortization periods, weighted average life, and grace periods are counted from the date of the first disbursement for each eligible event.
- (d) The coverage period or disbursement period (equivalent terms) may be extended for up to five additional years at the Bank's discretion, following a request by the borrower.
- (e) In keeping with document AB-2990, disbursements of the financing will be contingent on the availability of sufficient resources from the [ARL](#) or the Bank's regular lending program for Panama, as applicable, when the disbursement is requested (paragraph 2.5).
- (f) 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 the relevant policies.
- (g) The fee is not charged if the loan is not used. The Bank will charge only a one-time disbursement fee of 50 basis points at the time of disbursement, applicable solely to the amount disbursed against resources from the regular lending program. This fee is applicable to each disbursement. The drawdown fee will be subject to periodic review by the Board of Executive Directors, as with all lending charges. The fee does not apply to amounts disbursed from loans included in the [ARL](#).
- (h) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (i) 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 In February 2012, the Bank approved the Contingent Loan for Natural Disaster Emergencies for Panama in the amount of US\$100 million (loan PN-X1007) under the Contingent Credit Facility (CCF) for Natural Disaster Emergencies (document GN-2502-2) with the objective of increasing the availability, stability, and efficiency of contingent financing through parametric coverage to respond to emergencies caused by natural disasters. At the country's request, in May 2017 the Bank approved a five-year extension of the loan availability period (coverage period) for the above loan as stipulated in the loan contract, resulting in a new expiration date of 28 May 2022. To date, no disbursements have been made under this coverage.
- 1.2 Given that: (i) at the end of 2012, the Bank increased the per country lending limit under Modality I of the CCF for parametrizable risks up to US\$300 million, or 2% of GDP (document GN-2667-2); (ii) in 2019, the Bank expanded the CCF to create Modality II, which covers disaster risks that cannot be parametrized (document GN-2502-7); (iii) in 2020, the Bank approved a new expansion of the CCF to include future public health risks under Modality II for up to US\$100 million, or 1% of GDP (document GN-2999-4); (iv) the maximum coverage period for a CCF contingent loan is five years, and may be extended for up to five additional years (document GN-2999-9); (v) the country has shown significant achievements and gains in integrated disaster risk management during the life of contingent loan PN-X1007 (paragraphs 1.13 to 1.18); and (vi) Panama is a country vulnerable to natural disasters and public health events, and the Government of Panama has requested the Bank's support for the continued availability of contingent financing to respond to emergencies through a new contingent loan for US\$400 million (paragraphs 1.38 to 1.40).

1. The country's vulnerability to natural disasters and climate change

- 1.3 Given its geographic position, geotectonic features, the effects of the El Niño-Southern Oscillation phenomenon, and the location of its large urban centers, Panama is highly exposed to natural hazards of geophysical and hydrometeorological origin such as earthquakes and floods, respectively¹ [1, 2]. The country's four large provinces in terms of population (Chiriquí, Colón, Panamá, and Panamá Oeste), accounting for around 70% of the population and 91% of the country's GDP, are exposed to multiple threats [3, 4, 5, 6]. Between 1970 and 2021, Panama was hit by 55 natural disasters, 51 of which were of hydrometeorological origin, and 4 of which were caused by earthquakes. Those disasters resulted in 373 deaths and affected more than 400,000 people [7].
- 1.4 The potential impact of natural hazards has been evident in various events recorded in the country. In 1882, Panama City and Colón were affected by an earthquake in the Gulf of San Blas, which was classified as VIII on the Modified Mercalli intensity scale. In 1991 and 2003, two high magnitude earthquakes shook the provinces of Bocas del Toro and Chiriquí, causing damage to housing and affecting thousands of people [8, 9]. If another earthquake similar to the

¹ See bibliography ([optional link 6](#)).

1882 quake were to occur, economic losses could be on the order of US\$1.056 billion [10].

- 1.5 In terms of flood risk, in 2010 the country faced severe flooding with a range of adverse impacts: damage to critical public infrastructure, suspension of the supply of drinking water to Panama City, and interruption of traffic through the Panama Canal, affecting more than 77,000 people [11]. In response, the government quickly declared a national state of emergency and earmarked US\$149.3 million to finance urgent immediate response activities [12, 13]. The country's high vulnerability to floods was also demonstrated with Hurricanes Eta and Iota in 2020, affecting seven provinces, including Panamá and Panamá Oeste, and with the torrential rains of 2021, affecting various parts of Bocas del Toro province and more than 27,000 people. The government allocated US\$11.2 million to respond to the latter event [14, 15].
- 1.6 **Climate change.** Although Panama's contribution to global greenhouse gas emissions is marginal at around 0.04%, the country is highly vulnerable to the effects of climate change due to rising sea levels, changes in precipitation patterns, and the increased frequency of floods [16]. According to the Climate Change Vulnerability Index of the Ministry of Environment, the most vulnerable areas include Bocas del Toro province, the southern coastal region of Panamá province, and the indigenous comarcas of Ngöbe Buglé and Guna Yala [17]. To confront this challenge, the country has developed a strategic framework that includes adoption of the [National Climate Change Strategy 2050](#) and the [National Climate Action Plan](#) [18, 19].
- 1.7 **Gender and natural disasters.**² In general, disasters tend to have a greater impact on the most vulnerable groups, particularly women [20]. This disproportionate impact is evident in various dimensions: shorter life expectancy, greater chances of suffering from a disability, and increased likelihood of facing unemployment [21, 22, 23]. In Panama, severe flooding that interrupts access to water can put women at greater risk since they are often the ones responsible for hauling water, particularly in rural areas [24]. Likewise, studies in the region show an increased risk of violence against women and girls following a disaster [25, 26]. This reflects not just gender inequalities [27, 28] but the specific needs of the most vulnerable groups postdisaster [20, 29]. Mainstreaming a gender and vulnerable population perspective is thus essential in the management of emergencies caused by disasters.

2. The country's vulnerability to public health events

- 1.8 Panama is also exposed to severe public health events such as epidemics caused by infectious agents [30]. These events are characterized as widespread outbreaks that can have immediate negative consequences on human health and economic activity, requiring a rapid public health response. Dengue fever, for example, is one of the most frequently occurring communicable diseases in the country [31]. In late 2013, the Ministry of Health (MINSA) declared a dengue fever epidemic in the country.

² See Technical Paper. Alineación con el Tema Transversal de Equidad de Género [Alignment with the Crosscutting Theme of Gender Equality] ([optional link 5](#)).

- 1.9 Panama is also subject to pandemic risks that, if they materialize, could require extraordinary public expenditures to deploy an effective public health response. The current COVID-19 pandemic is a case in point. In March 2020, the Cabinet Council declared a national state of emergency to respond to the health crisis [32]. The additional public expenditure in the health sector is estimated to have exceeded US\$900 million (1.7% of 2020 GDP) [33]. As of 6 July 2022, more than 925,000 confirmed cases of COVID-19 and 8,373 deaths have been reported [34].

3. Financial vulnerability to natural disasters and public health events

- 1.10 Prior to the COVID-19 pandemic, Panama sustained a high rate of economic growth, averaging 5.9% between 2000 and 2019 [35]. That growth was driven by increased investment in ports and airports, the Panama Canal expansion [36], and strong financial sector performance [37]. Despite this sound macroeconomic environment, monetary poverty is still high in rural areas and indigenous comarcas, with rates estimated at 42.7% and 64% in 2019, respectively [38].
- 1.11 Due to the health crisis, the Panamanian economy contracted 17.9% in 2020. The nonfinancial public sector deficit increased by more than 6 percentage points of GDP, reaching 9.7%, while the public debt rose from 46.4% to 68.5% of GDP in 2020 [39]. Given this situation, in January 2021, Panama accessed a Precautionary and Liquidity Line from the International Monetary Fund for US\$2.7 billion. Economic activity recovered in 2021 as a result of vaccine efforts and the global economic recovery with estimated GDP growth of more than 15.3% [40]. The nonfinancial public sector deficit and public debt stood at 6.7% and 63.7% of GDP, respectively, in line with the current fiscal rule [41].
- 1.12 In this setting, the risk of a severe disaster affecting large urban centers [4, 5] constitutes a significant contingent fiscal liability that, if it materializes, could encumber the fiscal consolidation process now under way. Future epidemics or pandemics could also result in substantial financing needs. For example, additional public expenditure to address the COVID-19 health emergency has grown to more than US\$900 million since 2020 [33]. Accordingly, it is essential to continue improving fiscal resilience through risk-based financial instruments.

4. Natural disaster risk management in Panama

- 1.13 Law 7 of 2005 marked an important milestone in the country's legal and institutional framework for disaster risk management (DRM) by establishing the National Civil Protection System (SINAPROC) under the Ministry of the Interior [42]. Regulations implementing that law were issued in 2008, defining the main institutional arrangements, such as the SINAPROC Administration (DG-SINAPROC) and the National Emergency Operations Center [43]. In 2010, the country approved a National Integrated Disaster Risk Management Policy and formulated and approved the National Risk Management Plan [2], which is currently being updated.
- 1.14 During the life of contingent loan PN-X1007, Panama made significant strides in various strategic areas of DRM. In 2016, DG-SINAPROC developed Municipal Guidelines for Disaster Risk Management to strengthen the area of local governance. In the area of risk identification and analysis, public utility providers such as the National Water and Sewer Institute (IDAAAN) have conducted risk

assessments on several of their water treatment plants. In the area of disaster management, Law 541 of 2022 created the civil protection career path [44].

- 1.15 The updated diagnostic assessment of Panama's DRM is documented in the Integrated Natural Disaster Risk Management Plan ([INDRMP](#)) (paragraphs 2.7 and 2.8). The main findings are summarized below.
- 1.16 **DRM governance.** Preliminary results from applying the Index of Governance and Public Policy in Disaster Risk Management (iGOPP)³ indicate a noteworthy level for Panama (71%), higher than the average for Latin America and the Caribbean (52%). Despite this achievement, the country needs to continue strengthening the DRM governance framework, particularly because a 1% improvement in risk governance, on average, leads to a 3% reduction in victims and a 6% reduction in economic losses caused by disasters [45]. Thus, it is imperative that Panama make progress with updating the new National Disaster Risk Management Plan.
- 1.17 **Disaster risk reduction and adaptation.** Panama has made significant strides in disaster risk reduction. Panama has improved its iGOPP classification from "low" (38%) in 2013 to the current level of "good" (64%). Notably: (i) a mandate to conduct a disaster risk analysis on public investment projects has been added to the rules and procedures of the National Public Investment System's; (ii) since 2017, the Investment Programming Office of the Ministry of Economy and Finance (MEF) has been using a DRM and climate change adaptation labeler at the public sector planning unit level; and (iii) the Ministry of Environment (MiAMBIENTE) is finalizing development and approval of the Gender Plan for Climate Action geared toward mainstreaming a gender perspective in the country's climate risk mitigation and adaptation efforts.
- 1.18 **Financial risk management.** Panama performs well in this area (42%), ranking third in Latin America and the Caribbean and boasting double the regional average (20%). This achievement is evidence of ongoing work by the MEF, particularly the Bureau of Investment, Concessions, and State Risks (DICRE), in the area of retention and transfer of disaster risks. Most notably: (i) the country has adopted a Strategic Framework for Financial Management of Disaster Risks [46]; and (ii) under that framework, the country has various financial mechanisms to manage disaster risks (Panama Savings Fund (FAP), a contingent loan with the Bank, and insurance coverage under the Caribbean Catastrophe Risk Insurance Facility) (paragraph 1.31). With this new contingent loan and the support of other multilaterals such as the World Bank (paragraph 1.31), Panama will continue making progress in this strategic area.

5. Public health risk management in Panama

- 1.19 Panama's health system is comprised of MINSA, the Social Security Administration, and private health care institutions. The public sector has 910 health care facilities, 831 of which pertain to MINSA, and 79 to the Social Security Administration [47]. MINSA is responsible for setting health policy in

³ The iGOPP index measures on a scale from 0% (minimum) to 100% (maximum) whether a country has suitable conditions to effectively implement a DRM public policy. The index has been applied in the 26 IDB borrowing member countries and is endorsed by the United Nations. That study is currently in progress, and its preliminary results are based on information available as of December 2021.

Panama. With respect to health emergencies, MINSA's Integrated Office of Health Risks and Disasters (OIRDS) is responsible at the strategic level for coordinating preparedness and response actions, as well as for supporting the development of work plans [48].

- 1.20 **Epidemiological surveillance system.** Panama's Epidemiological Surveillance System (SISVIG) is a technology platform used to monitor and identify health events requiring mandatory reporting [49]. In the case of the COVID-19 health emergency, this system made it possible to monitor the epidemiological behavior of the disease in the country by collecting data on COVID-19 cases for better tracing and monitoring. Additionally, MINSA adopted epidemiological surveillance standards in 2018, to strengthen the sector's response capacity [50].
- 1.21 **Health service delivery.** In health emergency situations, the Health Emergencies Department of the Health Services Bureau, together with the network of health care institutions, is responsible for leading medical responses. According to a report issued by the Organisation for Economic Co-operation and Development, Panama's hospital capacity is average for the region [51]. The country has 230 hospital beds and 8.1 intensive care beds for every 100,000 inhabitants, compared to 210 and 9.1 for Latin America and the Caribbean, respectively.

6. Risk finance and transfer programs for natural disaster and public health emergencies

- 1.22 During the period 2007-2008, the Bank developed an integrated disaster risk management and finance approach, to help countries improve their financial planning (document GN-2354-7). The objective of this approach is to assist borrowing countries in the design and implementation of risk finance and transfer programs (RFTPs) for natural disaster and public health emergencies.
- 1.23 In 2009, under this strategic framework, the Bank created the Contingent Credit Facility for Natural Disaster Emergencies (document GN-2502-2) with the objective of providing countries with significant liquid resources immediately after a natural disaster. In 2020, faced with the challenge of the COVID-19 pandemic, the facility's scope was expanded to include public health risks (document GN-2999-4).
- 1.24 RFTPs assume the existence of budgetary and financial constraints, such that no single instrument can efficiently cover all levels of risk on its own [52]. For this reason, the use of reserve funds is recommended in the design of the RFTPs, to cover the risk of frequently recurring, smaller-scale events. For more severe but lower probability events, the use of contingent lines and risk transfer instruments is recommended, such as insurance and/or catastrophe bonds [53].
- 1.25 **Potential benefits.** The benefits of focusing on RFTPs for the emergency phase demonstrably outweigh the potential costs. RFTPs allow countries to obtain financial coverage benefiting the population regardless of whether the risks materialize. They are also more efficient, both in terms of direct costs and the savings generated, by closing the liquidity gap of governments resulting from the combination of higher expenditures, lower revenues [54], and credit access and cost constraints.

- 1.26 The availability of ex ante financial coverage for the emergency phase partially reduces the risk of worse scenarios in terms of an event's impact on public accounts and vulnerable populations by fast-tracking resources to meet the costs of the emergency response. This has been confirmed in studies by the Bank [55] and other multilaterals such as the International Monetary Fund [56].

7. The operation in the Bank's sector and country strategy

- 1.27 **The Bank's support in Panama's natural disasters sector and lessons learned.** The Bank has been providing technical support to Panama in DRM through the research and dissemination technical-cooperation operation "Online Course in Disaster and Climate Change Risk Analysis" approved in 2018 for US\$250,000 (operation [ATN/MD-16674-RG](#), completed), to train MEF officials on how to incorporate disaster and climate change risk analysis into public investment projects. Recently, the government asked the Bank to update Panama's iGOPP, which is being financed with resources from the research and dissemination technical-cooperation operation "Applied Research, Innovation, and Dissemination to Strengthen Resilience in Latin America and the Caribbean," approved in 2020 for US\$500,000 (operation [ATN/MD-17897-RG](#), now in execution). That update is in process, and its main outputs will be a diagnostic assessment of the country's risk governance and a reform proposal. The Bank's experience in this sector was key in updating the INDRMP document and its progress indicators (paragraph 2.7).
- 1.28 **The Bank's support in Panama's public health sector and lessons learned.** In health, the Bank is supporting MINSA in expanding coverage and improving the quality of health services through the "Integrated Health Service Networks Strengthening Program," approved in 2015 for US\$140 million (loan [3615/OC-PN](#), now in execution with 81.61% disbursed). This program also includes a component for strengthening institutional capacity through adoption of planning, management, and monitoring tools. The country is also receiving technical assistance from the Bank to strengthen its health service delivery through the client support technical-cooperation operation "Improving Public Investment in Primary Health Care Services for Indigenous Comarcas," approved in 2021 for US\$300,000 (operation [ATN/OC-18954-PN](#), now in execution), and the operational support technical-cooperation operation called "Strengthening the Quality of Panama's Primary Health Care Services," approved in 2018 for US\$150,000 (operation [ATN/OC-17176-PN](#), completed). Additionally, the Bank is supporting the country's COVID-19 pandemic response through the operation "Immediate Public Health Response to Contain and Control Coronavirus and Mitigate Its Impact on Services," approved in 2021 for US\$30 million (loan [5299/OC-PN](#), now in execution with 35.24% disbursed). One lesson learned that was taken into consideration for this operation is the importance of having coordination mechanisms in place for engagement of the various sector stakeholders, particularly in emergency situations (paragraphs 3.2 and 3.3).
- 1.29 **Good practices and lessons learned from the CCF.** The Bank has approved 17 loans from the CCF⁴ with four disbursements totaling US\$291 million (loans [3670/OC-EC](#), [4331/OC-DR](#), [4853/OC-BH](#), and [5195/BL-NI](#)). The relevance and

⁴ The total amount of active contingent loans is currently US\$3.2915 billion.

effectiveness of the instrument have been verified and supported by the “Country Program Evaluation: Ecuador 2012-2017,” prepared by the Office of Evaluation and Oversight (OVE) [57], and the OVE-validated project completion reports on operations to respond to emergencies caused by the 2016 Manabí earthquake in Ecuador (loan [3670/OC-EC](#)) and Hurricane María in 2017 in the Dominican Republic (loan [4331/OC-DR](#)).

- 1.30 The design of this operation has incorporated the following lessons learned from those operations, particularly from contingent loan [PN-X1007](#): (i) updating of parametric triggers according to the country’s risk profile and refinement of the eligibility verification methodology for covered events (paragraph 2.3); (ii) strengthening of the mechanism for interagency coordination among the executing agency (MEF), DG-SINAPROC, MINSA, and other relevant stakeholders, to ensure timely execution of resources disbursed in emergency situations (paragraphs 3.2 and 3.3); (iii) inclusion of guidelines and operational procedures for program supervision and execution in the program [Operating Regulations](#), as well as early coordination between the executing agency and the Bank to justify the use of resources (paragraph 3.11); and (iv) the requirement to commission an independent reasonable assurance audit, to safeguard the eligibility of expenditures (paragraph 3.10).
- 1.31 **Complementarity with other risk finance mechanisms and other multilaterals.** This project complements the various financial instruments available to Panama and the support of other international agencies in managing contingent fiscal liabilities to mitigate the impact of natural disasters and public health events. The country has its own risk retention mechanism through the Panama Savings Fund (FAP), created in 2012 with the purpose of covering financial needs in the event of states of emergency [58]. The FAP is managed by a board of directors, while the MEF acts as the fund’s trustor. In the first quarter of 2022, the country had an average of US\$193.2 million available through the FAP to respond to emergencies. A World Bank loan is also in preparation with a catastrophe deferred drawdown option for US\$100 million. In terms of risk transfer mechanisms, the country has an insurance policy for US\$5.5 million through the Caribbean Catastrophe Risk Insurance Facility with coverage for excess rainfall. In the event of emergencies, coordination and cooperation among the various interventions will take place within the regulatory framework established by the country for management of disaster risks (paragraph 1.13) and public health risks (paragraph 1.19).
- 1.32 **Strategic alignment.** The project is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the development challenge of social inclusion and equality, by benefiting a larger number of people, particularly those in vulnerable conditions, through an increase in ex ante financial coverage for natural disaster and public health emergencies. The project is also aligned with the crosscutting themes of: (i) climate change, since the resources from this operation under Modality I (US\$300 million) could be fully allocated to support the country’s financial framework for adaptation to climate change, particularly to severe flooding. Consequently, according to the [joint](#)

[methodology of the multilateral development banks](#),⁵ an estimated 75% of the operation's resources are invested in climate change adaptation by financing activities that improve financial management of natural disaster risks. These resources contribute to the IDB's climate finance goal (30% of the volume of annual approvals); (ii) gender equality, by promoting the gender perspective in the country's DRM through activities included in the [INDRMP](#) and the Results Matrix (paragraph 1.35); and (iii) institutional capacity and rule of law, by contributing to build the country's capacity to manage public resources through increased ex ante contingent financing and strengthened management of contingent fiscal liabilities (paragraphs 1.10 to 1.12). In this way, the project responds to the priorities of the Banks' Vision 2025 (document AB-3266), by contributing to increase the country's financial resilience and ability to adapt with gender equity in the face of climate change and disasters.

- 1.33 The operation is also aligned with the Corporate Results Framework 2020-2023 (document GN-2727-12), by contributing to the indicators of: (i) beneficiaries of enhanced disaster and climate change resilience, by increasing the population with enhanced resilience to disasters, epidemics, and pandemics when benefiting from the ex ante financial coverage provided by the loan; and (ii) countries with strengthened tax and expenditure policy and management, by building the country's capacity to manage public resources and contingent fiscal liabilities.
- 1.34 The operation is also aligned with the Bank's Disaster Risk Management Policy Guidelines (document GN-2354-5), the Climate Change Sector Framework Document (document GN-2835-8), and the Health and Nutrition Sector Framework Document (document GN-2735-12), by contributing to improve the country's financial management of climate, disaster, and public health risks. The operation is aligned with the IDB Group Country Strategy with Panama 2021-2024 (document GN-3055), by contributing to the crosscutting area of strengthening climate change resilience and adaptation and environmental sustainability through improved financial management of disaster risks. Lastly, the operation is included in Panama's 2022 Country Program Document (document GN-3087, Annex II-A).
- 1.35 **Gender considerations.** Through the [INDRMP](#), the project will promote actions conducive to mainstreaming gender equity in the country's DRM. Actions included in the risk reduction area of the matrix of indicators for the first year of the [INDRMP](#) will focus on strengthening country capacity for mainstreaming the gender dimension in environmental management and climate action. Moreover, given the gender gap identified (paragraph 1.7), as an additional output the operation includes the development of disaster emergency response guidelines with a gender and vulnerable population lens that take into consideration the specific needs of women, indigenous communities, and other vulnerable groups (paragraph 1.41). This output, which will be developed following the strategic guidelines for gender mainstreaming in contingent loans⁶ and implemented as part of monitoring and supervision of the [INDRMP](#) (paragraph 3.13), will help

⁵ See technical paper. Contribución a la Adaptación al Cambio Climático [Contribution to Climate Change Adaptation] ([optional link 4](#)).

⁶ See Section II of [optional link 5](#).

strengthen the gender perspective in the country's DRM. Activities related to that output will be integrated into the INDRMP, as appropriate (paragraph 2.8).

B. Objectives, components, and cost

- 1.36 The general development objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the nation's public finances. The specific development objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies.
- 1.37 The operation provides additionality by contributing to enhance the country's integrated disaster risk management through improvements in the [INDRMP's](#) five major areas of strategic focus (paragraphs 2.7 and 2.8), mainstreaming the focus on gender equality (paragraph 1.35),⁷ and developing disaster emergency response guidelines with a gender lens.
- 1.38 **Sole component.** The proposed operation consists of a US\$400 million sole component that will structure stable, efficient, and rapidly accessible ex ante financial coverage to provide timely funding for the extraordinary expenditures likely to occur during severe natural disaster and public health emergencies.
- 1.39 **Subcomponent 1.1. Coverage under Modality I.** The proposed operation includes a subcomponent for US\$300 million under Modality I of the CCF to provide timely funding for extraordinary public expenditures likely to occur during severe or catastrophic natural disaster emergencies (parametric coverage) (paragraph 2.3). The covered events will be earthquakes and floods.
- 1.40 **Subcomponent 1.2. Coverage under Modality II.** The proposed operation includes a subcomponent for US\$100 million under Modality II of the CCF to provide timely funding for extraordinary public expenditures likely to occur during severe or catastrophic public health emergencies (nonparametric coverage) (paragraph 2.4). The covered events will be future epidemics and pandemics.⁸
- 1.41 A specific output of the operation is development of disaster emergency response guidelines with a gender lens,⁹ to strengthen the country's efforts in this area (paragraph 1.35).
- 1.42 To assess the size of country's financial needs for dealing with emergencies caused by severe or catastrophic natural disasters or public health events, the Bank analyzed the exposure, vulnerability, and impact of historic events, such as

⁷ MiAMBIENTE is finalizing development and approval of a gender plan for climate action geared toward mainstreaming the gender dimension in the country's environmental management (planned for 2022). Once that plan is formalized, MiAMBIENTE will begin to explain and publicize it at the relevant agencies.

⁸ The loan may not be used for the current COVID-19 pandemic outbreak declared by the World Health Organization (WHO) in March 2020 because it does not constitute an eligible event under the scope defined for Modality II of the CCF (document GN-2999-4, paragraph 3.16). However, future pandemics or epidemics could be eligible, including those caused by the new SARS-CoV-2 coronavirus.

⁹ This output will be financed with resources from the regional research and dissemination technical-cooperation operation "Promoting Institutional Capacity Building for the Mainstreaming of the Gender Perspective in Climate and Disaster Risk Management within the Framework of the CCF," approved in 2021 for US\$300,000 (operation [ATN/OC-18888-RG](#), now in execution).

the 1882 earthquake (paragraph 1.4), flooding in 2010 (paragraph 1.5), and the COVID-19 health emergency (paragraph 1.9), including the effects of climate change.¹⁰ Based on that analysis, the loan amount was set at US\$400 million, comprised of US\$300 million under Modality I and US\$100 million under Modality II. Those amounts are within the coverage limits set for each modality for CCF operations (document GN-2999-9, paragraphs 4.4 to 4.7).

- 1.43 **Beneficiaries.** The potential beneficiaries are, generally, the entire population of Panama and, specifically, the most vulnerable population affected by natural disasters and public health events receiving emergency assistance under the proposed coverages.

C. Key results indicators

- 1.44 The following indicators will be monitored, to show the expected contribution to the project's general development objective (paragraph 1.36): (i) ex ante financial coverage relative to probable maximum expenditure during emergencies caused by natural disasters of catastrophic magnitude covered by the project; and (ii) ex ante financial coverage relative to probable maximum expenditure during nationwide public health emergencies covered by the project.
- 1.45 The following indicators will be monitored, to verify achievement of the operation's specific development objective (paragraph 1.36): (i) the amount of ex ante financial coverage available to the country for response to natural disaster or public health emergencies; (ii) the potential beneficiaries of ex ante financial coverage available for natural disaster emergencies; (iii) the potential beneficiaries of ex ante financial coverage available for public health emergencies; (iv) the differential between the financial cost of the IDB loan and the cost of Panama's long-term sovereign commercial external debt; (v) the financial savings ratio following the occurrence of an eligible event: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in terms of net present value (NPV); and (vi) the speed of access to funds following the occurrence of an eligible event: number of days between the eligibility verification request and availability of the funds.
- 1.46 **Economic analysis.** The economic analysis uses a cost-effectiveness methodology to evaluate a scenario where the full financial coverage provided by the US\$400 million contingent loan would be used following the occurrence of a catastrophic natural disaster and a public health event.¹¹ The NPV of the financing cost of the IDB loan was compared to the cost of issuing bonds under the following assumptions: (i) pricing for the IDB loan; and (ii) bonds issued with a maturity of around 10 years, based on the current country risk premium in the international market. Both NPVs were calculated using a discount rate of 12%. The results show that the contingent loan is 79.2% of the cost of issuing debt, which makes it a much more efficient option.

¹⁰ Evidence of Panama's exposure and vulnerability to earthquakes, floods, epidemics, and pandemics, as well as the effects of climate change, is documented in sections I.A.1 and I.A.2.

¹¹ Two other scenarios were evaluated, and the results indicate that the contingent loan would still be the most efficient option. See economic analysis ([optional link 1](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The operation will consist of an investment loan from the Bank under the Contingent Credit Facility (CCF) for Natural Disaster and Public Health Emergencies (document GN-2999-9) for up to US\$400 million. Up to US\$300 million of that amount will be used under Modality I for natural disasters (parametric coverage), and up to US\$100 million will be used under Modality II for public health events (nonparametric coverage). The borrower will be the Republic of Panama, and the borrower, acting through the Ministry of Economy and Finance (MEF), will serve as executing agency. All disbursements will be made from the Bank's Ordinary Capital resources. The funds will originate from either the regular lending program or the available undisbursed balances of investment loans now in execution and identified in the automatic redirection list ([ARL](#)),¹² or from a combination of these two options.
- 2.2 Contingent loans under the CCF contain specific financial terms and conditions (described in the project summary) to effectively support the country at the critical time of an emergency caused by severe events, when public finances are impaired. The specific terms and conditions include: (i) the amortization periods, weighted average life, and grace periods are counted from the date of the first disbursement for each eligible event; (ii) the Bank will only charge a one-time disbursement fee of 50 basis points (revised periodically) on the date of each disbursement, applicable solely to the amount disbursed against resources from the regular lending program (i.e., not resources from the [ARL](#)); and (iii) the resource availability period (coverage period) is five years, and may be extended for up to five additional years at the Bank's discretion following a request from the borrower, as long as the Integrated Natural Disaster Risk Management Plan ([INDRMP](#)) is still in place and progressing to the Bank's satisfaction and/or the country's reporting of progress to the WHO on compliance with the International Health Regulations (IHR) is up to date (document GN-2999-9, paragraph 4.9).
- 2.3 **Eligible events under Modality I.** The loan will provide coverage under Modality I for earthquakes and floods based on the parameters of intensity and affected population established contractually between the country and the Bank and defined in the coverage terms and conditions under Modality I (Annex I of the program [Operating Regulations](#)). Event eligibility will be verified using the agreed parameters. Annex I specifically details how the parametric triggers work to determine event eligibility, as well as the methodology for calculating the maximum coverage amount available.

¹² The [ARL](#) includes the Bank's investment loans in effect with the country that have balances available for disbursements. The remaining balances can be automatically redirected following an event (document GN-2999-9, paragraph 4.12). The [ARL](#) was agreed upon by the borrower and the Bank under the following criteria: (i) the government's priorities in the context of a potential emergency; and (ii) the status of project execution and performance. The [ARL](#) will be updated periodically in consultation with the borrower to include new loans. If the resources disbursed for an eligible event come from [ARL](#) balances in whole or part, the Bank will update the project management systems to reflect the corresponding changes in the selected loans.

- 2.4 **Eligible events under Modality II.** The loan will provide coverage under Modality II for future pandemics and epidemics that result in declaration of a national state of emergency by the relevant authority in the country.¹³ Annex II of the program [Operating Regulations](#) describes specific aspects of the legal framework, scope, and procedure for declaring a national state of emergency.
- 2.5 Disbursements of the financing will be contingent on the availability of sufficient resources from the [ARL](#) or the Bank's regular lending program for Panama, as applicable, when the disbursement is requested. If sufficient resources are not available at the time of the disbursement request, the Bank may disburse up to the maximum amount of available resources. In the event that no funds are available, the Bank will not be obligated to make any disbursements for as long as and to the extent that no resources are available. Once this situation has ended as determined by the Bank, it will notify the borrower.
- 2.6 **Disbursement limits per event.** The maximum amount that may be disbursed for each eligible event is subject to the lower of the following limits: (i) the available undisbursed balance of coverage available under the corresponding modality; and (ii) the limit for each disbursement method established in the program [Operating Regulations](#). In the case of Modality I, the limit will also be subject to the maximum amount resulting from applying the coverage terms and conditions to the event declared eligible.
- 2.7 **Integrated Natural Disaster Risk Management Plan (INDRMP).** To be eligible for financing through the CCF, the member countries must have a public policy in place for integrated disaster risk management and promote its effective development (document GN-2999-9, paragraph 4.3(a)). Panama has had a [INDRMP](#) satisfactory to the Bank in place during the life of contingent loan PN-X1007. For this operation (PN-O0008), the country's [INDRMP](#) was updated, and its progress indicators for DRM key components were agreed upon with the government, in accordance with the priorities for action set in the Sendai Framework for Disaster Risk Reduction 2015-2030, signed by Panama. The updated [INDRMP](#) document was approved by the government and the Bank and is documented in Annex III of the program [Operating Regulations](#). Accordingly, Panama's [INDRMP](#) is satisfactory to the Bank, and the country is eligible to receive financing through the CCF.
- 2.8 To maintain natural disaster coverage, the country must ensure that progress made in implementing the [INDRMP](#) is satisfactory to the Bank. For monitoring purposes, annual progress indicators are defined for each major area of strategic focus of the [INDRMP](#). Progress monitoring exercises will take place annually. For the first monitoring exercise, first year indicators were agreed upon and are specified in Annex III, Table I, of the program [Operating Regulations](#). Satisfactory progress of the plan will be determined by significant progress on all agreed indicators. For subsequent annual verification periods, new annual progress indicators will be defined, in coordination with the government, including those related to the gender action plan.

¹³ In Panama, the Cabinet Council is responsible for declaring national states of emergency, enabling government entities to procure goods, works, or services through a special procedure, pursuant to the Consolidated Text of Law 22 of 2006, which governs public contracting.

- 2.9 **International Health Regulations (IHR).** The CCF states that, to receive financing through public health coverage, countries must be up to date with their reporting of progress against IHR compliance to the WHO.¹⁴ As reported on the WHO's SPAR platform, Panama satisfies this requirement, having completed its latest annual evaluation in 2021.¹⁵ During the contingent loan coverage period, the Bank will monitor the country's annual compliance with progress reporting to the WHO in the context of the IHR.

B. Environmental and social safeguard risks

- 2.10 Operations financed under the CCF are exempt from the Bank's Environmental and Social Policy Framework (document GN-2965-23). No adverse environmental or social impacts are anticipated because the loan resources may only be used to finance expenditures to address emergencies, and the MEF, as executing agency, must adhere to the country's environmental and social legislation. Moreover, the loan contract and the program [Operating Regulations](#) include a list of the types of ineligible expenditures (negative list), such as those associated with permanent infrastructure reconstruction.

C. Fiduciary considerations

- 2.11 The operation will be consistent with the specific fiduciary control requirements and procedures established for the CCF (document GN-2999-9) and Annex III, "Fiduciary Agreements and Requirements," supplemented by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12).

D. Other key risks and issues

- 2.12 **Institutional environment risk.** There is a medium-high risk that, owing to delays in interagency communication and coordination among public sector entities involved in budget execution during natural disaster or public health emergencies (i.e., the MEF, the Administration of the National Civil Protection System (DG-SINAPROC) reporting to the Ministry of the Interior, the Ministry of Health (MINSa), the Government Procurement Office, the Comptroller General of the Republic (CGR), and other institutions necessary to address emergencies), resources disbursed for an eligible event may not be executed within the period stipulated in the loan contract (paragraph 3.9), making the operation less effective. As a mitigation measure, the Bank will: (i) provide technical support to the MEF, including training workshops and catastrophe role playing exercises as part of the project supervision and implementation process; and (ii) establish a coordination and execution mechanism to streamline communication and processes related to financial management and procurement (paragraphs 3.2 and 3.3). In the event of disbursement, the Bank will monitor operation of the coordination and execution mechanism among the aforementioned institutions.
- 2.13 **Sustainability.** Panama is expected to continue strengthening its integrated DRM through implementation of the Strategic Framework for Financial Management of Disaster Risks (paragraph 1.18) and update of the National Risk

¹⁴ The report on compliance with IHR recommendations is updated annually through a self-assessment known as State Party Self-assessment Annual Reporting ([SPAR](#)). For more information, see [Guidance Document for the State Party Self-assessment Annual Reporting Instrument](#).

¹⁵ Electronic instrument for IHR State Party Self-assessment Annual Reporting ([e-SPAR](#)).

Management Plan, which will allow the country to align itself with the priorities of the Sendai Framework 2015-2030. Regarding the management of public health risks, the country is expected to continue its commitment to progress in the context of the IHR. In addition, ongoing implementation of the National Health Policy and Strategic Guidelines 2016-2025, and activities geared toward improving the quality of health services and the sector's capacity to respond to the COVID-19 health emergency, with the Bank's support, will contribute to program sustainability (paragraph 1.28).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The Borrower will be the Republic of Panama. The borrower, acting through the Ministry of Economy and Finance (MEF), will be the executing agency of the operation. The contingent loan proceeds will be disbursed to the MEF. Under the MEF's coordination, the contingent loan proceeds will be used by the public sector institutions responsible for budget execution during natural disaster or public health emergencies (implementing entities). The MEF will be responsible for: (i) overall project coordination; (ii) ensuring that the project's objectives and terms and conditions are met; (iii) processing disbursement requests with the Bank; (iv) allocating disbursed resources to the implementing entities; (v) coordinating the tracking of requirements for monitoring and evaluation of execution of the loan proceeds; and (vi) providing the Bank with justification of the use of the loan proceeds within the established timeframe (paragraph 3.11).
- 3.2 **Policy framework for interagency coordination in natural disaster and public health emergencies.** The MEF is part of the Cabinet Council, which in the event of natural disaster emergencies, will coordinate with the implementing entities and other institutions responsible for the immediate response. The SINAPROC Administration (DG-SINAPROC) will assist the MEF and the Cabinet Council in preparing and executing the response plans at the national, province, or indigenous comarca level. At the operational level, the National Emergency Operations Center, reporting to SINAPROC, is the agency with jurisdiction for joint coordination and operations among the public and private institutions involved in the response. In the event of epidemic and pandemic emergencies, the MEF will coordinate with the Integrated Office of Health Risks and Disasters (OIRDS) of the Ministry of Health (MINSA) for the immediate public health response. MINSA will be responsible for preparing the response plan and establishing the sector guidelines for an effective intervention. At the operational level, MINSA will activate the Health Emergencies Operations Center, to coordinate and monitor the immediate response actions of the country's health care system.
- 3.3 **Coordination and execution mechanism for use of the loan proceeds.** The coordination and execution mechanism, led by the MEF, will facilitate the flow of funds to the implementing entities in the event of natural disasters or public health events (see program [Operating Regulations](#)). The Bank will monitor its implementation by the MEF immediately following a contingent loan disbursement. This mechanism will be integrated within the country's current institutional framework for managing emergencies caused by natural disasters or

public health events (paragraph 3.2), encompassing at least the following processes: (i) prioritization and planning of the response; (ii) budget management; (iii) execution and monitoring; and (iv) accountability reporting and closing.

- 3.4 **Special contractual condition of general eligibility to request disbursements.** The special contractual condition of general eligibility to request disbursements will be the approval and entry into force of the program [Operating Regulations](#) on the terms previously agreed upon with the Bank. The program [Operating Regulations](#) will include: (i) the reference framework, including the interagency coordination and execution mechanism; (ii) operational provisions; (iii) the terms and conditions of coverage under each modality; (iv) the Integrated Natural Disaster Risk Management Plan ([INDRMP](#)); (v) the automatic redirection list ([ARL](#)); (vi) terms of reference for contracting the audit firm for independent verification of the use of the disbursed resources following the occurrence of an eligible event; (vii) templates for requesting advances and reimbursement; (viii) example of an indicative list of potential eligible expenditures for future pandemics; and (ix) the list of excluded expenditures (negative list).
- 3.5 **Special contractual conditions precedent to the first disbursement for each eligible event.** The special contractual conditions precedent to the first disbursement for each eligible event will be:
- a. Disbursements under Modality I (natural disasters): (i) the Bank has verified the occurrence of an eligible event defined in the program [Operating Regulations](#) (paragraph 2.3); and (ii) the [INDRMP](#), previously agreed upon with the Bank, is being implemented to the Bank's satisfaction (paragraphs 2.7 and 2.8); and
 - b. Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public health state of emergency due to an eligible public health event as defined in the program [Operating Regulations](#) (paragraph 2.4); (ii) the borrower has submitted evidence that it is up to date with its progress reporting to the World Health Organization (WHO) on compliance with the International Health Regulations (IHR); (iii) the borrower has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific eligible event, in line with WHO/Pan American Health Organization (PAHO) recommendations, to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance with the agreed complementary risk retention financing measures and conditions.
- 3.6 **In addition to the aforementioned contractual conditions, the borrower will have submitted, within 90 calendar days after the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s), whether these will be drawn from the regular lending program, undisbursed balances from the [ARL](#), or a combination of these two sources. In the case of loans from the [ARL](#), the request will identify the loans in question and the respective amount to be utilized. These contractual conditions were established as standard conditions for the**

execution of contingent loans in the CCF policy document (document GN-2999-9).

- 3.7 Each disbursement of the loan will be made in accordance with the financial terms and conditions established in document GN-2999-9 and included in the Project Summary of this proposal, regardless of whether the resources are drawn in whole or part from the regular lending program, loans included in the [ARL](#), or a combination of the two sources.
- 3.8 **Eligible expenditures.** The loan proceeds may be used to finance extraordinary public expenditures that occur during emergencies resulting from eligible events and: (i) are not explicitly excluded in the loan contract (negative list); (ii) are legal under the laws of the Republic of Panama; (iii) are directly or indirectly related to the natural disaster or public health emergency for which the financing has been provided; (iv) have verifiable documented and clearly registered acquisitions and payments as evidence that the goods and services have been utilized; and (v) have been adequately dimensioned and priced (document GN-2999-9, paragraph 4.20(c)). Examples of types of expenditures that might be eligible are found in Annex VI of the program [Operating Regulations](#).
- 3.9 The Bank will recognize up to 100% of the cost of eligible expenditures effectively incurred and paid by the borrower from the day on which the eligible event began and for the immediately following 180 calendar days. Upon request from the borrower, the Bank, at its sole discretion, can extend this period for an additional 90 days (document GN-2999-9, paragraph 4.20(f)). In all procurement and contracting matters, this operation will be governed by the rules established in document GN-2999-9. The borrower will utilize its national legislation on procurement of goods and contracting of works or services applicable to extraordinary fiscal expenditures in emergencies (Annex III).
- 3.10 **Reasonable assurance audits.** The Bank will require independent verification of expenditures financed by the loan, to assess compliance with the eligibility criteria established in the loan contract and the program [Operating Regulations](#). This independent verification will be performed concurrently by a firm of reasonable assurance auditors included in the Bank-approved list of audit firms. The MEF will be responsible for engaging the auditors and will initially bear the costs (document GN-2999-9, paragraph 4.20(b)). This contracting will be done using the applicable Bank policy, and costs are eligible to be financed from the loan proceeds.
- 3.11 **Justification of the use of resources.** The borrower, acting through the MEF, will produce a Consolidated Report on Adequate Use of Resources to justify the use of the disbursed funds. This report will be delivered to the Bank within 365 calendar days after the onset of the eligible event for which the Bank has disbursed the resources in question. It will also be accompanied by the Final Reasonable Assurance Audit Report commissioned by the borrower for the concurrent expenditure review (paragraph 3.10). Once the Consolidated Report on Adequate Use of Resources has been submitted, the Bank will determine the total amount of expenditures eligible for financing. If there are unjustified or ineligible expenditures, the Bank may require the borrower to reimburse the unjustified amount.

- 3.12 If necessary, as established in document GN-2999-9, and no later than two years after each disbursement, the Bank, at its sole discretion and without cost for the borrower, may conduct additional subsequent audits to verify the adequacy of the declared eligible expenditures, the findings of which may support a request for reimbursement of amounts deemed ineligible for financing.

B. Summary of arrangements for monitoring results

- 3.13 **Monitoring.** During the contingent loan coverage period, the Bank will periodically monitor progress of the [INDRMP](#) and the gender activities, as well as perform annual evaluations of them (see [monitoring and evaluation plan](#)). If, as a result of these evaluations, the Bank finds that the [INDRMP](#) is not progressing satisfactorily, based on the indicators established for such purpose, including those related to gender perspective, the borrower will be notified of the specific actions it must take within 90 days after the issue date of the notification, in order to maintain eligibility for natural disaster coverage. If, after that time has passed, the Bank finds that the recommended remedial actions were not completely and properly taken, only then may the Bank, upon formal notification to the borrower, suspend the borrower's eligibility corresponding to coverage for natural disaster events until the shortcomings in question have been remedied. Notwithstanding the above, once the coverage has been activated, it will remain active for the duration of the period established in the contract, unless a formal notification of coverage suspension is delivered by the Bank to the borrower (document GN-2999-9, paragraph 4.25).
- 3.14 **Evaluation.** As indicated in the [monitoring and evaluation plan](#), the loan is evaluated following the occurrence of an eligible event that results in a disbursement, through a project completion report. The evaluation methodologies are: (i) a reflexive evaluation to assess the efficiency of the loan over the entire coverage period and whether the country accessed the loan resources rapidly enough. This evaluation is supplemented by a qualitative evaluation of the project's contribution to the country's emergency response; and (ii) an ex post cost-effectiveness analysis that compares the cost in net present value of the disbursed resources with the cost of other sources of financing, which would allow the financial savings ratio to be estimated for the country.

Development Effectiveness Matrix		
Summary		PN-00008
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Beneficiaries of enhanced disaster and climate change resilience (#) -Countries with strengthened tax and expenditure policy and management (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3055	Cross-cutting area of strengthening resilience and adaptation to climate change and environmental sustainability.
Country Program Results Matrix	GN-3087	The operation is included in the 2022 Operations Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.1
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		2.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Environmental & social risk classification		N.A.
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, External Control. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ATN/OC-18888-RG. "Promoting Institutional Capacity Building for the Mainstreaming of the Gender Perspective in Climate and Disaster Risk Management within the Framework of the CCF"

The project is a Contingent Loan for Natural Disaster and Public Health Emergencies in Panama. Panama is highly vulnerable to natural disasters and the risk of a severe public health crisis impacting urban areas also presents an important contingent fiscal liability. The general economic development objective of the project is to contribute to mitigate the impact that a natural disaster or public health event of severe and catastrophic magnitude can have over the country's public finances. The specific development objective is to improve fiscal management of natural disaster and public health risks by increasing contingent financing that is stable, cost-efficient, and rapidly accessible to cover public extraordinary expenses directed toward the attention of the population impacted by natural disaster or public health emergencies.

The diagnosis is solid and clearly identifies, based on empirical evidence, the main problem and the factors that determine it. The intervention proposal is clearly linked to the problems and factors identified. The results matrix reflects the objective of the program and captures a good vertical logic.

An ex-ante cost-effectiveness analysis is carried out and a monitoring and evaluation (M&E) plan is proposed in accordance with the DEM guidelines and the characteristics of contingent loans for natural disaster emergencies. The proposed evaluation seeks to assess the efficiency of the operation with an ex- post cost-effectiveness analysis in the event of the occurrence of an eligible natural disaster or public health emergency. Additionally, the M&E plan proposes a reflexive evaluation.

RESULTS MATRIX

Project objective:	The specific development objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies. The general development objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the nation's public finances.
---------------------------	--

General Development Objective

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: To buffer the impact of a natural disaster or severe public health event on public finances in Panama.							
Indicator 1: Ex ante financial coverage relative to probable maximum expenditure during emergencies caused by natural disasters of catastrophic magnitude covered by the project.	%	32.6 ¹	2022	5	86.4 ²	Ministry of Economy and Finance (MEF)	This indicator measures impact because it aggregates all contingent coverage sources vis-à-vis the maximum expenditure. See optional link 8 .
Indicator 2: Ex ante financial coverage relative to probable maximum expenditure during nationwide public health emergencies covered by the project.	%	21.1 ³	2022	5	37.7 ²	MEF	This indicator measures impact because it aggregates all contingent coverage sources vis-à-vis the maximum expenditure. See optional link 8 .

¹ Panama currently has US\$198.7 million in ex ante financial coverage for natural disaster emergencies. The probable maximum expenditure amount is based on the occurrence of an earthquake similar to the 1882 quake on the country's northern coast.

² This value assumes that no severe event occurs during the loan coverage period, but is adjusted for inflation.

³ Panama currently has US\$193.2 million in ex ante financial coverage for public health emergencies (not including disaster coverage from the Caribbean Catastrophe Risk Insurance Facility (CCRIF)). Assumes is based on [International Monetary Fund estimates](#) with respect to public expenditures in the health sector in response to the COVID-19 pandemic.

Specific Development Objectives

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Specific development objective: To improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient financing to cover extraordinary public expenditures to aid the population affected by natural disaster or public health emergencies.											
Indicator 1. Availability and stability: Increase in the country's ex ante financial coverage for extraordinary expenditures during natural disaster or public health emergencies.											
Amount of ex ante financial coverage available to the country for response to natural disaster or public health emergencies.	US\$ million	198.7 ⁴	2022	698.7	698.7	698.7	698.7	698.7	698.7	MEF	Quantifies the total amount of ex ante financial coverage available to the country for response to natural disaster or public health emergencies. See optional link 8 .
Indicators 2 and 3. Vulnerable people with enhanced resilience to natural disasters, epidemics, and pandemics when benefiting from the ex ante financial coverage provided by the contingent loan.											
Potential beneficiaries of ex ante financial coverage available for natural disaster emergencies.	Thousands of people	81.4 ⁵	2022	238 ⁵	230.2	224.6	220.2	215.9	215.9	MEF	Measures the maximum number of people who could benefit from the country's ex ante financial coverage for natural disaster emergencies. See optional link 8 .

⁴ Panama has: (i) US\$193.2 million through coverage available from the Panama Savings Fund, which is based on GDP and the value of the fund's assets (2022 average); and (ii) US\$5.5 million in insurance coverage for rainfall excess through the CCRIF.

⁵ This estimate assumes average per person financial coverage of US\$2,440, which is equivalent to two months of per capita income in Panama, and ex ante financial coverage available initially of US\$198.7 million and US\$598.7 million in subsequent years through access to Modality I of contingent loan PN-O0008 (US\$300 million) and the World Bank Deferred Drawdown Option for Catastrophe Risk (CAT-DDO) (US\$100 million).

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Potential beneficiaries of ex ante financial coverage available for public health emergencies.	Thousands of people	201 ⁶	2022	396.9 ⁶	383.8	374.5	367.2	360.0	360.0	MEF	Measures the maximum number of potential beneficiaries of the ex ante financial coverage available to the country for public health emergencies. See optional link 8 .
Indicators 4 and 5. Financial cost: Contingent financial coverage is cost-efficient.											
Differential between the financial cost of Panama's long-term sovereign commercial external debt and the cost of the IDB loan.	Basis points	233 ⁷	2022	Cost diff.	Cost diff.	Cost diff.	Cost diff.	Cost diff.	Greater than or equal to 100	IDB Finance Department (FIN) Refinitiv Eikon MEF	Compares the financial cost of Panama's long-term sovereign commercial external debt and the cost of the IDB loan. See optional link 8 .
Financial savings ratio following the occurrence of an eligible event: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in terms of net present value (NPV).	%	20.8 ⁸	2022	15	15	15	15	15	15	FIN Refinitiv Eikon MEF	Measures the financial savings rate when the proceeds of the IDB loan are used for the emergency. Calculated using a cost-effectiveness analysis methodology. See optional link 8 .

⁶ This estimate assumes average per person financial coverage of US\$961, which is equivalent to the [cost of care for each hospitalization for dengue fever](#), adjusted for inflation in Panama (2022 prices), and ex ante financial coverage available initially of US\$193.2 million and US\$393.2 million in subsequent years through access to Modality II of contingent loan PN-00008 (US\$100 million) and the World Bank Deferred Drawdown Option for Catastrophe Risk (CAT-DDO) (US\$100 million).

⁷ See project economic analysis ([optional link 1](#)) and [optional link 8](#).

⁸ A cost-effectiveness analysis methodology was used comparing the NPV of the cost of financing the IDB loan to the cost of issuing bonds. See [optional link 1](#).

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Indicator 6. Speed of access: Contingent financial coverage is efficient in terms of how rapidly the country can access the loan proceeds to cover potential emergency expenditures.											
Speed of access to funds following the occurrence of an eligible event: number of days between the eligibility verification request and availability of funds.	Days	90 ⁹	2022	30	30	30	30	30	30	FIN MEF	Number of days between the date of the eligibility verification request for an event and the Bank's notification of the country that the funds are available. See optional link 8 .

Outputs

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification
1. Sole component: Contingent loan from the Bank to cover extraordinary public expenditures during natural disaster or public health emergencies.										
Subcomponent 1.1: Coverage under Modality I.	US\$ million	0	2022	300	300	300	300	300	300	MEF
Subcomponent 1.2: Coverage under Modality II.	US\$ million	0	2022	100	100	100	100	100	100	MEF
2. Response guidelines with a gender and vulnerable population lens as part of updating the national disaster emergency response plan. ¹⁰	Number	0	2022	0	1	0	0	0	1	Administration of the National Civil Protection System (DG-SINAPROC). See monitoring and evaluation plan .

⁹ The value is the average time taken to authorize and process a sovereign bond issue on the international market for a country that performs this type of operation intermittently. The baseline is subject to revision based on future issues.

¹⁰ This output will be financed with resources from the regional technical-cooperation operation "Promoting Institutional Capacity Building for the Mainstreaming of the Gender Perspective in Climate and Disaster Risk Management within the Framework of the CCF," (operation [ATN/OC-18888-RG](#)). This output will be developed as part of updating the country's national response plan and will serve as an input for a future gender action plan.

Country: Panama

Division: IFD/CMF

Operation Number: PN-O0008

Year: 2022

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: The borrower, acting through the Ministry of Economy and Finance (MEF)

Operation name: Contingent Loan for Natural Disaster and Public Health Emergencies

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country system in the operation

<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 checked="" type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	

2. Fiduciary execution mechanism

Special features of fiduciary execution	<p>The executing agency will be the borrower, acting through the Ministry of Economy and Finance (MEF). The MEF will be tasked with coordinating and monitoring execution of the loan proceeds. The operation will consist of an investment loan from the Bank under the Contingent Credit Facility (CCF) for Natural Disaster and Public Health Emergencies (document GN-2999-9) for up to US\$400 million, comprised of: (i) coverage for natural disasters under parametric Modality I of the CCF (US\$300 million); and (ii) coverage for public health events under Modality II of the CCF (US\$100 million).</p> <p>Given the specific nature of this type of operation, when the events occur, and depending on their type, the borrower will designate the public institutions responsible for responding to the emergency and conducting the respective procurements using the funds from this operation (implementing entities). The Bureau of Investments, Concessions, and State Risks (DICRE), jointly with the Public Finance Office and other relevant MIF units and acting through the assigned unit or team, would be tasked with prioritizing and allocating the loan proceeds to the implementing entities.</p>
---	--

3. Fiduciary capacity

Fiduciary capacity of the executing agency	<p>The MEF is considered to meet the necessary and sufficient conditions to ensure effective and transparent financial execution of the loan proceeds from this operation.</p> <p>The MEF will be responsible for: (i) ensuring that the project's objectives and terms and conditions are met; (ii) handling and processing disbursement requests with the Bank; (iii) managing</p>
--	--

	<p>specific budgetary allocations and line items for this project; (iv) monitoring, through the implementing entities, the fiduciary, procurement, monitoring, and evaluation arrangements to safeguard timely and proper execution of resources; (v) providing justification, with reports and documentation from the implementing entities, of the use of the loan proceeds in accordance with the loan contract and the program Operating Regulations; (vi) ensuring that planned and pending payments are made on a timely basis as part of loan contract execution; (vii) commissioning the reasonable assurance audit and coordinating its execution with the implementing entities; (viii) maintaining the necessary documents within its purview, so that the Bank, at its sole discretion, can verify through additional independent external audits the appropriateness of the expenditures declared as eligible; and (ix) participating in the closing process, including preparation of the project completion report.</p>
--	--

4. Policies and guidelines applicable to the operation: The provisions of CCF policy document GN-2999-9, supplemented by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12), will apply to this operation.
5. Exceptions to policies and guidelines: For procurements in operations of this type, government agencies assigned to manage the emergency utilize national laws and regulations for their contracting, in accordance with document GN-2999-9.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

<p>Special fiduciary contractual conditions for execution: Contracting of an audit firm, as established in the program Operating Regulations, from the list of eligible firms, a process for which IDB policies may be applied.</p>
<p>Exchange rate: The applicable exchange rate for justification of expenditures made in the local currency of the borrower's country, other than U.S. dollars, if any, will be option (b)(i) of Article 4.10 of the General Conditions of the loan contract.</p>
<p>Type of audit: A reasonable assurance audit will be performed. The borrower, acting through the executing agency, will deliver a final reasonable assurance report, issued by the contracted external audit firm, to the Bank within 365 calendar days after declaration of the eligible event.</p>

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Use of country systems	<p>In Panama, emergency procurements are based on Article 85 of Law 22 dated 27 June 2006, authorized by Law 153 of 8 May 2020 on Public Contracting and published in Official Gazette 29107-A of 7 September 2020, and Chapter XVIII of Executive Decree 439 of 10 September 2020, implementing Law 22 of 2006, published in Official Gazette 29112 of 14 September 2020. The agencies assigned by the government</p>
-------------------------------------	------------------------	--

		to address the emergency will apply these laws and regulations or those in effect at the time of the event.
<input checked="" type="checkbox"/>	Records and files	The borrower and the implementing entities will be responsible for keeping fiduciary records of the project (documents related to procurement and financial management), independently according to their jurisdiction, using digital and physical files, as well as for having procedures and instructions for proper record-keeping, to ensure that all expenditures are adequately supported and available for review upon request by the Bank or the auditors for a period of two years after the date of each disbursement.

Main procurements: As this is a contingent loan, the contracting processes to be financed will be determined after the event triggering the need to use the funds to address its consequences has occurred. It is therefore impossible to identify the contracting processes involved at the time of the operation's approval.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	<p>The executing agency, together with the implementing entities, are responsible for managing the expansion of their budgets using the established procedures to make budget modifications.</p> <p>The borrower will assign the necessary budgetary and accounting line items for the emergency's specific expenditures using the Integration and Technological Solutions System of the Operational Management Model known as ISTMO.</p>
<input checked="" type="checkbox"/>	Treasury and disbursement management	<p>Under Modalities I and II, upon occurrence of an eligible event, the country may request that the disbursements originate from either the regular lending program or other investment loans already approved and identified in the automatic redirection list (ARL), or from a combination of those two options. The executing agency may submit disbursement requests within the period established for this operation under the following modalities:</p> <ul style="list-style-type: none"> (i) Advances of funds to finance future eligible expenditures up to a limit of 35% of total approved coverage. (ii) Reimbursements of eligible expenses incurred by the borrower using its own funds for up to 100% of total approved coverage. (iii) Direct payments made by the Bank to third parties in the name and at the request of the borrower for amounts agreed upon between the borrower and the Bank. <p>Designated account. To administer the advances of funds, the Bank and the borrower will agree, prior to the request for an advance, to designate an accounting subaccount in the country's</p>

		<p>treasury single account or an equivalent account that can be used to manage and identify the use of funds.</p> <p>Accounting for funds advanced. For the borrower to be able to request a new advance of funds, it must justify to the Bank at least 60% of total cumulative balances pending justification.</p> <p>Eligibility of expenditures. Expenditures incurred within the period and consistent with the eligibility criteria established in the loan contract.</p> <p>Projection of prioritized expenditures. Prior to each request for an advance, the borrower will provide the Bank with a projection of financial needs and prioritized eligible expenditures consistent with the amount of the requested advance and based on the cash flow model, to be submitted to the Bank on a timely basis. The Bank will perform a preliminary review of the information delivered according to the applicability criteria in relation to the list of prioritized expenditures, as well as proportionality in relation to the allocation of the requested resources. If necessary, the Bank may propose changes to the borrower.</p> <p>Declaration of expenditures financed with own resources. The borrower will include a declaration letter signed by the executing agency in the reimbursement request, expressly indicating that the expenditures to be reimbursed by the Bank were financed exclusively with treasury resources.</p>
<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	<p>Specific accounting standards:</p> <p>Accounting method and currency. The accrual method will be used for accounting. However, the project's financial reports will be prepared on a cash basis and in U.S. dollars, which is legal tender in the country.</p> <p>Reports. Statements of expenditures related to the emergency will be prepared by the implementing entities and will be consolidated and submitted by the executing agency. The items included in the statement of expenditures must be sufficiently detailed to allow the Bank to distinguish the expenditures incurred and, at the same time, to facilitate the expenditure audit process. Each item listed in the statement of expenditures must have, at a minimum, the breakdown of information agreed upon with the Bank. The Bank will provide the corresponding formats.</p>
<input checked="" type="checkbox"/>	Internal control and internal audit	<p>Project execution is based on the application of national policies; accordingly, relevant provisions will be applied to the country's internal control systems, supplemented by the program Operating Regulations. However, the Bank does not rely on the use of this subsystem.</p>

<input checked="" type="checkbox"/>	<p>External control and financial reports</p>	<p>Audited financial report. The borrower, acting through the executing agency, will deliver a final reasonable assurance report issued by a Bank-eligible external audit firm in the country, as applicable, to the Bank within 365 calendar days after the eligible event.</p> <p>The audit will be commissioned by the executing agency with the loan proceeds, in accordance with the terms of reference previously agreed upon with the Bank. The borrower will finalize the engagement of the independent audit firm within 45 days after the first disbursement. The Bank's procurement policies will be used for this contracting (document GN-2350-15).</p> <p>Final report. The audit firm will produce a final reasonable assurance report that will be a prerequisite for delivery of the borrower's final accounting for the use of resources within 365 calendar days after the occurrence of the eligible event.</p> <p>The audit firm will express a conclusion, with a reasonable degree of assurance, as to whether the expenditures submitted by the borrower are sufficiently compliant with policies, procedures, characteristics, records, and supporting documents to be declared eligible as stipulated in the loan contract and applicable policies.</p> <p>The Bank may request partial audited progress reports on the execution of expenditures, which may accompany the submission of partial accountability reports.</p> <p>Additionally, the Bank, at its sole discretion and without cost to the borrower, may verify the appropriateness of the expenditures declared as eligible by means of independent external audits. Such audits will be performed no later than two years after the end of the disbursement period of the corresponding contingent loan.</p> <p>If the Bank finds ineligible expenses as a result of any of the loan audits, it may require that the borrower immediately remedy the situation or reimburse the disputed amounts.</p>
<input checked="" type="checkbox"/>	<p>Financial supervision of the operation</p>	<p>Financial supervision will be conducted through visits, working meetings, and a review of the assurance reports or other audited financial reports.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Panama. Loan PN-O0008 to the Republic of Panama
Contingent Loan for Natural Disaster and
Public Health Emergencies

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 Contingent Loan for Natural Disaster and Public Health Emergencies. Such contingent loan will be for the amount of up to US\$400,000,000 from the resources of the Bank's Ordinary Capital resources, and will be subject to the availability of resources from the Bank's regular loan program with the Republic of Panama or from the Automatic Redirection List, as the case may be, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2022)