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PANAMA

PROGRAM TO SUPPORT THE DIGITAL TRANSFORMATION OF THE TAX ADMINISTRATION IN PANAMA

(PN-L1161)

LOAN PROPOSAL

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Contents

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

REQUIRED LINKS	
1	Multiyear execution plan (MEP) / annual work plan (AWP) / itemized budget
2	Monitoring and evaluation plan
3	Procurement plan

OPTIONAL LINKS	
1	Cost-effectiveness analysis
2	Program Operating Regulations
3	Current central government revenue at the end of each year
4	Most relevant Tax Administration Diagnostic Assessment Tool (TADAT) indicators for this operation and their respective scores
5	Safeguard Policy Filter (SPF) and Safeguard Screening Form (SSF)

ABBREVIATIONS

AIG	Autoridad Nacional para la Innovación Gubernamental [National Authority for Governmental Innovation]
ANA	Autoridad Nacional de Aduanas [National Customs Authority]
AWP	Annual work plan
CSS	Caja del Seguro Social [Social Security Fund]
DGI	Dirección General de Ingresos [General Revenue Directorate]
FRL	Fiscal Responsibility Law
GDP	Gross domestic product
IMF	International Monetary Fund
IT	Information technology
ITBMS	Impuesto de Traslado de Bienes Materiales y Servicios [value-added tax]
LAC	Latin America and the Caribbean
MEF	Ministry of Economy and Finance
OECD	Organisation for Economic Co-operation and Development
PCR	Project completion report
PEU	Program execution unit
PSC	Program steering committee
RFI	Rapid Financing Instrument
RUC	Registro Único del Contribuyente [Single Taxpayer Registry]
TADAT	Tax Administration Diagnostic Assessment Tool

PROJECT SUMMARY

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<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3">Borrower:</td><td colspan="2">Flexible Financing Facility[a]</td></tr>
<tr><td colspan="3">Republic of Panama</td><td>Amortization period:</td><td>15 years</td></tr>
<tr><td colspan="3">Executing agency:</td><td>Disbursement period:</td><td>5 years</td></tr>
<tr><td colspan="3" rowspan="2">Ministry of Economy and Finance (MEF) through the General Revenue Directorate (DGI)</td><td>Grace period:</td><td>5.5 years[b]</td></tr>
<tr><td>Interest rate:</td><td>LIBOR-based</td></tr>
<tr><td>Source</td><td>Amount (US$)</td><td>%</td><td>Credit fee:</td><td>[c]</td></tr>
<tr><td rowspan="2">IDB (Ordinary Capital):</td><td rowspan="2">40,000,000</td><td rowspan="2">100</td><td>Inspection and supervision fee:</td><td>[c]</td></tr>
<tr><td>Weighted average life:</td><td>10.25 years</td></tr>
<tr><td>Total:</td><td>40,000,000</td><td>100</td><td>Approval currency:</td><td>U.S. dollar</td></tr>
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Project at a Glance

Project objective/description: The overall objective is to boost the capacity of the State through an increase in tax revenue collection. The specific objectives are to: (i) boost the effectiveness of the audit and collection processes; and (ii) reduce the costs of compliance with tax obligations.

Special contractual conditions precedent to the first disbursement of the loan: The first disbursement of the loan proceeds will be contingent upon: (i) establishment of the program execution unit (PEU); (ii) appointment of a program coordinator; (iii) appointment of the following key staff: (a) a tax administration specialist; (b) a technology specialist; (c) a change management specialist; (d) a procurement specialist; and (e) a finance specialist; and (iv) approval of the program Operating Regulations (program Operating Regulations) under the terms previously agreed upon with the Bank (see paragraph 3.6).

Exceptions to Bank policies: None.

Strategic Alignment

Challenges:[d]	SI ☐	PI ☑	EI ☐
Crosscutting themes:[e]	GD ☑	CC ☑	IC ☑

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

[b] Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

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

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

[e] GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

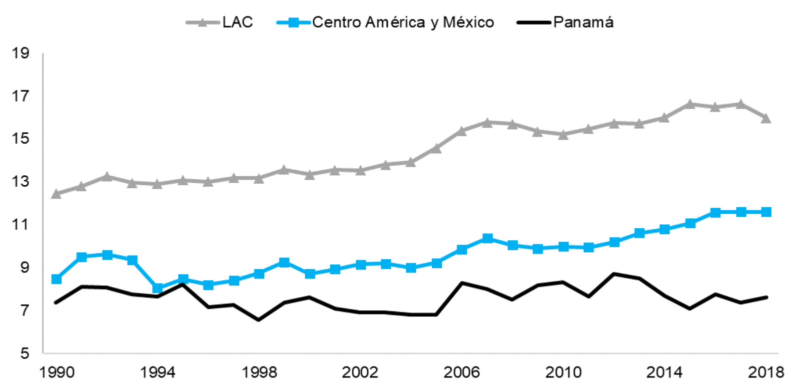
I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

1.1 **Macroeconomic considerations.** In the last 15 years, the Panamanian economy grew at an average annual pace of 6.8%. However, it experienced a sharp slowdown in 2018 and 2019, mainly due to a drop in construction activity,[1] resulting in growth rates of 3.7% and 3%, respectively, the lowest in the last 10 years.[2] Since Panama's is a dollarized economy, fiscal policy is the only instrument available to absorb external shocks, making it more significant. As a result of the economic slowdown, the nonfinancial public sector[3] deficit rose from an average of 2.2% of gross domestic product (GDP) in the 2015-2017 period to 3.2% of GDP in 2018 and 3.1% of GDP in 2019, forcing a reform of the Fiscal Responsibility Law (FRL) to enable compliance with the established deficit ceilings.[4] The fiscal deficit increase is primarily due to a decline in tax revenue from 9.7% of GDP in 2016 to 8.2% of GDP in 2019 and to an increase in primary expenditure from 13.5% to 14.3% of GDP over the same period. In addition, public debt has exhibited an upward trend, going from 35.5% to 41% of GDP between 2015 and 2019, although it has remained at sustainable long-term levels.

1.2 **Fiscal considerations.** Despite the country's significant economic momentum, tax revenue has been stagnant in recent decades, in contrast with a sustained upward trend in the rest of the region and the Central America and Mexico subgroup (see Figure 1). Starting in 2018, this phenomenon was exacerbated by circumstances affecting the construction and service industries, which, coupled with reduced global economic vitality, moderated economic activity in Panama and drove a decline in government revenue.

Figure 1. Tax revenue collected by the tax administration system (% GDP)



Notes: Corresponds to the nonweighted average of 25 countries in Latin America and the Caribbean (LAC). Central America and Mexico includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, and Nicaragua. Source: Inter-American Center of Tax Administrations (CIAT) (2020).

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1 Leveraged by investment in infrastructure, expansion of the Panama Canal and the rapid transit system, and copper mining investment, total investment reached 46% of gross domestic product (GDP) in 2014. Source: International Monetary Fund (IMF). Panama Selected Issues 2020.

2 Source: IMF (April 2020).

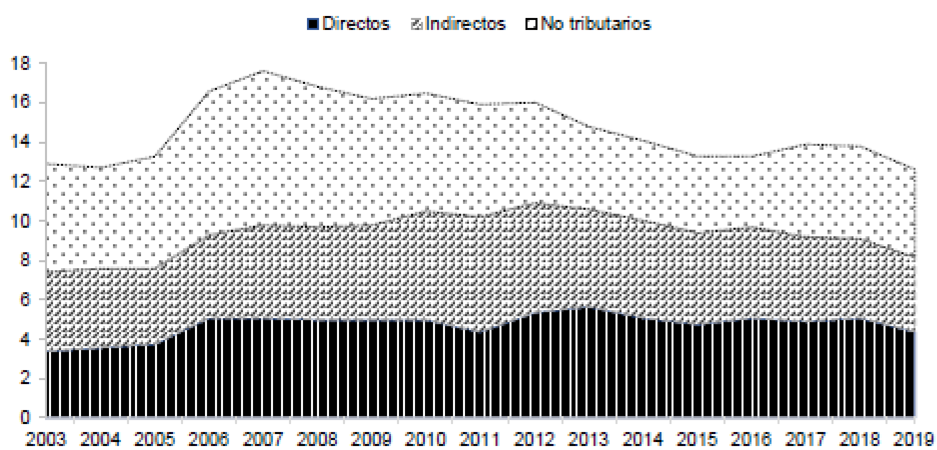
3 Excluding the Panama Canal Authority.

4 Panama has an FRL that was enacted in 2009 but has subsequently been amended on several occasions, including twice in the past two years, to expand the deficit ceilings and establish new adjustment paths.

1.3 As a result, current revenue declined from 13.8% of GDP in 2018 to 12.6% of GDP in 2019.[5] Corporate income tax revenue fell by 12.2% in nominal terms, while personal income tax revenue fell by 4.9% and value-added tax (ITBMS) revenue declined by 2%. This revenue drop in 2019 occurred despite the tax amnesty granted in October 2019, the fiscal impact of which amounted to only US$144.7 million as compared to the US$200-250 million initially expected by the tax administration system[6] (see current central government revenue at the end of each year (nominal % change)).

1.4 Tax revenue totaled 8.2% of GDP in 2019. Direct taxes added up to 4.4% of GDP, with personal income tax and corporate income tax contributing a similar share (respectively 1.7% and 1.4% of GDP). Indirect taxes added up to 3.8% of GDP, with the ITBMS on sales and imports accounting for the lion's share (2.2% of GDP). The low tax revenue was partially offset by nontax revenue, which amounted to 4.4% of GDP. In particular, the operations of the Panama Canal tend to generate toll and dividend revenue for the country, which in 2019 amounted to 2.6% of GDP (see Figure 2).

Figure 2. Current central government revenue (% GDP)



Source: DGI and Central Bank.

1.5 The economic impact of the COVID-19 pandemic has led to a decline in tax revenue as income and job losses have eroded the vitality of key sectors such as construction, logistics, and tourism. To mitigate this impact, the government launched a fiscal stimulus plan that included, among other temporary measures, a moratorium on 2019 income taxes until the end of May, an extension of the tax amnesty until the end of June, and a moratorium on all other taxes until mid-July.[7] In July 2020, the Cabinet Council approved sending three important tax-related bills to the Legislative Assembly. These bills provide for: (i) extending the amnesty law to 31 December 2020; (ii) implementing early payment and payment agreement options to provide compliance alternatives for taxpayers with liabilities

[5] Current central government revenue statistics, including tax documents. Source: DGI.

[6] This amnesty was approved by the new administration under Law 99 of 11 October 2019 and was extended under Law 134 of 20 March 2020. DGI information available as of end of April.

[7] *América Latina y el Caribe Post COVID-19. Retos y Oportunidades* (IDB, 2020).

originating in the COVID-19 period (20 March to 31 July 2020); and (iii) instituting a simplified income tax system for small and medium-sized enterprises (SMEs), in the form of progressive rates (from 0% to 7%) for SMEs with annual income of less than US$11,000 and a maximum rate of 22.5% for SMEs with annual income of up to US$500,000. The DGI's preliminary figures for June show that, as a result of the fiscal stimulus plan, tax revenue generally contracted by 37.6%.[8] Both direct and indirect taxes underwent a substantial adjustment (38.0% and 37.1%, respectively). Corporate income tax revenue fell by 68.7%, while ITBMS revenue declined by 38.3%. Nontax revenue associated with Panama Canal operations was the only type of central government revenue that increased.

1.6 The IMF projections assume a gradual restart of economic activities in Panama in the second half of 2020 in tandem with a normalization of global conditions toward year's end. According to the same report, the Panamanian economy is forecast to contract by 2% in 2020,[9] followed by a recovery and by growth of more than 4% in 2021.[10] DGI estimates indicate that an economic contraction of this magnitude would lead to a nominal drop in tax revenue of 27.3% in 2020. Considering that the most recent outlook has worsened in view of the sharp increase in the number of new daily cases in Panama in recent weeks,[11] a potentially delayed economic recovery means that the economy (and thus tax revenue) would experience a steeper decline in the short and medium term than expected at the onset of the pandemic. As a result of this deepening of the economic crisis triggered by COVID-19, the initial calculations included in the 2020 IMF report Request for Purchase under the Rapid Financing Instrument (RFI)[12] have been revised to reflect the increasing severity of the pandemic's effects on the economy and the fiscal situation as time passes.[13]

1.7 **Institutional considerations.** At the national level, governmental revenue in Panama is managed by the DGI,[14] which collects income tax and value-added tax; by the Social Security Fund (CSS), which collects payroll tax; and by the National Customs Authority (ANA), which collects tariffs, ITBMS on imports, and specific taxes. The DGI faces challenges despite specific actions to modernize tax administration, such as partial implementation of the e-tax 2.0 system[15] and

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[8] Current central government revenue statistics, including tax documents. Source: DGI.

[9] Recently, the IMF has increased its projected GDP decline for the region in 2020 by more than four percentage points to 9.4%. ECLAC has recently increased its projected GDP decline for Panama to 6.5%, matching the figure being given by private analysts in the country.

[10] Some lockdown measures began to be reversed on 13 May following an announcement of six stages for a gradual restart of the various economic activities; to date, however, no specific dates have been assigned for these stages (IDB, 2020).

[11] The number of new daily cases in Panama went from a stable 200 in the first months of the pandemic to about 750 in recent weeks. Panamanian Ministry of Health.

[12] GDP drop of -1.7% (tax revenue equivalent to -0.8% of GDP); total expenditure increase equivalent to 1.7% of GDP; and fiscal deficit increase equivalent to 3.5% of GDP.

[13] Under the current macro fiscal framework, the country is required to make a fiscal adjustment designed to take the central government deficit from 3.7% of GDP, the figure posted in 2019, to 2% of GDP by 2022. Meanwhile, public debt, which totaled 46.4% of GDP at year-end 2019, may not exceed 40% of GDP. However, the government has proposed amending the FRL, although any approval of such an amendment is dependent on the National Assembly.

[14] Under Executive Decree 435 of 19 September 2014, the DGI is responsible for overseeing tax compliance, i.e., compliance with domestic taxes, fees, levies, and revenue.

[15] Digital system of integrated tax administration management.

improvement of taxpayer assistance procedures in 2018. According to the 2019 Tax Administration Diagnostic Assessment Tool (TADAT),[16] which measures the effectiveness of a tax administration system, the DGI exhibited very low scores in 22 of the 32 process performance indicators[17] (see the most relevant TADAT indicators for this operation and their respective scores).

1.8 In addition, the resources allocated by the MEF to the DGI budget are a mere 0.02% of GDP, which is a much lower share than in countries in the region with similar per-capita income.[18] This severely restricts the ability to move forward on an institutional transformation of the DGI and improve its revenue collection capacity.[19] Thus, with a view to ensuring the sustainability of this investment, it is of key importance to explore an arrangement that provides the DGI with greater financial autonomy as part of its modernization process.

1.9 Since late 2019, the DGI has made strides in initiating a comprehensive modernization process. Bank support helped to identify areas for improving the administration system in terms of registered taxpayer base, taxpayer segmentation, risk profiles, collection management, and enforcement. In addition, the effectiveness of the tax administration system was measured using TADAT principles and benchmarks. Bank and IMF studies identified about 300 taxpayers who account for 78.6% of the corporate income tax revenue and 25.3% of the ITBMS revenue. This exercise motivated the MEF and the DGI to request support from the Bank in preparing the design of a new Sub-Dirección de Grandes Contribuyentes [Large Taxpayer Unit]. In the context of the COVID-19 crisis, the DGI digitized 114 processes in order to provide continuity to the tax administration during the pandemic.

1.10 **Rationale for the intervention.** The specific problems of the tax administration are: (i) limited effectiveness in the audit and collection processes; and (ii) high tax compliance costs for taxpayers. DGI estimates show that the corporate income tax, personal income tax, and ITBMS compliance gaps are respectively 73%, 33%, and 45%.[20] This is coupled with the complexity of paying taxes: taxpayers who voluntarily comply with their tax obligations spend an average of 408 hours per year to do so.[21] There is also the need to accelerate the digital transformation of the DGI as a result of the COVID-19 pandemic.

1.11 The strategic government plan in effect for the 2019-2024 period prioritizes the digitization of processes to boost tax compliance and lower its costs. The government reconfirmed the priority objective of improving tax revenue collection, labeling it a pillar of fiscal consolidation and public investment in the context of the post-COVID-19 economic recovery. In this regard, the Government of Panama asked the Bank for support in mitigating the two major specific problems and causes affecting the performance of the tax administration system, namely:

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[16] TADAT assesses the performance of tax administration processes in countries.

[17] For definitions, see Performance Assessment Report, Panama. TADAT, November 2019.

[18] Chile allocated 0.1% of GDP; Uruguay, 0.17% of GDP; Peru, 0.16% of GDP. IMF (February 2020).

[19] Source: IMF 2020.

[20] Source: DGI.

[21] Source: World Bank (2020). Panama is ranked 176th among the 190 economies assessed. The regional (LAC) average is 60.5 hours per year. These data relate to the payment of all taxes.

1.12 Weak governance and human resources management:

a. Strategic management: (i) silo organizational structure, without an operational macroprocess-based logic; (ii) limited budgetary autonomy to sustain and promote modernization processes; (iii) shortcomings in the availability of strategic information for decision-making;[22] and (iv) technical and methodological limitations in estimating tax revenue.

b. Human resources management: the DGI has 904 employees on its payroll (January 2020), at least 40% of whom are professionals, making it imperative to introduce a specific training program to mitigate the knowledge gap; in addition, the DGI lacks adequate assessment methodologies and workforce resizing procedures to (i) quantify and know the profiles and composition of its staff; (ii) assign employees based on the institution's current and future needs; and (iii) better target staff training based on skills.

c. Despite the fact that the DGI's employee payroll is well distributed by gender[23] and it has pro-women policies such as a generous maternity leave, it does not have a lactation room to facilitate the return to work for women who just had children. A lactation room helps create a more inclusive work environment and eliminates one of the barriers to career development associated with maternity.

d. Limited transparency in the execution of administrative, regulatory, and operational procedures, stemming from a lack of internal controls.

1.13 The use of less-than-optimal processes for the deployment of information and available personnel:

a. Difficulties in recording and updating taxpayer information: (i) outdated Single Taxpayer Registry (RUC);[24] and (ii) absence of criteria to make it easier to process late and corrective filings and update them in the current account.[25]

b. High levels of tax compliance risk, due to: (i) a risk matrix whose indicators do not measure compliance criteria;[26] (ii) insufficient criteria for taxpayer segmentation and control;[27] (iii) difficulty in obtaining information from third parties;[28] and (iv) low coverage of electronic invoicing.[29]

c. High compliance costs for taxpayers, due to: (i) difficulties in filing returns and paying taxes in timely fashion;[30] and (ii) insufficient taxpayer assistance instruments available.

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22 The government's 2018-2019 strategic plan lacks quantifiable targets and monitoring indicators.

23 Breakdown of employees by gender and position: 66% women, 34% men. Management: 67% women, 33% men. Provincial administrators: 50% women, 50% men (DGI).

24 Only 200,000 of the 900,000 taxpayers are active, and 40,000 have two or more files (DGI).

25 There are 170,000 late filings and 25,000 corrective filings that are unresolved (DGI).

26 IDB report (2019).

27 Absence of a specific unit for the approximately 300 large taxpayers (65% of the tax revenue) (IDB, 2020).

28 CSS, ANA, Electoral Tribunal, public registry, and financial system.

29 Only 17 large companies use electronic invoicing and there is no plan to expand its use to the rest of the country's large taxpayers.

30 Approximately 300 taxpayers account for 78.66% of the income tax collected, and 59 of these taxpayers failed to make payment when due in 2019.

d. Weaknesses in tax control: (i) high evasion levels; (ii) difficulty in obtaining information and making automated cross-references; (iii) limitations in the scope and monitoring of audit activities; (iv) inefficient administrative and enforced collection,[31] including with respect to taxpayers who fail to file and delinquent taxpayers;[32] (v) e-tax 2.0 does not have the required functionalities and is not process-oriented.

1.14 Vulnerabilities in the technological infrastructure supporting the DGI's operational processes. The DGI does not have its own technological infrastructure: (i) the systems and databases share the technological infrastructure of the MEF with the government's other fiscal systems;[33] (ii) it is difficult to identify and mitigate the operational risks of the information technology (IT) systems (it is estimated that most of this infrastructure of computers, telecommunications, and security will be outdated by 2021, primarily due to the exponentially growing use of fiscal intelligence processes);[34] and (iii) the availability of emerging technologies to support tax management and the constant security threats create the need not only to update the infrastructure but also to review the technology strategy with a view to expanding the technological infrastructure sustainably, securely, and efficiently in a medium-term horizon.[35]

1.15 **The Bank's experience in the country.** The Bank executed loan 2568/OC-PN (approved in 2011): Program to Strengthen Fiscal Management, which included a DGI tax-strengthening component that developed and implemented the e-tax 2.0 information technology solution, which remains in use today (see paragraph 1.17). In the context of COVID-19, the Bank has supported the liquidity of the financial and fiscal systems. The Bank recently approved operation 5040/OC-PN, in the amount of US$150 million, aimed at providing support for the recovery of micro, small, and medium-sized enterprises; and operation 5055/OC-PN: Emergency Program for Macroeconomic and Fiscal Sustainability, in the amount of US$400 million, to support the balance of payments and a countercyclical fiscal policy. It is worth noting that this operation is critical for sustaining Panama's efforts to fulfill the fiscal policy commitments reflected in the IMF's 2020 RFI report, which include maintaining a debt-to-GDP ratio consistent with a return to the path of fiscal responsibility. Since the National Authority for Governmental Innovation (AIG) is Panama's lead agency for infrastructure standards and technology solutions for the State, the program will be coordinated with the loan operation Panama Online (3683/OC-PN, approved in 2016), which supports the AIG, and with the Customs Logistics Integration Program (loan operation 4517/OC-PN, approved in 2018). The technological issues associated with the sharing of information between the DGI and ANA will be coordinated to support the tax control efforts of the former and the trade facilitation efforts of the latter.

[31] The total debt accounted for 10% of the tax revenue collected in 2018, and debt more than 12 months past due represented 85% of the total (TADAT).

[32] The information technology system is incapable of identifying taxpayers who have failed to file (TADAT).

[33] The Information and Technology Department reports to the MEF.

[34] Stress tests conducted on the information technology system revealed shortcomings in processing and storage capacity.

[35] In 2019, detected attacks on the information technology system numbered 5,000 per day (DGI).

1.16 **The Bank's experience in other countries in the region.** The Bank has extensive experience in strengthening tax and customs administrations in the region and has generated knowledge in this area. Specifically, recent experience with tax administration reforms in Jamaica (loan 2658/OC-JA), Ecuador (loan 3325/OC-EC), El Salvador (loan 3852/OC-ES), Guatemala (loan 3786/OC-GU), Honduras (loan 3541/BL-HO), and Peru (loan 3214/OC-PE) has been taken into account in the design of this operation. The importance of reinforcing the organizational structure, human resources, tax processes, and fiscal intelligence to achieve a more effective and efficient tax administration is a recurrent theme in these operations.

1.17 **Lessons learned from Bank operations.** The main lessons learned from earlier operations in Panama notably include those arising from the Program to Strengthen Fiscal Management (loan 2568/OC-PN), which enabled implementation of the initial phase of the e-tax 2.0 system and creation of the Large Taxpayer Unit. This unit was subsequently dismantled, highlighting the importance of having a systemic and comprehensive modernization design which the employees can consider their own and which is unwaveringly supported by senior management at the DGI and MEF so as to ensure the sustainability of the institutional reforms. Lessons were also learned from the Fiscal Policy and Tax Equity Consolidation Program (loan 2669/OC-PN), specifically the need to: (i) encourage a shift in organizational and change management culture; (ii) promote a civil service career path within the DGI to attract skilled staff and ensure that the modernization process will be sustainable in the medium term; (iii) manage the program based on results, which means that the program execution unit (PEU) should manage and negotiate its budget based on the annual result targets rather than solely based on an annual fiscal exercise; (iv) improve governance of the institution and the program so that the political incentives of the senior authorities are aligned with the program's annual results targets; and (v) provide advisory services by foreign consultants on operational and technological issues.[36] These lessons are reflected in the design of Component 1 (see paragraph 1.28), which envisages: (i) an organizational modernization process accompanied by an updating of profiles for the various positions and responsibilities; (ii) proposals to develop a human resource structure that allows for developing a career at the DGI while limiting turnover; (iii) creating alternative scenarios that allow greater financial autonomy, making investment in technology more sustainable and promoting technological innovation; and (iv) new governance based on revenue collection metrics and taxpayer assistance, leading to a results-based management model that provides accountability and internal checks and balances, to be achieved by strengthening the DGI's Internal Control Department.

1.18 In addition, according to the project completion report (PCR) prepared for seven Brazilian states under PROFISCO-I, the most significant lessons learned were: (i) the importance of continuing to invest in technological innovation (the current operation envisages actions such as: innovative mass audits, the use of big data and risk management in audits, and the use of cognitive taxpayer assistance tools) (see paragraph 1.29); (ii) the importance of advance planning in implementing complex outputs (it was agreed-upon with the DGI that the technical specifications

[36] Project completion report (PCR), Program to Strengthen Fiscal Management (loan 2568/OC-PN) (2018).

and terms of reference (see paragraph 2.5 d), primarily in the case of technological innovation outputs, would be prepared before the start of execution on a priority basis and with the support of consultants specialized in information technology, expenditures, and revenue); and (iii) the importance of having solid knowledge transfer with regard to the software developed by external consultants (see paragraph 1.30).

1.19 **International evidence.** Recent assessments show that revenue collection significantly depends on institutional strengthening of the tax administration systems in terms of their organizational structure, processes, and support tools. In particular, the following is of key importance: (i) improve access to, and the quality of, the available information;[37] (ii) implement audit models that rely on the intensive use of information;[38] (iii) simplify procedures to facilitate tax compliance;[39] and (iv) identify strategies to ensure the suitability and motivation of the human resources.[40] Several tax administration systems in Latin America have strengthened these components, notably in Brazil and Uruguay.[41]

1.20 The international evidence, based on a comparative analysis of tax administrations, indicates that the growth of new technologies, the rise in digitization, and the mass flows of available information are forcing tax administrations to reexamine how they conduct their operations and what opportunities exist to implement cost-effective solutions so as to boost revenue collection and improve service delivery. Specifically, the Organisation for Economic Co-operation and Development (OECD)[42] points out that advanced data analytics is proving to be an extremely valuable tool for improving taxpayer knowledge and for smarter decision-making in guiding audit and evasion control strategies.

1.21 Experiments such as Slemrod et al. (2001) in the United States, Pomeranz (2015) in Chile, and Kleven et al. (2011) in Denmark have led to important findings regarding the strategic behavior of taxpayers and how this can be used by the tax authorities to strengthen the auditing exercise. Comparing the patterns of evasion between the treatment groups and the control group, the results suggest that taxpayers who received notices alluding to the possibility of an audit increased the income they reported to the tax authorities by up to 12%, as in the case of the United States. These studies offer important lessons regarding the characteristics that can raise the risk of evasion and on which the authorities could focus their auditing efforts: (i) the taxpayer's position in the economic chain – final sales vs. intermediate sales; (ii) the taxpayer's type of income – self-employment income vs. wages; and (iii) the level of traceability and third-party trails, etc. The digitization of the DGI, the

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37 Evasion rates are up to eight times higher where the tax administration lacks automated instruments to verify the taxpayers' sources of income (Slemrod et al., 2015; Pomeranz, 2015; Kleven et al., 2011).

38 In Spain, available information is used as a complement to business audits (Almunia and López Rodriguez, 2016).

39 This can increase the rate of payment by up to four percentage points (Hallsworth et al., 2014). In the case of Panama, the automation of procedures simplifies the process for the DGI employees, while the availability of service online simplifies the process for the taxpayers.

40 Incentive systems for key tax administration staff aimed at generating additional revenue collection produced rates of return of 35% to 51% (Khan et al., 2016).

41 PCR for loan 1783/OC-UR. Barreix and Zambrano (2018). Electronic invoicing in Latin America. IDB.

42 Advanced Analytics for Better Tax Administration (OECD, 2016).

increase in the analytical capacity of its employees, and the integration of internal processes will enable the DGI to boost its administrative efficiency.

1.22 In line with the foregoing, an instrument that is being progressively implemented in the region and improves the tax authority's ability to identify taxpayers is the electronic payment voucher, also known as electronic invoicing. Barreix and Zambrano (2018) summarize the empirical evidence available in the region. These studies find that electronic invoicing has led to significant increases in tax revenue collection in Argentina, Brazil, Ecuador, Mexico, and Uruguay. Studies by Naritomi (2015) in Brazil, Ramírez et al. (2017) in Ecuador, and Fuentes et al. (2016) in Mexico respectively show that the introduction of electronic invoicing has boosted revenue collection by up to 10.7%, reporting of earnings by 22%, and income tax reporting by up to 6%.

1.23 **Coordination with multilateral agencies.** The Bank has been working in close coordination with the IMF in Panama, where they have established a joint pre- and post-COVID-19 strategy in the area of DGI modernization and in the development of fiscal institutions more consistent with the country's development level. Similarly, the Bank has been working in coordination with the World Bank on issues touching on the modernization of fiscal institutions and tax policy, as well as on public procurement and modernization of the financial administration system.

1.24 **Technical cooperation.** In addition, the Bank is preparing a technical cooperation operation to support the preparation and launch of this program. The diagnostic assessment work identified three challenges for the tax administration system (see paragraphs 1.12, 1.13, and 1.14).

1.25 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (UIS) (document AB-3190-2) and is strategically aligned with the development challenge of productivity and innovation, inasmuch as it will develop digital solutions to manage taxpayers. The program is also aligned with the crosscutting areas of: (i) gender equality and diversity, through the creation of a lactation room (see paragraph 1.28.b); and (ii) climate change and environmental sustainability, since it will reduce carbon emissions through the procurement of energy efficient equipment and the digitization of processes. In all, 4.5% of the operation's resources will be invested in mitigation activities in accordance with the joint multilateral development bank methodology for tracking climate change mitigation finance. These resources will contribute to the IDB Group target of increasing finance for climate change-related projects to 30% of all approvals by year-end 2020; and (iii) institutional capacity and rule of law, by reducing administrative costs in the management of taxes/customs and voluntary tax compliance.

1.26 Furthermore, the program will contribute to the Corporate Results Framework (CRF) 2020-2023 (document GN-2727-12), particularly the following indicators: (i) tax revenue collected as a percentage of GDP; (ii) governmental agencies benefiting from projects that strengthen technological and managerial instruments to improve public service delivery; and (iii) public registries strengthened. It is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), since it will help to improve local government capacity to manage tax revenue collection and public service delivery at the national level; and it is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), inasmuch as it will support the generation of

public revenue, and with the Integration and Trade Sector Framework Document (document GN-2715-11) by fostering improvements in information sharing. In addition, the program is aligned with the Bank's Country Strategy with Panama for 2015-2019 (document GN-2838), contributing to the dialogue area of macro financial and fiscal stability. Lastly, the program is included in the Update of the Annex III of the 2020 Operational Program Report (document GN-2991-3).

B. Objectives, components, and cost

1.27 The overall objective is to boost the capacity of the State through an increase in tax revenue collection. The specific objectives are to: (i) boost the effectiveness of the audit and collection processes; and (ii) reduce the costs of compliance with tax obligations.

1.28 **Component 1. Improvement of governance and human resource management (US$5,521,000).** The objective of this component is to build a new governance model based on the integration of processes and on results-based management of tax administration. To this end, the component will focus on the following actions:

a. **Strengthening strategic management:** (i) create a comprehensive tax administration management committee chaired by the DGI Director and line directors; (ii) reengineer processes to adapt the DGI model to macroprocess management, including a proposal to increase the DGI's budget autonomy and its implementation; (iii) develop a strategic plan and an operational plan with the respective systems of results indicators, with a view to achieving results-based management; (iv) develop fiscal analysis tools, strengthening the analytic capacity of the DGI; and (v) provide planning and support for an organizational change culture, introduce a culture of data analysis and use of information in tax administration management, and consolidate the cultural shift and results-based management promoted by the modernization of the DGI.

b. **Updating human resource management procedures:** (i) create new skill profiles to better adapt the existing human resources to the new functions of the DGI; (ii) resize the workforce to take into account staff reassignment and training needs; (iii) design a career plan that reflects the positions and functions of a modern administration; (iv) develop a continuous training program; (v) develop and implement a change management strategy; and (vi) create a lactation room.

c. **Updating the procedures and instruments for internal control management and transparency:** (i) make adjustments to risk-based internal control procedures to anticipate events that compromise the transparency of processes; (ii) update the ethics code to make it consistent with international best practices; and (iii) update the transparency portal to provide timely and user-friendly information.

1.29 **Component 2. Strengthening of tax control and compliance facilitation (US$15,452,500).** The objective of this component is to strengthen the operational macroprocesses in crosscutting and integrated fashion to enable coordination, integration, and traceability of tax control and compliance, applying appropriate prioritization criteria. To this end, the component will focus on the following actions:

a. **Review and optimization of operating processes:** (i) purge and update the RUC with a view to expanding the active taxpayer base; (ii) automate processes affecting the current account in order to obtain a 360-degree view of the taxpayer in timely fashion; (iii) update the operational audit plan to expand the universe of audited taxpayers; (iv) coordinate and interface[43] with the CSS and ANA with a view to consolidating information for cross-referencing and detection of inconsistencies based on collaboration, interoperability, and information-sharing agreements signed by these institutions (see paragraph 1.30.b); (v) review and adjust the risk-based administrative and enforced collection procedures to boost recovery of taxpayer liabilities; (vi) deploy a Large Taxpayer Unit to provide differentiated and more effective treatment of the 300 large taxpayers who account for 65% of tax revenue; and (vii) develop and implement a strategy to increase regulatory oversight of taxes under DGI control.

b. **Comprehensive tax risk management model:** (i) develop a new noncompliance risk matrix to anticipate and mitigate threats of deterioration of the DGI processes; (ii) adjust the risk committee’s procedures to better manage the application of risk controls; and (iii) outline taxpayer segmentation criteria with a view to devising a better strategy for the treatment of large, medium-sized, and small taxpayers in order to enhance fiscal transparency.

c. **Comprehensive taxpayer assistance model:** (i) develop a comprehensive electronic taxpayer assistance system to economize costs for the DGI and for taxpayers in complying with their obligations; (ii) retool the taxpayer assistance portal with a view to reducing in-person assistance; (iii) readjust the taxpayer assistance units to improve response times and the amount of services provided; (iv) standardize and simplify in-person and online assistance; and (v) review and expand the fiscal education program.

d. **Modernization of the digital tax management system:** (i) review the operating capabilities of the current system to identify the processes that need to be automated; (ii) make parametrization adjustments to the current system (e-tax 2.0) to make it simple and practical to use by DGI users and taxpayers based on a review of processes; and (iii) provide interfaces with other systems at public and private institutions.[44]

e. **Expansion of the use of electronic invoicing:** (i) develop new regulations that include expansion and use of electronic invoicing to enable taking full advantage of its implementation; (ii) develop a plan for mass use in stages and estimate the required technological structure with a view to boosting the capacity to process and store the information generated by the DGI; and (iii) use and mine electronic invoicing data for tax control, taking advantage of the various applications available in other countries (reference price in purchases, input-output in macroeconomics, bid data in research, etc.).

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[43] Since the DGI is responsible for tax administration, all interfaces to be developed to interoperate with the CSS, ANA, and other institutions will be financed by the program.

[44] CSS, ANA, Electoral Tribunal, public registry, and financial system.

1.30 **Component 3. Strengthening of technology management (US$14,377,000).** The objective of this component is to strengthen the use of information for evidence- and analysis-based decision-making, using high standards of data security and taxpayer privacy. To this end, the component will focus on the following actions:

a. **Strengthening of information technology (IT) strategic planning and management:** create a (i) strategic IT plan to identify gaps, have a medium- and long-term plan, and improve the management of technology tools, including a plan for establishing an in-house technological environment to operate the DGI systems, as well as a maintenance strategy; (ii) IT governance model to ensure the sustainability of these services; (iii) information management model to consolidate and improve the use of information, both internal and obtained from external sources; (iv) technology services management model to better address development and assistance requests from internal DGI users; and (v) staff training plan.

b. **Updating of the technology infrastructure:**[45] (i) expand the processing and storage equipment to enable features including implementing mass electronic audits and expanding electronic invoicing; (ii) create an electronic document management system and digitize existing documents with a view to eliminating paper documents and expanding access to this information; (iii) develop applications for mobile devices; and (iv) draft information-sharing agreements[46] with CSS, customs, the business registry, and the public registry with a view to creating the data interfaces needed to enrich the taxpayer registry and more accurately identify the taxpaying capacity of taxpayers.

c. **Data security model:** (i) review and update the conceptual and regulatory framework for data security; (ii) review and improve the access control system; (iii) create a data storage and protection model; and (iv) optimize and expand the protection and cybersecurity instruments; in all cases with a view to improving the quality and security of the information.

1.31 The program will finance the following investment categories for all components: (i) individual consulting services: US$4.8 million (12%); (ii) consulting firm services: US$6.2 million (16%); (iii) goods: US$21.9 million (55%);[47] (iv) nonconsulting services: US$3.75 million (9.0%); and (v) works: US$1.0 million (3%), consisting of office space modifications aimed at providing facilities and better service for taxpayers. Program management costs are estimated at approximately US$2.4 million,[48] while contingencies are estimated at US$2.2 million.[49]

1.32 **Beneficiaries.** The direct beneficiaries are: (i) the government, because it will expand its capacity; and (ii) taxpayers, whose tax compliance costs will be lower. The public at large will indirectly benefit through more resources to finance development programs.

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45 Thirty percent of equipment procurement will take energy efficiency criteria into account.

46 The program Operating Regulations will establish that the MEF has agreement models that will govern this information sharing.

47 Including hardware and software.

48 Includes financing support for the project management team and the activities involved in execution of the loan, evaluations, financial audits, and technical management.

49 Amount allocated to cover changes in prices, technology-related issues, and market adjustments.

C. Key result indicators

1.33 The expected impacts are: (i) an increase in tax revenue as a percentage of GDP; and (ii) a decline in the ratio between cost to collect and revenue collected. The expected outcomes are: (i) a rise in audit and collection efficiency, as measured by the increase in: (a) the amount collected as a percentage of the total audited amount; (b) the administrative collection amount recovered (in the last 36 months); (c) taxpayer compliance, as measured by the number of taxpayers who pay their personal and corporate income tax on time; and (d) taxpayer compliance, as measured by the number of taxpayers who pay their ITBMS on time; and (ii) a reduction in taxpayer costs, as measured by the following indicators: (a) increase in the number of taxpayers who file their personal and corporate income tax returns on time; and (b) increase in the number of taxpayers who file their ITBMS returns on time.

1.34 **Cost-effectiveness analysis.** The cost-effectiveness analysis compares the DGI's effectiveness in tax revenue collection with and without the project. The effectiveness indicator used was the cost per dollar of the tax revenue collection performed by the DGI. The cost is the DGI's operating and investment budget, added to the cost of the program. Return is defined as the tax revenue collected by the DGI.

1.35 With the implementation of the program, the DGI will have more effective tax management, since the cost of management processes incurred in generating an additional dollar of tax revenue will be reduced from US$0.03766 without the program to US$0.03679 with the program. Furthermore, the cost of obtaining an additional dollar of tax revenue will be a mere US$0.01882 (see Table 1). The increase in effectiveness is based on the fact that, through the program's actions, tax revenue will rise by one percentage point of GDP (see cost-effectiveness analysis).

Table 1. Cost-effectiveness analysis NPV-2020-2030 (base-case scenario - US$ millions)

Option	Cost (C)	Effectiveness (E)	Average C/E	Δ cost	Δ effectiveness	Incremental C/E
Additional tax revenue with program (1 percentage point of GDP)						
A. Without program	938	24,898	0.03766			
B. With program	960	26,098	0.03679	22.58	1,199.96	0.01882

1.36 The costs and the revenue were estimated at present value over a 10-year horizon, using a discount rate of 12%. The costs of the program were added to the revenue collection cost under the with-program scenario (column 2). An increase of one percentage point of GDP was projected for revenue collection under the with-program scenario in the last year of program execution (column 3). The average C/E is the result of dividing the cost by the effectiveness (column 4). The Δ cost is the difference in costs in the with-program and without-program scenarios (column 5). The Δ effectiveness is the difference in effectiveness (revenue collection) in the with-program and without-program scenarios (column 6). Incremental C/E is the additional cost of collecting US$1, calculated by dividing the Δ cost by the Δ effectiveness (column 7).

1.37 In addition, a sensitivity analysis was conducted under three different scenarios to determine the program's effectiveness with revenue collection increases of 0.5, 0.6, and 0.75 percentage points of GDP.

Table 2. Cost-effectiveness analysis. NPV sensitivity 2020-2030 (base-case scenario - US$ millions)

Option	Cost (C)	Effectiveness (E)	Average C/E	Δ cost	Δ effectiveness	Incremental C/E
Additional tax revenue with program (0.5, 0.6, and 0.75 percentage points of GDP)						
A. Without program	938	24,899	0.03766			
B. With program (0.5)	960	25,603	0.03750	22.58	703.87	0.03208
B. With program (0.6)	960	25,724	0.03732	22.58	824.73	0.02738
B. With program (0.75)	960	25,905	0.03706	22.58	1,006.02	0.02244

II. Financing Structure and Main Risks

A. Financing instruments

2.1 The total cost of the program is US$40 million, financed through a specific investment loan from the Bank's Ordinary Capital. This instrument is appropriate since the DGI has specific needs and products that have been identified and evaluated in coordination therewith. The following table describes the distribution of resources by source of funding and category (see itemized budget):[50]

Table 3. Program budget (US$)

Category	IDB (Total)	%
1. Direct costs	**35,350,500**	**88.38**
Component 1. Improvement of governance and human resource management	5,521,000	13.80
1.1 Strategic management model	1,675,000	4.19
1.2 Human resources management model	3,532,000	8.83
1.3 Model to support internal control management and transparency	314,000	0.79
Component 2. Strengthening of tax control and compliance facilitation	15,452,500	38.63
2.1 Current account management model	3,783,500	9.46
2.2 Comprehensive tax risk management model	363,000	0.91
2.3 Comprehensive taxpayer assistance model	2,052,000	5.13
2.4 Digital tax management system	8,264,000	20.66
2.5 Electronic invoicing	990,000	2.48
Component 3. Strengthening of technology management	14,377,000	35.94
3.1 IT strategic planning and management model	1,679,000	4.20
3.2 Technology infrastructure management model	9,000,000	22.50
3.3 Data security model	3,698,000	9.25
2. Program management	**2,408,000**	**6.02**
3. Contingencies	**2,241,500**	**5.60**
Total	**40,000,000**	**100**

[50] The amounts expressed in Table 3 are indicative.

2.2 **Disbursement schedule.** Disbursements will be made over a period of five years, as follows:

Table 4. Disbursement schedule (US$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB (Total)	4,335,950	7,990,000	12,294,050	11,845,950	3,534,050	40,000,000
%	10.84	19.97	30.74	29.61	8.84	100

B. Environmental and social risks

2.3 In accordance with the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program has been classified as a category "C" operation. The program will support the strengthening of tax processes through systems development and institutional strengthening, and consequently does not entail any socioenvironmental risks.

C. Fiduciary risks

2.4 An analysis conducted using the Institutional Capacity Assessment Platform (ICAP) identified curable limitations and risks stemming from unfamiliarity with the execution of IDB-financed loan operations. In addition, this analysis, coupled with interactions with DGI staff, identified the need to increase the sense of ownership and knowledge of the initiative within the executing agency. In view of this, it was concluded that the insufficient experience of DGI staff in executing investment projects, especially in using the Bank's fiduciary policies and project monitoring and evaluation procedures, could create problems and delays in implementing the program activities, posing a medium-level risk. This risk will be mitigated by means of Bank assistance in the form of an intensive training program focused on project management and the Bank's fiduciary policies and procedures. Furthermore, consulting services will be contracted to highlight the process flow and illustrate how the DGI should process its disbursement requests, procurements, and output implementation. At the same time, the Bank has achieved consensus with the DGI and the MEF on the profiles of their key staff, who will be hired in accordance with the terms of reference to be set out in the program Operating Regulations: a financial and procurement expert with extensive experience in Bank projects; a project director with proven experience in project management; an expert with international experience in the processes of modernizing tax administrations; and a technology expert with the ability to design and lead the construction of a new data architecture and a new technology platform for the DGI. The profiles will be developed, and the interview processes will be carried out, in coordination with senior management at the DGI. In view of the number of procurement processes, consulting services, and outputs involved in this operation, work will be done jointly with the Bank's fiduciary team, the PEU, the DGI, and the MEF to streamline the ex ante approval processes at the Office of the Comptroller General of the Republic (CGR).

D. Other risks and key issues

2.5 It has been determined that this operation carries a medium-level risk. The identified risks are:

a. **Fiscal sustainability.** There is a medium-level risk that the effects of external events will impact economic growth and tax revenue. This risk cannot fully be mitigated, especially in the context of COVID-19, given the impact on economic activity, revenue collection, and social spending to contain the effects caused by the pandemic. However, it is important to note that the MEF has requested technical support from the Bank, particularly through this program, in order to stop, to the extent possible, the decline in tax revenues and begin a process of enhancing the allocation of public spending (see paragraph 1.11). This will lay a foundation for protection against such effects in the event that this risk materializes.

b. **Public management and governance.** There is a medium-level risk of: (i) problems and delays in executing the program's activities due to the DGI's insufficient institutional capacity to achieve the required coordination among all of its departments involved in the reform. This risk will be mitigated by contracting consultants specialized in change management (see paragraph 1.28). These consulting services will be provided throughout program execution to analyze and correct the management process flows among all departments involved. In addition, cooperation and information-sharing agreements will be signed between the DGI and entities such as the CSS and ANA, which gather and store information that can help improve the quality of the tax administration system (see paragraph 1.30); and (ii) resistance to the required organizational and operational changes. This risk will be mitigated by means of specialized consulting services to be provided throughout program execution, dealing with issues related to communication and resistance to changes, including among DGI staff, taxpayers, business owners, and the general public under Component 1 (see paragraph 1.28 b. (v)).

c. **Sustainability.** There is a medium-level risk that the reform's outcomes will deteriorate once the program is completed, potentially involving discontinuation of the DGI's administrative and operational processes, obsolescence of the systems, and deterioration of the implemented technology infrastructure, due to a shortage of specialized human resources and financial resources. This risk will be mitigated by: (i) implementing mapping actions and assigning staff to the new processes based on skills; (ii) implementing a continuous training program for management, operating, and IT staff (see paragraph 1.30); and (iii) adding a clause in the contracts for providers of services and goods to include long-term support for the maintenance of technical assistance services and for the technology infrastructure components (Components 2 and 3). The program Operating Regulations will require the DGI to include a performance bond in contracts with technology providers to guarantee the sustainability of technology investments for a period of five years.

d. **Development.** There is a medium-level risk that the teams in charge of drafting the terms of reference and technical specifications will not have the technical capacity required to prepare a technical, organizational, and technological description of the key outputs of this program. This risk will be mitigated by contracting consultants specialized in specific technology and tax

administration issues[51] to support the team within the PEU to be created to execute the program, with a view to supporting the DGI staff in drafting the terms of reference and technical specifications (see paragraph 1.31).

2.6 **Program sustainability.** To ensure that the newly created capacities will be sustainable following the completion of program execution, the program envisages outputs that will help to enhance tax management efficiency and thereby lead to higher revenue collection: (i) creation of a governance and tax management committee to strengthen performance and change culture and institutionally protect the modernization processes; (ii) audits and tax intelligence to identify a larger number of potential evaders and encourage self-compliance; (iii) risk management to anticipate and mitigate threats to the sustainability of the tax processes; and (iv) improvement of the technology infrastructure to boost the capacity for management and decision-making based on generating timely quality information, including improvement in data protection and cybersecurity measures.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower will be the Republic of Panama and the executing agency will be the MEF through the DGI. A PEU will be created for program execution and will include a coordinator with experience in results-based project management, specialists in procurement, administration and finance, monitoring, and planning (with project management experience), tax administration, and change management, and a technology expert. The PEU will coordinate activities related to program planning, monitoring, evaluation, and audit.

3.2 The primary areas of responsibility of the PEU are: (i) implementing and ensuring compliance with the DGI modernization strategy; (ii) proper fiduciary and program management; and (iii) change management. With a view to moving forward in coordinated fashion, the activities of the PEU will be to: (i) plan execution of the activities; (ii) prepare, implement, and update the operational tools of the program, namely the multiyear execution plan (MEP), annual work plan (AWP), procurement plan, and monitoring and evaluation plan; (iii) supervise execution and submit status reports; (iv) coordinate and conduct the terms of reference drafting, bidding, goods procurement, and service selection and contracting processes; (v) submit the disbursement requests and supporting documentation to the Bank; (vi) prepare the financial statements; and (vii) submit the program evaluation. The borrower will be required to adhere to the provisions of the program Operating Regulations agreed upon with the Bank for this operation, which include: (i) eligibility criteria for financeable projects and outputs; (ii) functions, procedures, and rules for program execution; and (iii) operating and contractual relationships among the parties involved in the program. The executing agency will submit the program Operating Regulations to the Bank through the PEU.

3.3 **Mechanism for interagency coordination.** A program steering committee (PSC) will be created to facilitate coordination among the various departments comprising the DGI, specifically to: coordinate results-based management of the program; coordinate selection of the performance indicators to be used to measure progress

[51] These consulting services will be financed through funds under administration allocated to the program, technical cooperation funds, and program funds.

within the Panamanian government's budgetary context; provide strategic advisoy support; include the key agencies involved, such as the CSS and ANA, to agree on collaboration and interoperability arrangements with a view to feeding the DGI's taxpayer registry and providing relevant information to the agencies; and track the monitoring indicators during program execution. The program Operating Regulations will establish the PSC's arrangements for coordination, agreements, and governance. The PSC will be chaired by the MEF and will meet four times a year.

3.4 **Program implementation strategy and progress.** The DGI has made significant strides in preparing for the launch of the operation: (i) with Bank support, it has identified profiles for the key positions under the program: program coordinator and technology, tax administration, and fiduciary experts with experience in Bank projects; (ii) it has started the process of informing about and explaining this program within the MEF and at institutions whose collaboration is required to enhance the DGI (CSS and ANA). It is expected to start a dialogue with institutions including the Public Registry and the Electoral Tribunal; (iii) it has agreed with the Bank on the key initial outputs needed for a quick launch, such as preparation of the terms of reference for modernizing the taxpayer registry. There is a preliminary technological model that will be used to move forward quickly; (iv) it has drafted the terms of reference for consulting services designed to develop an organizational model and financial autonomy models within the existing legal and institutional context in Panama; (v) it will assess the strengths and weaknesses of the e-tax 2.0 software; and (vi) it will develop a functional and technological change management model for the organization, designed to ensure that the DGI employees assume ownership of the program objectives. The final outputs of these consulting services will be inputs for the modernization strategy, which will move forward in coordinated fashion on functional modernization, human resource, analytic, and technology issues. In the second year of program execution, the PSC will focus on seeking areas of coordination among the various components of the program to sequence integrated and coordinated development.

3.5 To coordinate the activities related to human resource management, procurement, internal control, and communication with the citizenry, the information and process flows among beneficiaries will be mapped and defined while identifying roles, responsibilities, and time frames, and this will then be set out in the program Operating Regulations.

3.6 **Special contractual conditions precedent to the first disbursement of the loan: The first disbursement of the loan proceeds will be contingent upon: (i) establishment of the PEU; (ii) appointment of a program coordinator; (iii) appointment of the following key staff: (a) a tax administration specialist; (b) technology specialist; (c) a change management specialist; (d) a procurement specialist; and (e) a finance specialist; and (iv) approval of the program Operating Regulations under the terms previously agreed upon with the Bank.** A PEU will be established to provide regulatory force for decision-making related to program management and to formalize the management of the program's budgets. For Bank-financed projects that include IT procurement, it is crucial to have a team able to address technical and management needs (taking the Bank's procurement and financial procedures into account) and above all provide experience and knowledge of technological innovation in the public sector. These characteristics are necessary to ensure a

timely start and an orderly execution of the program. In addition, the program Operating Regulations will set out the execution arrangements and the operational elements of the program prior to the start of activities. The program Operating Regulations will be subject to periodic reviews and may be amended with the express approval of the Bank.

3.7 **Fiduciary agreements and requirements.** The fiduciary agreements and requirements establish the financial management and planning framework as well as the framework for procurement supervision and execution under the program. The loan proceeds may be disbursed in the form of advances of funds, reimbursement of expenditures, or direct payments to providers. In the case of advances of funds, disbursements will be based on expenditure projections for periods of up to 180 days. A new disbursement may be made once supporting documentation has been provided, using Bank forms, for at least 80% of all previously disbursed funds. The PEU will submit audited financial statements annually and upon completion of the operation, under the terms and within the deadlines provided under Bank policies. Accordingly, the PEU agrees to select and contract an independent audit firm acceptable to the Bank for the entire period of program execution.

3.8 The procurement plan will be managed through the online system known as Procurement Plan Execution System (SEPA) or any other system indicated by the Bank. Procurement under the program will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), as subsequently updated from time to time.

3.9 **Audited financial statements.** The borrower will annually deliver audited financial statements to the Bank within 120 days following the end of each fiscal year. The financial statements will be audited by an independent audit firm engaged using loan proceeds.

B. Summary of arrangements for monitoring results

3.10 **Monitoring.** Program monitoring will be based on: (i) the MEP and AWP; (ii) the procurement plan; (iii) the results matrix; and (iv) the monitoring and evaluation plan. The PEU will deliver semiannual reports for Bank approval on the progress made in attaining the outcome, output, and financial targets. The Bank will conduct inspection and ex post review visits as part of program monitoring.

3.11 **Evaluation.** The program will be evaluated by means of a before-and-after comparison of the annual outcome and output targets and indicators included in the results matrix. The monitoring and evaluation plan envisages midterm and final evaluation reports. The borrower will prepare and deliver to the Bank a midterm evaluation report 90 days after 50% of the loan proceeds have been disbursed or at the end of 36 months of execution, whichever occurs first. In addition, the borrower will deliver a final evaluation to the Bank, to serve as an input for the PCR, 90 days after 95% of the loan proceeds have been disbursed. The monitoring and evaluation plan includes an impact assessment that combines experimental and quasi-experimental elements to quantify how early auditing actions and improvements in the administrative collection processes have effects on various tax indicators, such as the likelihood of on-time filing and payment of the ITBMS and the sales and tax amounts declared by the taxpayer.

Development Effectiveness Matrix		
Summary	PN-L1161	
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	**-Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law**	
Country Development Results Indicators	**-Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Public registries strengthened (#)***	
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-2838**	**Dialogue area for macrofinancial and fiscal stability**
Country Program Results Matrix	**GN-2991-3**	**The intervention is included in the 2020 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	**9.4**	
3.1 Program Diagnosis	**2.4**	
3.2 Proposed Interventions or Solutions	**4.0**	
3.3 Results Matrix Quality	**3.0**	
4. Ex ante Economic Analysis	**9.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**2.2**	
4.2 Identified and Quantified Benefits and Costs	**3.3**	
4.3 Reasonable Assumptions	**0.0**	
4.4 Sensitivity Analysis	**2.2**	
4.5 Consistency with results matrix	**1.4**	
5. Monitoring and Evaluation	**8.7**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**6.2**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium**	
Identified risks have been rated for magnitude and likelihood	**Yes**	
Mitigation measures have been identified for major risks	**Yes**	
Mitigation measures have indicators for tracking their implementation	**Yes**	
Environmental & social risk classification	**C**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: Information System.**
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**	**A Technical Cooperation PN-T1245 of US$150,000 in preparation, will support the development of the organizational modernization plan and the execution of the project.**

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

Evaluability Assessment Note: *The general objective of the project is to increase the capacity of the State by increasing tax collection. The specific objectives are: (i) to increase the efficiency of the processes related to tax fiscalization and collection; and (ii) reduce the costs of complying with tax obligations. The diagnosis clearly expresses the need to strengthen the effectiveness of the General Direction of Revenue (DGI, given its initials in Spanish) in its task of collecting taxes, especially given the current situation in which it faces the crisis generated by COVID-19. Two specific problems will be addressed by the project: (i) the low efficiency in tax fiscalization and tax collection; and (ii) the high costs of tax compliance for taxpayers.*

The vertical logic of the project is adequate and proposes addressing the specific problems identified with activities in three components: (i) Improvement in the governance and management of human talent in the DGI; (ii) Improvement of processes for strengthening tax control and facilitating compliance; and (iii) strengthening the management of technology at the DGI.

The results matrix presents appropriate outcome indicators for each specific objective of the program. The project appropriately addresses the monitoring and evaluation requirements. The MEP includes a proposal for evaluation by experimental methods to measure the impact of the new collection model on the percentage of companies that pay their taxes on time. It should be noted that some aspects of the proposal have yet to be defined. The cost-effectiveness analysis shows that the program generates significant efficiency gains with respect to investment in collection in the absence of the promoted tax reform.

The operation risk has a medium level. The main risks identified are those related to the management and governance of the project, and to the sustainability of the results achieved while the project is being executed. As mitigation measures, the team discuss the creation of a tax governance and management committee to strengthen performance, and a risk management program, which could anticipate and mitigate threats to the sustainability of tax processes.

RESULTS MATRIX

Project objective:	The overall objective is to boost the capacity of the State through an increase in tax revenue collection. The specific objectives are to: (i) boost the effectiveness of the audit and collection processes; and (ii) reduce the costs of compliance with tax obligations.

EXPECTED IMPACT

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Impact 1: Increase in tax revenue collection as a percentage of GDP											
Tax collection (DGI) / GDP	%	8.2	2019	8.2	8.2	8.5	8.8	9.2	9.2	Performance report from the DGI's Revenue Department	**Calculation formula:** **Baseline (2019): 8.2%** Tax revenue (DGI) = US$5,505,224,126 GDP = US$67,145,000,000
Impact 2: Decline in the ratio between cost of collecting and revenue collected											
DGI cost / Tax revenue (DGI)	%	4.01	2019	4.01	4.01	3.8	3.5	3.24	3.24	Annual performance report from the DGI's Revenue Department	**Calculation formula:** **Baseline (2019): 4.01%** DGI cost = US$221,080,899 DGI tax revenue = US$5,505,224,126

EXPECTED OUTCOMES[1]

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
<u>Specific objective 1</u>: Boost the effectiveness of the audit and collection processes											
Amount collected as a result of audits/ Amount selected to be audited	%	12.8	2019	12.8	14.8	13.5	13.7	15.3	15.3	Annual performance report from the DGI's Audit Department	**Calculation formula:** **Baseline (2019): 12.8%** Amount collected as a result of audits = US$8,576,000 Amount selected to be audited = US$67,000,000
Administrative collection amount recovered (for the last 36 months) / Total amount under administrative collection (for the last 36 months)	%	15.8	2020	15.8	16.0	16.5	17.5	18.3	18.3	Annual performance report from the DGI's Revenue and Collection Department	**Calculation formula:** **Baseline (2020): 15.8%** Administrative collection amount recovered (36 months) = US$121,502,000 Amount under administrative collection (36 months) = US$769,000,000
Number of taxpayers paying personal and corporate income tax on time/ Total number of taxpayers expected to pay personal and corporate income tax	%	23.58	2020	23.58	37.7	41.6	40.8	38.1	36.35		**Calculation formula:** **Baseline (2020): 23.58%** Number of taxpayers paying personal and corporate income tax on time = 64,225,181.31 Total number of taxpayers expected to pay personal and corporate income tax = 272,371,422
Number of taxpayers making on-time payment of ITBMS / Total number of taxpayers expected to pay ITBMS	%	35.8	2020	35.8	61.4	60.5	59.1	60.8	56.41		**Calculation formula:** **Baseline (2020): 35.8%** Number of taxpayers making on-time payment of ITBMS = 259,078,496.82 Total number of taxpayers expected to pay ITBMS = 723,682,952

[1] Annual targets are cumulative.

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
<u>Specific objective 2</u>: Reduce the costs of compliance for taxpayers											
Number of taxpayers filing personal and corporate income tax returns on time / Total number of taxpayers expected to file	%	59.2	2020	59.2	61.4	63.6	65.8	68.0	68.0	Annual performance report from the DGI's Revenue and Collection Department	**Calculation formula:** **Baseline (2020): 59.2%** Number of taxpayers filing personal and corporate income tax returns on time =143,684 Total number of taxpayers expected to file = 242,710
Number of taxpayers filing ITBMS returns on time / Total number of taxpayers expected to file	%	45.81	2020	45.81	51.48	52.51	51.45	50.94	50.43		**Calculation formula:** **Baseline (2020): 45.81%** Number of taxpayers filing on time = 225,719 Total number of taxpayers expected to file = 492,730

OUTPUTS[2,3]

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 1: Improvement of governance and human resource management											
1.1 Strategic management model implemented	Model	0	2019	0	0	1	0	0	1	Performance reports from the DGI's Planning Department	The management model is considered implemented when the first step/mechanism to measure results-based management is carried out.
1.2 Human resource management model updated	Model	0	2019	0	0	0	0	1	1		Pro-gender indicator (see monitoring and evaluation plan). The human resource management model is considered updated when the DGI trains the first employee with verified digital innovation skills. The activity that will allow gender monitoring under this output will be the creation of a lactation room (with outfitting for its use).
1.3 Model supporting internal control management and transparency updated	Model	0	2019	0	0	0	1	0	1	Performance reports from the DGI's Internal Control Department	The internal control model is considered updated when the DGI conducts the first risk analysis for performing a process review.
Component 2: Strengthening of tax control and compliance facilitation											
2.1 Current account management model updated	Model	0	2019	0	0	0	0	1	1	Independent consultant reports	The model is considered updated when a user has used the new procedures and confirmed that they work properly.
2.2 Comprehensive tax risk management model implemented	Model	0	2019	0	0	0	1	0	1	Performance reports from the	The model is considered implemented when at least one user has used the support

2 The targets are annual.

3 The components that provide for models are the following: Component 1: strategic, human resource, and internal control management. Component 2: current account, tax risk, and taxpayer assistance management. Component 3: IT strategic planning and management, technology infrastructure management, and data security.

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
										DGI’s Tax Risk Department	software and confirmed that it works properly.
2.3 Comprehensive taxpayer assistance model implemented	Model	0	2019	0	0	0	0	1	1	Performance reports from the DGI’s Taxpayer Assistance Department	The model is considered implemented when the first taxpayer is assisted using the new procedures and answers the evaluation questionnaire by giving a positive score.
2.4 Digital tax management system modernized	Software	0	2019	0	0	0	0	1	1	Independent consultant report	The system is considered modernized when at least one user has used the software and confirmed that it works properly.
2.5 Electronic invoicing implemented	Software	0	2019	0	0	0	1	0	1	Performance report from the DGI’s IT Department	The system is considered implemented when at least one user has used the software and confirmed that it functions properly.
<u>Component 3:</u> Strengthening of technology management											
3.1 IT strategic planning and management model strengthened	Model	0	2019	0	0	0	1	0	1	Performance report from the DGI’s IT Department	The model is considered strengthened when the strategic plan’s recommendations are implemented.
3.2 Technology infrastructure management model updated	Model	0	2019	0	0	0	0	1	1		The infrastructure management model is considered updated when the new system becomes operational under the new hardware, and its response times are acceptable to users.
3.3 Data security model implemented	Model	0	2019	0	0	0	1	0	1		The model is considered implemented when the security instruments detect the first irregularity in every type of access to the DGI infrastructure.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Panama
Project number:	PN-L1161
Name:	Program to Support the Digital Transformation of the Tax Administration in Panama
Executing agency:	Ministry of Economy and Finance (MEF) through the General Revenue Directorate (DGI)
Prepared by:	Ezequiel Cambiasso and David Ochoa (FMP/CPN)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1.1 The borrower will be the Republic of Panama and the executing agency will be the MEF through the DGI, acting by means of a multidisciplinary program execution unit (PEU) that will be part of the organizational structure of the MEF and will report directly to the Director of the DGI. The DGI will for the first time execute a loan operation with IDB resources, and its capacity to do so is instrumental to the success of the operation.

1.2 The PEU will be responsible for all technical, administrative, and fiduciary aspects of the program, but will receive support from the various line offices of the MEF and the relevant governmental institutions (such as the CGR) for program implementation. To attain these objectives, and with a view to compensating for the lack of experience in the execution of externally financed projects or programs and given the magnitude of this operation (which is expected to double the annual budget of the DGI), the design of the program will include strengthening the executing agency by filling key positions. In this regard, the Bank has achieved a consensus with the DGI and MEF authorities on the profiles of the staff to be hired.

II. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

2.1 During the program design phase, the institutional capacity of the DGI was analyzed by the Bank's fiduciary team using the Institutional Capacity Assessment Platform (ICAP) to uncover strengths and weaknesses. This analysis showed that the DGI has experience in managing issues falling within its purview as well as in local fiduciary procedures, but not in multilateral lending agency processes and policies.

2.2 The ICAP assessment identified curable limitations and risks stemming from unfamiliarity with the execution of IDB-financed loan operations. In addition, this analysis, coupled with interactions with DGI staff, identified the need to increase the sense of ownership and knowledge of the initiative within the executing agency. In view of this, it was concluded that the insufficient experience of DGI staff in

executing investment projects, especially in using the Bank's fiduciary policies and project monitoring and evaluation procedures, could create problems and delays in implementing the program activities, posing a medium-level risk. This risk will be mitigated by means of Bank assistance in the form of an intensive training program focused on project management and the Bank's fiduciary policies and procedures. Furthermore, consulting services will be contracted to highlight the process flow and illustrate how the DGI should process its disbursement requests, procurements, and output implementation. At the same time, the Bank has achieved consensus with the DGI and the MEF on the profiles of their key staff, who will be hired in accordance with the terms of reference to be set out in the program Operating Regulations: a financial and procurement expert with extensive experience in Bank projects; a project director with proven experience in project management; an expert with international experience in the processes of modernizing tax administrations; and a technology expert with the ability to design and lead the construction of a new data architecture and a new technology platform for the DGI. The profiles will be developed, and the interview processes will be carried out, in coordination with senior management at the DGI. In view of the number of procurement processes, consulting services, and outputs involved in this operation, work will be done jointly with the Bank's fiduciary team, the PEU, the DGI, and the MEF to streamline the ex ante approval processes at the CGR.

III. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

3.1 The Financial Management Guidelines for IDB-financed Projects (document OP-273-12) will be applied. Accordingly: (i) audited financial statements for the program will be requested on an annual basis from an independent audit firm acceptable to the Bank no later than 120 days after the end of each fiscal year or the date of the last disbursement; (ii) advances of funds will be requested for financial plans for up to 180 days; and (iii) a new advance may be requested once supported documentation has been delivered for 80% of the previously disbursed proceeds.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

4.1 The Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15) will apply.

4.2 **Procurement of works, goods, and nonconsulting services.** International competitive bidding (ICB) will be conducted using standard bidding documents issued by the Bank. National competitive bidding (NCB) and shopping will be conducted using the models defined by the Bank for this operation. The program sector specialist will be responsible for reviewing the technical specifications for procurement during preparation of the selection processes.

4.3 **Selection and contracting of consultants.** Contracts for consulting services arising under the program will be executed using the standard request for proposals issued by the Bank. The program sector specialist will be responsible for reviewing the terms of reference for contracting consulting services.

4.4 **Selection of individual consultants.** Selections will be made based on candidates' qualifications for performing the work, with a comparison of at least three candidates.

4.5 **Use of the country procurement system.** The Bank's Board of Executive Directors approved the use of framework agreement subsystems up to the threshold of US$250,000 established for NCB (document GN-2538-11), as well as a mechanism for small procurement up to US$50,000, which may vary should the Bank approve higher levels. The procurement plan for the operation and subsequent updates will indicate the procurement to be executed through the approved country procurement systems.

4.6 **Procurement plan.** The Procurement Plan Execution System (SEPA) or an updated version thereof will be used as the electronic procurement monitoring system.

Table 1. Thresholds (US$)

Works			Goods			Consulting services	
ICB	NCB/ Shopping	Shopping for complex works	ICB	NCB/ Shopping	Shopping for complex works	International	National
≥ 3,000,000	> 250,000 and < 3,000,000	< 250,000	≥ 250,000	> 50,000 and < 250,000	< 50,000	> 200,000	≤ 200,000

Table 2. Main procurement items

Activity	Type of bidding	Estimated amount US$
System adjustments based on inputs from the review of processes under Component 1	ICB	6,000,000
Updating of the technology infrastructure (hardware and software)	ICB	6,000,000
Continuous training program	ICB	3,000,000
Interfaces with the systems of other public and private institutions	ICB	2,000,000
Optimization and expansion of data protection and cybersecurity instruments	ICB	2,000,000
Review and improvement of the system controlling access to systems and identities	NCB	1,500,000
Infrastructure adaptation at assistance centers	NCB	1,000,000

B. Procurement supervision

4.7 All ICB and direct contracting of goods, works, and nonconsulting services will be subject to ex ante review. The selection of consulting firms entailing more than US$200,000 and any single-source selection will be subject to ex ante review. For the remaining contracts, the type of review to be used will be determined on a case-by-case basis in the procurement plan.

C. Records and files

4.8 The executing agency will maintain up-to-date records and properly organized files for review by the Bank in keeping with the following guidelines:

a. Procurement documents will be kept in a single file or folder that can be clearly differentiated from processes financed from the local contribution or funds from outside the program.

b. Documents will be kept and properly organized, labeled, and numbered, so that they can be clearly and quickly located and identified, and available at all times for the purposes of Bank review and auditing.

V. FINANCIAL MANAGEMENT

A. Programming and budget

5.1 The DGI will include the necessary funds for program execution in the amount of its draft budget and submit it to the MEF prior to 30 April of each year. The MEF drafts and oversees the budget and will submit a proposal by 31 July of each fiscal year to the National Assembly, which is responsible for approving the budget and any budget increases. The budget covers a period of one year and includes all public sector investment, revenue, and expenditure. Procedures are underway to include the program in the National Project Bank, create the National Public Investment System (SINIP) codes, and obtain a favorable technical opinion from the MEF's Investment Programming Office so as to be able to include the program in the budget law for fiscal year 2021.

B. Accounting and information systems

5.2 With a view to modernizing public sector management, Panama's national government, through the MEF and the National Accounting Bureau (DNC), has implemented the Integration and Technological Solutions of the Operational Management Model (ISTMO) system. The PEU will make the necessary arrangements with the DNC in terms of identifying relevant system users, training, and system configuration to manage the budget, commit expenditures, and make payments through the system. The ISTMO system has been evaluated by the Bank, and it was determined that it may be used in IDB-financed projects.

5.3 Accounting will be governed by the rules issued by the Office of the Comptroller General of the Republic (CGR), which are based on International Public Sector Accounting Standards.

C. Disbursements and cash flow

5.4 Panama has approved legislation establishing use of the concept of the Single Treasury Account (CUT), and its implementation has begun in the central government. In 2019 there was an assessment of the CUT and its relationship with implementation of the ISTMO to determine whether it can be used in IDB-financed projects.

5.5 The IDB will transfer the loan proceeds to the CUT, and they will be posted to a subaccount for the program to be opened by the DGI with support from the MEF. In accordance with the program's financial plan, disbursements will be made through advances of funds to cover liquidity needs for up to 180 days. A new

advance may be requested once 80% of the cumulative balance pending justification has been accounted for. Reimbursement of expenditures or direct payments to providers may also be made.

D. Internal control and internal audit

5.6 Because the CGR performs ex ante controls, the systems for internal control and internal audit of government institutions have room for improvement, since the institutions rely on the work of the CGR rather than having their own processes and controls. Thus, they are not considered adequate for performing the control function required for projects.

E. External control and reports

5.7 The CGR has focused on ex ante control of actions to administer public assets. Apart from participating in administrative processes through ex ante control, it does not have the necessary independence to perform audits.

F. Financial supervision plan

5.8 Financial supervision will focus on reports by the aforementioned auditors. Supporting documentation for disbursements will be subject to ex post review by the auditors when they perform audits or as part of their financial inspection visits.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Panama. Loan ____/OC-PN to the Republic of Panama
Program to Support the Digital Transformation of the
Tax Administration in Panama

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Support the Digital Transformation of the Tax Administration in Panama. Such financing will be for the amount of up to US$40,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ____________ 2020)

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