

**PROGRAM TO STRENGTHEN AND MODERNIZE  
ECONOMIC AND FISCAL MANAGEMENT**

(PN-0089)

**EXECUTIVE SUMMARY**

**BORROWER:** The Republic of Panama

**EXECUTING AGENCY:** Ministry of Planning and Economic Policy (MIPPE)

**AMOUNT AND SOURCE:** IDB: US\$11.2 million (OC)  
Local counterpart funding: US\$ 4.8 million  
Total: US\$16.0 million

**FINANCIAL  
TERMS AND  
CONDITIONS:** Amortization period: 20 years  
Disbursement period: 4½ years  
Interest rate: variable  
Inspection and supervision: 1%  
Credit fee: 0.75%  
Currency: US\$ Single Currency  
Facility (OC)

**OBJECTIVES:** The main objective of this program is to expand the public sector's macroeconomic and fiscal management capacity and strengthen its financial management.

The specific objectives are to: (i) build macroeconomic and fiscal planning capacity; (ii) make tax administration more efficient and effective; and (iii) strengthen financial management through changes in the institutional and legal framework and operational implementation.

**DESCRIPTION:** The program is aimed at producing greater operational integration of macrofiscal programming, budget formulation and execution, and financial management in the public sector. Through the program, the institutions in charge of macrofiscal programming and financial management will be strengthened and modernized: the Ministry of Planning and Economic Policy (MIPPE); the Ministry of Finance and Treasury (MHT); and the Office of the Comptroller General of the Republic (CGR), in the agreed upon areas. The program comprises three subprograms: (i) strengthening of economic analysis (US\$4,283,000); (ii) modernization of tax administration (US\$5,720,000); and (iii) strengthening of financial management (US\$1,539,000).

**ENVIRONMENTAL  
CLASSIFICATION:**

At its meeting of August 1, 1995, the Environment Committee classified this as a Category II operation.

**BENEFITS:**

This program's main benefit will be the progress achieved in securing greater operational integration of macrofiscal programming, budget formulation and execution, and financial management in the public sector.

The subprogram to strengthen economic analysis will make it possible to draft regular reports on the status and outlook for important economic variables; assess the impact of economic policies; and improve budget execution and the allocation and handling of public funds.

Through the subprogram to modernize tax administration, the tax collection systems will be consolidated, efforts will be made to curb tax evasion and increase fiscal revenues, and the customs administration will be strengthened. For the private sector, the greatest benefits will be a reduction in unfair competition and improved taxpayer services.

Under the subprogram to strengthen financial management, the amount of time and money spent processing transactions will be cut significantly, by adopting principles of public financial management based on the "integrated account" concept.

**RISKS:**

The main risk facing this operation would be the inability to transfer disbursement functions from the CGR to the MHT. To offset this risk and guarantee that the transfer of functions will take place, an interministry agreement has been concluded that defines a strategy for incorporating the Treasury into the MHT. In addition, a contractual condition for the loan is that the MHT and CGR sign an action plan and agreement on the terms of the transfer.

The other risk lies in the difficulty of reassigning functions and responsibilities of some of the agencies involved in fiscal and financial management. To counter this risk, the program will place special emphasis on reviewing the regulations, on the basis of a consensus between the MIPPE, the MHT, and the CGR, and will support the implementation of recommendations arising from that review. Furthermore, the program has been structured as a single operation in order to fully meet the requirements of the various agencies; an interagency coordination committee (COIN) will be set up to ensure that actions are

consistent and to validate recommendations arising from the program.

**EXCEPTIONS TO  
BANK POLICY:**

The direct hiring of the United Nations Development Programme (UNDP) to carry out the administrative support activities for the program coordinating unit (PCU) is proposed (paragraph 3.9). In addition, authorization for the direct hiring of the Inter-American Center of Tax Administrators (CIAT) for the components involving revenue management and financial control and the Information Systems Directorate in the MHT is also proposed (paragraph 3.10).

**CONTRACTING OF  
SERVICES AND  
PROCUREMENT OF  
GOODS:**

Bidding procedures for the procurement of goods and services and the hiring of consultants will conform to the Bank's procedures. International competitive bidding will be required for the procurement of: (i) goods valued at US\$250,000 or more; and (ii) consulting services valued at US\$200,000 or more.

**THE BANK'S  
COUNTRY STRATEGY:**

The Bank's strategy in Panama for 1997-1998 is to expand the benefits of social policy, in particular to include vulnerable or disadvantaged groups (growth with equity), promote environmentally sustainable development, foster sustainable economic development, and strengthen governance. In this last case, the Bank will assist in the strengthening of the institutions responsible for economic and fiscal management.

The proposed operation is fully consistent with the Bank's strategy for modernization of the State and is very much in keeping with the government's program and with the efforts that the country is making to modernize government.

**POVERTY-TARGETING:**

This program does not contain any direct poverty-reduction component.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Conditions precedent to the first disbursement: Evidence is to be provided to the Bank's satisfaction that: (i) the MIPPE has set up the COIN and the PCU and has hired the executive coordinator and the necessary support staff (paragraph 3.7); (ii) the MIPPE has signed an agreement with UNDP for program administration (paragraph 3.9); (iii) the MIPPE has signed an agreement with CIAT for execution of the revenue management and financial control and Information Systems Directorate components (paragraph 3.10); (iv) the government has agreed to an action plan for the Treasury, with an agreement signed by the MHT and CGR (paragraphs 3.23 and 3.24); and (v) the executing agency has submitted a work

program based on the matrix of contents agreed upon with the Bank (paragraph 3.39).

Other conditions: (i) the Bank will require that progress, mid-term evaluation, and financial reports be submitted (paragraphs 3.31, 3.40, and 3.41); (ii) up to US\$800,000 in expenses incurred prior to the date of loan approval will be recognized (paragraph 3.32); (iii) the priority studies described in paragraph 3.22 will be contracted out and conducted as indicated; (iv) annual monitoring meetings will be held (paragraphs 3.36 and 3.37); and (v) the MIPPE is to provide evidence that the MHT has begun the second stage of the action plan to set up the Treasury (paragraph 3.25).

## I. FRAME OF REFERENCE

### A. Background

#### 1. Macroeconomic and fiscal context

- 1.1 After an economic and political crisis that ended in 1989, the Panamanian economy went through a period of economic recovery that lasted until 1994. In 1995, the gross domestic product (GDP) growth rate slowed to 1.9% (down from 3.7% in 1994). The economic recovery was fueled primarily by a strong upswing in consumption and by investment in the construction sector, in the Colón Free Zone (CFZ), and in the financial services sector. During this period, the economic recovery program of the World Bank and the IDB's public enterprise reform program, coupled with the progress made in strengthening the Revenue and Customs Directorates and trade and tax reform, helped to balance fiscal accounts, shore up the balance of payments, and settle arrears with the international financial institutions.
- 1.2 In July 1996, an agreement was concluded to reschedule the external public debt with commercial banks. As a result of this agreement, the commercial debt was reduced by about 30% and a significant portion of the past-due interest was forgiven. The government also restructured its bilateral petroleum debt with Mexico and paid off its petroleum debt to Venezuela. Because the external debt was completely restructured, Panama was able to improve its financial stability, decrease its country risk premium, and gain access to capital markets for new loans. In 1994, the government began to post progress in controlling the fiscal deficit, under a contingency agreement with the International Monetary Fund, resulting in a surplus of 0.7% of GDP in 1996.
- 1.3 Also in 1996, GDP growth showed a slight reversal of the 1995 downward trend. Real GDP grew by an estimated 2.5% in 1996 (compared with 1.8% in 1995). Despite the slight recovery in aggregate consumption in late 1996, growth in the Panamanian economy was limited primarily by decreased activity in the CFZ, a slowdown in the construction sector, underperformance of public investments, and sluggish private investment based on uncertainties about upcoming significant changes in economic legislation and the process of privatization in a number of sectors (trade incentives, changes in the labor laws). The slow GDP growth reflected a long-term trend resulting from an economic structure based primarily on enclaves. Another reason for this slow growth was the large portion of the public sector involved in unproductive activities with high current spending (21% of GDP in 1996), to the detriment of public investment.
- 1.4 Despite the government's efforts to implement structural reforms, economic reforms need to be carried further and the public debt

managed appropriately in order to achieve sustained economic growth. In turn, sustained growth will only be possible in a climate of fiscal stability that will make foreign and domestic investors more confident about the government's financial solvency.

- 1.5 In this context, making the public sector's economic, fiscal, and financial management system more efficient becomes a priority objective if important changes in economic and social policy are to be implemented.

## 2. The government's program guidelines for 1994-1999

- 1.6 The current administration, which came into office in September 1994 and will continue through 1999, is implementing a program of reforms to: dismantle structural public-sector impediments to economic growth; eliminate unnecessary regulations on businesses; and create incentives for private sector competition and investment (financial sector, infrastructure, foreign trade, reverted areas). The government's strategy focuses on downsizing the public sector and deregulating the economy as ways to speed up economic growth, cut unemployment, and reduce poverty.
- 1.7 **Economic policy.** The strategy is aimed at laying the foundations for sustained GDP and per capita income growth in a context of low inflation and at seeking a viable balance of payments position. In the medium term, the objective is to stimulate private investment by reducing production costs, especially labor costs, through public sector reform (fiscal reform, privatization, and deregulation), price deregulation, trade reform (membership in the World Trade Organization and tariff reforms), and modernization of labor legislation. Another essential aspect of the strategy will be appropriate management of the reverted areas and the significant assets that will be transferred.
- 1.8 **Social policy.** The main goal is to alleviate poverty by creating jobs, increasing real wages based on reducing prices in the basic food basket, targeting social spending (health, education, and housing) on the poor, and carrying out short-term equalization programs for the sectors most affected by economic reform during the transition. The government's social policy will be reinforced through the 1997-1999 *Social Development Plan*, which will include comprehensive, targeted, and fiscally-viable social policies.
- 1.9 **Sector reform.** An extensive agenda of sector reforms is proposed that covers the privatization of State-owned enterprises (electricity, water supply, telecommunications, and ports), the social security system, and the financial sector. With regard to the social security system, the plan is to modernize the Social Security Fund and eliminate the deficit in the public employees' Supplementary Pension Fund, which currently receives substantial transfers from the central government. In the financial sector,

prudential regulations will be established, bank oversight will be improved, and the International Banking Center will be made more competitive vis-à-vis other financial centers.

- 1.10 **Modernization of the State.** One of the principal and most urgent challenges facing the current administration is to make the State more efficient. To this end, the government has initiated specific actions to downsize the State and implement a career-track program for the civil service (paragraph 2.34).

B. General thrust of fiscal policy

- 1.11 Not only does Panama's monetary system use the United States dollar as legal tender, the country has no constitutional mandate for monetary policy. For this reason, fiscal policy is one of the main instruments available to the government to achieve macroeconomic objectives.
- 1.12 The main objective of the government's policy is to achieve a level of economic growth that will result in lower unemployment, economic stability, and stronger private investment. The government's main fiscal goal is sustained growth in savings in the public sector over the medium term, to make it possible to meet the population's basic needs. The formulation of appropriate policies on revenue and spending, proper programming and financing of public investment projects, and efficient budget programming have all been identified as priorities for achieving the medium-term fiscal goals.
- 1.13 At the operations level, fiscal policy objectives would be achieved through: (i) an effective linking of macroeconomic goals to budget formulation; (ii) coordinated management of government revenue and expenditures; (iii) strict programming of medium-term public investment; (iv) modernization of the tax collection system; (v) an efficient budget formulation and execution process; and (vi) well-coordinated financial management in the public sector. These mechanisms will result in a stable fiscal framework that would make economic growth targets for the short and medium terms more feasible.

C. The government's macroeconomic and fiscal management

- 1.14 Three institutions are responsible for macroeconomic and fiscal management in Panama: (i) the Ministry of Planning and Economic Policy (MIPPE); (ii) the Ministry of Finance and Treasury (MHT); and the Office of the Comptroller General of the Republic (CGR). The MIPPE is in charge of macrofiscal programming, macroeconomic monitoring, public investment programming, formulation of the national budget, and management of the (domestic and external) public debt. The MHT collects and monitors tax and nontax revenues. The CGR's responsibilities cover ex ante and ex post audits of financial management (budget), and the gathering and

publication of economic statistics (national accounts, balance of payments, prices, and production), demographic statistics (population census), and labor market statistics (household survey). The Consejo Nacional Económico [National Economic Council] (CENA) 1/ is the agency that advises the Executive Branch and the Cabinet on government financial matters.

- 1.15 In order to formulate a coherent plan to strengthen and modernize the country's macroeconomic, fiscal, and financial management, in March 1995 the government began a diagnostic study of the institutions involved in these three processes. From its study, the government has concluded that there are a series of factors limiting its ability to design policies that will enable it to formulate and execute macroeconomic and fiscal objectives. The main problems identified during discussions between the Bank and the government are described below.

D. Deficiencies in macroeconomic and fiscal management

- 1.16 Studies conducted by the Bank and the government itself indicate that the macroeconomic management, fiscal management, and financial management 2/ responsibilities are fragmented. As a result, the system is inefficient and the assignment of functions is inconsistent with the legal and functional nature of each institution. The main weaknesses of the macroeconomic and fiscal management system identified in the various diagnostic studies are: (i) the preeminence of the CGR in the financial management process as a result of an ambiguous fiscal code and the lack of specific regulations on the financial management functions of the MHT and the CGR; (ii) limited data - in terms of quantity and timeliness - available to analysts; (iii) no control over the physical and financial execution and implementation of government programs; (iv) fragmented budget formulation and execution that is a result of the political process; (v) lack of incentives for public-sector employees (Salaries and Civil Service Act, and training (see paragraph 2.34)); and (vi) inadequate equipment and information systems, methods, and procedures in terms of the latest macrofiscal and financial management programming systems.

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1/ Comprised of the Minister of Planning and Economic Policy (as chair), the Minister of Finance and Treasury, the Comptroller General of the Republic, the Minister of Commerce and Industry, and the Manager of the Banco Nacional de Panamá.

2/ Financial management: budgeting, collection, and execution and supervision of revenues and expenditures of the Government of Panama.



1. Macrofiscal programming

a. Macroeconomic analysis

- 1.17 The MIPPE is responsible for economic research and analysis. This ministry prepares the annual economic report and the financial programs of the consolidated public sector. Yet macrofiscal programming in Panama needs further strengthening, the MIPPE's technical team for economic analysis is limited, and its operational capacity needs to be raised, in view of the shortage of trained human resources and inadequate physical plant. In the political and institutional context, more strategic importance should be attached to prospective and relevant economic analysis.
- 1.18 The CGR is responsible for gathering, processing, and publishing macroeconomic data. By legal mandate, it must keep the national accounts, monitor the balance of payments, and perform the government accounting function. In addition, the CGR is legally required to submit monthly and annual reports to the Executive Branch on the financial state of the government. The main weakness of this information is its lack of timeliness. Most national accounts statistics are submitted on an annual basis, although a few are submitted quarterly, and public-sector financial statistics are prepared monthly for the central government and quarterly for decentralized agencies, the latter with a significant lag. Inefficient gathering of economic and financial data hinders its usefulness in macrofiscal programming for analyses and projections that would make it possible to monitor and attain the government's development goals.

b. Public debt policies

- 1.19 The MIPPE's Dirección de Crédito Público [Directorate of Public Debt] (DCP) proposes financial and credit policies; prepares national short- and long-term public debt plans and programs; arranges for, negotiates, and supervises loan contracts; and provides technical and administrative support to CENA for decision-making. Yet the DCP, to fulfill its functions adequately, needs to strengthen its operating capacity and improve the technical level of its staff for financial and public debt policies to be implemented adequately and for such policies to be integrated with fiscal programming or budget formulation.

c. Monitoring the public debt

- 1.20 Although Panama has a large external debt and there is no substantial difference between external and domestic debt given the country's monetary system, the DCP lacks a standardized, flexible, and efficient system for the recording and strategic management of medium-term external debt information. One of the consequences of this situation is that it is impossible see borrowing opportunities that would lower the financial cost of the overall debt portfolio

and minimize financial risk in terms of changes in international interest rates and exchange rate fluctuations.

d. Budget process

- 1.21 The MIPPE prepares the annual budget, but without a flexible medium-term financial programming effort on the government's part. Within the MIPPE, the Public Policy Technical Unit (UTPP) prepares medium-term macrofiscal projections as a working tool for regular discussions with the IMF. The MIPPE's Budget Directorate (DIPRENA), which is in charge of preparing the budget, has received technical assistance from USAID for administrative restructuring and the establishment of internal work procedures. However, modern information technology is not being used to formulate plans, goals, and programs. Nor is there a standardized, specialized system for budget outturn and assessment, or a system that produces a financial plan based on annual budgets (annual operations plan).

e. Public investment programming

- 1.22 The public investment budget is the main instrument used for managing, controlling, and evaluating fulfillment of the public sector's physical targets. Over the last few years, execution of public investment in Panama has been relatively poor, and the situation has not been improving - in 1996, only 34% of budgeted public investment was executed. This is due primarily to: (i) delays in contracting and payments procedures, resulting in underexecuted priority projects during the fiscal year; (ii) the nonexistence of selection criteria, resulting in public works being included in the budget without appropriate cost estimates or the respective designs and plans; (iii) lack of funds for preinvestment studies, resulting in projects being selected that have limited feasibility; (iv) weak investment project identification and analysis at the provincial level in terms of meeting community demands, resulting in a limited response for assisting low-income communities and attacking rural poverty; and (v) obsolete works execution procedures (done on force account, through ministerial offices), without other alternatives for execution being considered.

2. Fiscal management of the public sector

a. Fiscal revenues

- 1.23 The MHT is responsible for management and control of revenue, the regulations for government procurement and purchase procedures, and fiscal cash management. The MHT is comprised of directorates whose functions are established in the Fiscal Code. Even so, the directorates typically establish procedures and systems on their own, working in an uncoordinated, piecemeal fashion. Although tax revenues have increased, they are insufficient to meet the government's public investment needs. As a result, greater

external debt is incurred to finance social and basic infrastructure projects.

- 1.24 Economic studies on tax collection indicate a tendency toward tax evasion in the absence of an organized audit and inspection process for domestic and foreign-trade taxes. Among Panama's domestic taxes, considerable potential for revenue from the real estate tax is lost because of exemptions and loopholes in current legislation. Furthermore, the MHT lacks integrated tax accounting systems and procedures to manage and control its activities effectively.

b. Control of budget management

- 1.25 The CGR holds basic responsibility for auditing and fiscal control of budget execution. Unlike the case in other Latin American countries, the CGR in Panama performs ex ante audits of a number of public institutions, in addition to its primary function as external auditor of the public sector's financial management. The CGR centralizes approval and audit functions at the national level, which makes financial management of public-sector agencies and budget execution difficult. More specifically, every government expenditure or payment order requires the CGR's so-called ex ante audit, in addition to the ex post external audit on the use of resources, also conducted by the CGR.
- 1.26 Despite this concentration of ex ante and ex post financial management functions, which should make access to management information easier, the other institutions participating in government financial management (MIPPE, MHT) do not receive the CGR-generated data on a timely basis. These institutional weaknesses limit the CGR's action and are the biggest challenge to the government's intended effort to modernize financial management. For example, financial transactions are recorded several times, under different accounting codes and depending on the use of the data in the various reports. Another important example is the recording of central government spending, which is handled differently by the MIPPE (budgeted expenditures) and by the CGR (actual or accrued expenses).

3. Public sector financial management

- 1.27 **National Treasury.** In Panama there is no formally established treasury, due in part to the lack of consolidated, specialized legislation on the management of the National Treasury's assets, liabilities, and financial net worth. The Fiscal Code assigns chief responsibility for the revenue collection function to the MHT, and makes it the single disbursing agency; however, the latter function has traditionally been reduced to providing formal authorization for payment orders, while the CGR performs the substantive treasury administration functions of a treasury. The consequence of this interpretation of the Fiscal Code is that there

is no lead agency in the treasury subsystem to manage the government's financial resources under the universally accepted principle of an "integrated fiscal account", issue regulations for resource management, perform financial planning based on tax collection projections, and make efficient use of public borrowings. Recent interagency agreements indicate the CGR's willingness to transfer to the MHT the functions of ex ante control of government payments in order to set up the Treasury. 3/

- 1.28 Specific studies on the components of the current system have revealed the technical limitations of the institutions involved, inappropriate application of current legislation, and legal gaps that, taken together, result in weak and uncoordinated macrofiscal management. The institutional streamlining and reallocation of functions will involve significant changes in the legislation and the political will for functions to be reviewed in order to make macrofiscal and financial management more efficient.

E. Program rationale

- 1.29 As was mentioned earlier, for the Government of Panama to meet its development goals effectively, systematic implementation of its economic and fiscal program requires that macrofiscal programming be integrated with budget formulation and execution and the public sector's financial management subsystem.
- 1.30 The need to integrate these processes is justified on the basis of practical and theoretical considerations. From a practical standpoint, an integrated system makes it possible to optimize the financial cost of fiscal and financial management. Another practical outcome of an integrated system is that the time needed to record, process, and evaluate the public sector's financial and accounting transactions will be minimized. Similarly, an integrated system is more likely to function with better transparency and accountability.
- 1.31 There are also significant conceptual considerations that justify making an integrated macrofiscal programming and financial management system a priority. 4/ First, from the various studies conducted, the Bank has found that there is a close connection between the degree of volatility in GDP growth and some procyclical effects of fiscal policy. In other words, fiscal policies have an impact on fiscal outcomes in terms of the size of the deficit and its behavior through recessionary or expansionary

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3/ Under a mechanism that will ensure the same level of control that the CGR currently exercises over government spending. According to the agreed timetable, the CGR would transfer the data, staff, and budget resources to the MHT over a period of 24 months.

4/ Some of these considerations have been the subject of systematic studies conducted by the IDB's Office of the Chief Economist.

economic cycles. For this reason, some degree of growth volatility is due to weak fiscal institutions.

- 1.32 In Panama, where monetary policy is not an instrument of economic policy and the financial system is capable of handling external shocks easily, a basic factor for ensuring that the GDP will grow at an adequate rate is to have credible macrofiscal programming with fully integrated internal procedures, particularly with regard to the efficient financial management of government resources.
- 1.33 Second, the Bank has also found that transparency and efficiency in budget formulation, approval, and execution have a significant impact on the outcome of fiscal management. The preliminary findings of a Bank study suggest that institutions involved in budget formulation and execution in fact have some impact on fiscal stability and that budget regulations can affect the speed of adjustment to negative external shocks affecting fiscal stability. Budget system reform can therefore have a positive impact on fiscal targets, although more research is needed to identify the specific combination of factors required to achieve this positive effect.
- 1.34 Another significant theoretical justification for having an integrated macrofiscal programming and financial management system in Panama is that the efficient attainment of fiscal targets automatically guarantees a high level of credibility in international financial markets (creditworthiness), thereby reducing the country risk premium for foreign investment. Thus, because of the size of its financing requirements and its strict balanced budget policy, Panama can acquire a very favorable – almost investment grade – country risk rating from specialized international agencies.
- 1.35 Bearing these practical and theoretical considerations in mind, it is easy to see the importance of a strong and highly coordinated macrofiscal and financial management system.

F. Program design

- 1.36 The public sector's macroeconomic and fiscal modernization needs are far greater than those targeted under this operation. For this reason, the program focuses its immediate efforts on priority areas in the lead fiscal management institutions. The program also takes into account the foreign debt limit established by the government, the projected availability of local resources during the execution period, the execution capacity of the MIPPE and MHT, and the prospect of institutional strengthening activities being absorbed on schedule.
- 1.37 The process of implementing the required changes will only be feasible over the medium term and may require several phases. The proposed operation covers the basic components of a macrofiscal programming and financial management system that could progress

towards full integration over the medium term. Two considerations are important for consolidating the system: (i) the possibility of taking advantage of changes in information technology and systems theory that are taking place (and any new ones that could be developed during program execution); and (ii) the authority that the government must have to adapt the system to any new requirements that may emerge during execution, on the basis of an evaluation of the results achieved.

- 1.38 The proposed operation will be a conceptual, technical, operational, and legal instrument that will make it possible over the short term to resolve the difficulties identified in an initial stage and promote a set of policies that lay the foundations for steady and sustained medium- and long-term improvement in macrofiscal and financial management. The operation will focus on three specific areas:

1. Economic analysis

- 1.39 Under the current political and institutional framework, the MIPPE is responsible for macroeconomic and fiscal policy formulation and follow-up.

- 1.40 Macroeconomic analysis. The MIPPE needs a stronger Macroeconomic Analysis Department (DAM) devoted to studying - and producing reports on - current economic trends, assessing economic policy, producing sector studies, and providing the analytical framework for fiscal programming and public spending. In addition, an inter-agency macroeconomic database needs to be created so that the type of data, level of detail, schedule, and presentation can be continuously fine-tuned.

- 1.41 Public debt. A standardized, flexible system needs to be established at the MIPPE to manage the public (domestic and external) debt - an essential part of the economic and fiscal management system - in order to reduce the financial costs of borrowing and provide feedback for the MHT's fiscal programming. An efficient external debt monitoring system is the necessary counterpart to a public investment programming system, which is also the MIPPE's responsibility. The Bank will be providing support to codify the domestic debt under the financial sector reform program (PN-0056), which will incorporate IMF recommendations. The status of the system for issuing and monitoring internal debt has already been reviewed.

- 1.42 Public investment. The MIPPE's public investment programming activities need to be strengthened as part of an integrated national planning, programming, and budget system (SINIP), so that, within the public sector, the most profitable investment options that are compatible with the government's macroeconomic goals can be exercised.

## 2. Tax administration

- 1.43 Revenue management. In order to put its audit and inspection process in order, the MHT needs strengthening in the areas of taxation, customs, property registry, consular control and ship registry, and tax accounting. The purpose of upgrading the revenue collection subsystem is to consolidate the various taxes mentioned into a single computerized system, increase revenue collection, and reinforce customs administration.

## 3. Financial management

- 1.44 One of the government's goals is to set up an integrated financial management system at agencies that are involved in fiscal management and to improve public budget formulation, execution, accounting, and control methods. To this end, the present operation's efforts will be supplemented by the USAID activities that are already under way and will be completed in 1997. The areas identified for Bank action in financial management are detailed below.
- 1.45 Legal and regulatory framework. The basic problem of financial management is that the actions of the three institutions - the MIPPE, the MHT, and the CGR - are not well integrated, and since there is no modern, efficient regulatory and legal framework that adequately incorporates responsibilities and functions, management and control of public resources is difficult. The proposed operation will finance priority legal studies to explore alternatives for resolving this problem.
- 1.46 The diagnostic studies conducted indicate the importance of adapting, creating, or amending some of the current legal procedures and preparing regulations to put some aspects of financial management in order, so that it becomes more efficient over the medium term. The most important of these, in the short term, is the enactment of the Treasury Act, under which budget execution and government accounting could be done according to the principle of an integrated account.
- 1.47 Establishment of the Treasury. The operation will support the legal and operational establishment of the General Treasury Directorate within the MHT, which will take on the functions transferred from the CGR and perform other functions related to financial management that are currently absent, including unified account standards and codes to simplify and update government accounting.

## G. Country strategy and justification for Bank participation

- 1.48 The Bank's strategy in Panama for 1997-1998 is to expand the benefits of social policy, in particular to include vulnerable or disadvantaged groups (growth with equity), promote environmentally

sustainable development, foster sustainable economic development, and strengthen governance. In this last case, the Bank will assist in the strengthening of the institutions responsible for economic and fiscal management.

- 1.49 The proposed operation is fully consistent with the Bank's strategy, particularly in the area of modernization of the State. The operation is justified by the need to support the government's efforts to strengthen and modernize the institutions in charge of its macroeconomic and fiscal policies. Given the complex institutional framework involved in the modernization of the State program, the Bank agreed with the government to organize the program into several operations, the following having been identified in principle: (i) modernization of the Legislative Branch, approved by the Board in March 1996; (ii) strengthening of the Judiciary Branch; (iii) modernization of the Ministry of Foreign Affairs; and (iv) strengthening and modernization of economic and fiscal management.
- 1.50 The government recognizes that, as it progresses with its economic and social reform program, the traditional structure and practices of government institutions and outdated legal systems hinder the efficient operation of the economy. With this in mind, the government declared 1994 to be the year of government accounting and committed itself to reforming the financial management subsystem. Accordingly, the government plans to enhance efficiency and coordination at the agencies responsible for public management by revising the legal frameworks, instruments, methods, and procedures that are slowing down their work and actions. Implementation of the government's economic and social program will undoubtedly require greater fiscal discipline based on efficient institutions and responsive and transparent procedures in the public sector.

#### H. Experience at the Bank and at other institutions

- 1.51 The Bank has been making a significant effort to help the countries improve their financial and macroeconomic management capacity and their ability to execute sector policies. It has carried out reimbursable and nonreimbursable technical-cooperation projects for fiscal management in 18 countries in the region, with satisfactory results, thereby providing significant support to fiscal adjustment programs adopted by the governments and making it possible to strengthen institutions that are crucial to sustainable development. The lessons learned from the Bank's experience and that of other institutions indicate that there are a series of factors that will determine the success of the proposed reforms. The most significant of these factors is support from the government in office, expressed through backing for measures that allow government institutions to implement the proposed reforms effectively.



## 1. Technical cooperation

- 1.52 In 1992, with support from the Bank, the MHT undertook to strengthen the Revenue and Customs Directorates and succeeded in implementing a process to modernize the basic functions of tax and customs administration. Automation of the taxpayer master file and customs duty payments through the Customs Information System (SIDUNEA) are examples of this progress. Thanks to the systems and procedures established at the Revenue Directorate, tax collection and taxpayer compliance are being controlled more efficiently. Moreover, additional revenues have been collected by controlling tax evasion and taxpayers are receiving more guidance through income tax return preparation guides. The new customs procedures have helped to eliminate valuation errors and ensure more exact control of revenue collection and of the number of documents processed. New customs offices were opened in Tocumen and the Colón Free Zone, with automated systems connected to Panama City.
- 1.53 The success of these operations has been a deciding factor in the government's decision to request that these directorates be modernized and for the first stage of modernization to begin in the MHT's other directorates, in particular treasury, consular control and ship registry, and property registry. A study was conducted by the Japanese International Cooperation Agency, through a Japanese government technical-cooperation operation, on automation of the Consular Control and Ship Registry Directorate, which collects significant revenues.

## 2. USAID-Government of Panama agreement

- 1.54 Since 1992, the CGR, with support from USAID, has been carrying out a financial management reform project (RAF) for the design and establishment of an integrated financial management system. The RAF project has made significant progress in the areas of government accounting, public budget, public debt, and a comprehensive audit system. Before it is completed, the project is expected to have laid policy-setting, regulatory, and procedural foundations in the areas mentioned, as well as a centralized information system for data to flow among the various areas. The activities conducted under the RAF project include: (i) development of manuals for the budget, accounting, public debt, and auditing subsystems; (ii) government accounting information systems; and (iii) intensive training and information dissemination programs.
- 1.55 The government, with USAID support, plans to carry out a series of tasks that respond to the CGR's needs and are a necessary complement to the work that the Bank will perform under this operation. The following goals have been set by the CGR: (i) ongoing training of staff in the areas of accounting, budget, public finances, audits, and information systems; (ii) purchase of computer equipment for data processing; (iii) decentralized

government accounting; (iv) strengthening of internal audits; (v) upgrading of budget programming, formulation, and execution; and (vi) a decentralized information system. It is important for the Bank to capitalize on USAID's efforts by financing a number of activities that will consolidate the advances already secured and continue with the work undertaken.

## II. THE PROGRAM

### A. Objective of the program

- 2.1 The program's main objective is to expand the public sector's macroeconomic and fiscal management capacity and strengthen its financial management. The specific objectives are to: (i) build macroeconomic and fiscal programming capacity in order to monitor economic activity overall and by sector; (ii) make tax administration more efficient and effective, by strengthening the tax revenue and customs administration areas; and (iii) strengthen financial management through changes in the institutional and legal framework and operational implementation.

### B. Program description and results

- 2.2 The program is aimed at producing greater operational integration of macrofiscal programming, budget formulation and execution, and financial management in the public sector.
- 2.3 The principal results of the proposed program would be as follows:
- To make the necessary information available for ministerial decision-making on economic policy, by establishing a Macroeconomic Analysis Department at the MIPPE.
  - To strengthen public debt management capacity and improve decision-making on debt policy, by establishing a public debt management and analysis system.
  - To improve the quality of investments and increase the level of execution of the investment budget, by establishing a decentralized public investment system.
  - To make tax collection more effective and efficient, by modernizing the tax audit and inspection functions involving revenue from real estate, ship registry, and other current revenue.
  - Raise the operational capacity of the financial management system (which includes budget execution) and optimize the handling of cash, by setting up a National Treasury.

### C. Description of the subprograms

- 2.4 To achieve the proposed objectives, the program has been divided into three subprograms: (i) strengthening of economic analysis; (ii) modernization of tax administration; and (iii) strengthening of financial management. The subprograms have been developed following the logical framework method. The resulting tables will

be part of the work plan, which specifies the program components and activities and includes the proposed performance indicators/targets, the means for verification, and the respective assumptions (Annexes II-1 and II-2).

1. Strengthening of economic analysis (US\$4,283,000)

- 2.5 The purpose of this subprogram is to: (i) strengthen the MIPPE's capacity for macroeconomic and fiscal forecasting and analysis, to monitor economic activity overall and by sector and generate public policy proposals consistent with macrofiscal programming; (ii) strengthen public debt management capacity in the MIPPE, to promote appropriate public debt strategies; and (iii) strengthen and systematize public investment programming and monitoring, to improve budget execution and public resource allocation. This subprogram consists of three components.

a. Macroeconomic monitoring (US\$608,000)

- 2.6 Under this component, the Macroeconomic Analysis Department (DAM) will be organized and strengthened at the MIPPE and will draft regular reports on the current situation and projections for the main macroeconomic variables, so as to ensure compliance with the government's macrofiscal targets and agreements with multilateral institutions.
- 2.7 The activities to be carried out under this component include setting up and implementing new procedures and methodologies to improve the quality and timeliness of the data to be presented by the DAM's units: (i) public finances, banks, and external debt; (ii) balance of payments and production; and (iii) statistics and systems, to conduct econometric analyses and make projections and conduct studies to assist in decision-making.
- 2.8 The goals of this component are to: (i) formally organize the DAM; (ii) provide the equipment the DAM needs to automate and systematize data, and to hook up with other databases; (iii) provide staff training abroad and specific technical assistance locally to the DAM's units; and (iv) establish a system for analysis, projections, and generation of timely, high-quality reports.

b. Public debt management (US\$600,000)

- 2.9 This component provides for strengthening the technical and institutional capacity of the MIPPE's Public Debt Directorate (DCP), to improve its capacity for identifying and selecting appropriate public debt strategies.
- 2.10 The activities to be carried out include: (i) design and implementation of a computerized debt management and analysis system (SIGADE), including provision of equipment; and

(ii) assistance in developing adequate structures for more effective public debt management, including staff training.

- 2.11 The desired goals are to: (i) boost the capacity of the General Property Registry Directorate (DGC) in all areas of debt management; (ii) improve decision-making based on standardized data; and (iii) make data available on debt levels, terms, and financial costs.

c. Public investment programming (US\$3,075,000)

- 2.12 Public investment programming and monitoring will be systematized through the design and implementation of a national public investment system (SINIP) that will be the MIPPE's responsibility and will be connected to the provincial offices. This will make budget execution and public resource allocation more efficient and investment decisions and macrofiscal planning targets more consistent with each other.

- 2.13 The activities to be carried out under this component include: (i) setting up the SINIP; (ii) introducing project assessment principles into public investment programming, through a training and technical assistance program; (iii) regionalizing public investment programming by setting up and strengthening the MIPPE's nine provincial offices; (iv) improving the quality of projects through the generalized use of modern and simple project preparation and monitoring procedures; and (v) systematizing the preparation and monitoring of the investment budget.

- 2.14 The goals of this component are to: (i) instruct users in the use of project identification, preparation, and assessment methodologies; (ii) train professional, technical, and operations staff, through workshops and university courses; (iii) strengthen investment programming activities on a decentralized basis; and (iv) provide computer tools to program, manage, and supervise public investment investments, based on a project bank.

2. Modernization of tax administration (US\$5,720,000)

- 2.15 The objective of this subprogram is to modernize tax administration, from tax collection to the use and control of tax revenues, by means of the integrated strengthening of units in the MHT responsible for this area, in order to ensure adequate management and control of public resources.

- 2.16 This subprogram includes the integrated strengthening and modernization of MHT directorates in charge of areas such as: tax administration; customs; property registry; nontax revenues; and consular control and ship registry. A revenue accounting system will be developed that will cover and consolidate all sources of funds. This subprogram is comprised of five components and covers principal collection activities.

a. Revenue management (US\$1,617,000)

- 2.17 The tax administration modernization process will be consolidated at the General Revenue Directorate (DGI), by improving the DGI's legal and organizational structures and implementing the computer programs developed under previous Bank operations.
- 2.18 The following activities will be carried out under this component: (i) a proposal will be prepared for simplifying taxes administered by the DGI and the directorate's procedures, in accordance with the draft Tax Code; (ii) the DGI modernization process will be consolidated, with a new organizational structure and management training for its executive staff; (iii) the tax audit and inspection functions will be strengthened to increase institutional presence; (iv) taxpayer services will be improved; (v) the integrated tax information system will be consolidated and human resources in this area and computer resources will be upgraded; and (vi) the DGI will be given the tools necessary to carry out the training programs proposed for the technical areas.
- 2.19 The following goals have been set: (i) simplify DGI-administered taxes; (ii) prepare draft legislation proposing an integrated processing system; (iii) adopt a management development plan; (iv) set up taxpayer assistance centers; and (v) implement general audit programs.

b. Customs administration (US\$1,500,000)

- 2.20 This component will improve the management capacity of customs administration by strengthening the customs organization, making it more efficient, implementing effective collection procedures, and having access to reliable and timely information for all sectors.
- 2.21 To achieve this component's objectives, the following activities will be conducted: (i) a structure consistent with trade requirements will be implemented; (ii) operational procedures will be simplified and improved; (iii) civil service career regulations for customs staff will be drafted and approved; (iv) control over the import and export of goods will be increased through cargo manifests; (v) transit and warehouse control will be increased; (vi) warehouses and collection offices will be connected to the customs system; (vii) users' information needs will be identified; (viii) communication between customs offices and the General Customs Directorate (DGA) will be established or standardized; and (ix) the information system will be expanded or the equipment in place will be upgraded according to foreign trade requirements.
- 2.22 This component will focus on: (i) making resource allocation more efficient and facilitating foreign trade operations; (ii) training professional staff; (iii) improving the investment climate and fair competition conditions in foreign trade and national production; (iv) reducing contraband; (v) increasing the availability of

foreign trade data and improving the collection of data to ensure the quality, format, and timeliness required by institutions and users; and (vi) continuing to automate administrative management and to install the Customs Information System (SIDUNEA) at all customs offices.

c. Property registry administration (US\$1,266,000)

- 2.23 Under this component, the General Property Registry Directorate (DGC) will be strengthened and modernized through the improvement of its legal and organizational structures and the application of technologies and new computer resources for digitizing documents, plans, and maps.
- 2.24 To achieve this component's objectives, the following activities will be conducted: (i) a proposal to adjust the Property Tax Act will be prepared (see paragraph 2.34), including a reduction in the number of current exemptions and an improved mechanism for updating property values; (ii) the process of modernizing the organizational structure and physical facilities of the DGC will be started, which will make it possible to bring on line the information technology and files needed to implement the process; (iii) the integrated tax information system will be consolidated and its staff and computer resources strengthened; (iv) new computer procedures and methods will be established for assessments, cartography, and property tax control; and (v) a training plan will be carried out.
- 2.25 The following goals have been identified: (i) increase revenues collected from both urban and rural property taxes; (ii) obtain better information, new assessment methods, and property registry maps; and (iii) automate administrative management and increase the DGC's training opportunities.

d. Consular control and ship registry administration  
(US\$1,087,000)

- 2.26 Under this component, the process of modernizing the Consular Control and Ship Registry Directorate (DCyN) will be initiated by improving its organizational structure, strengthening human resources, and implementing information technologies and new tools.
- 2.27 To achieve the stated objectives, the following activities will be carried out: (i) a process to modernize the organizational and information technology structure will be designed and implemented, so that the consular control and ship registry functions can be performed adequately; (ii) procedures to ensure financial autonomy will be established; (iii) the integrated tax information system will be consolidated and the area's human resources and computer systems strengthened to set up local, wide-range networks connected to consulates and other offices; (iv) security systems, methodologies, and mechanisms will be established and implemented

for certifications and documents relating to seamen and ship registries; and (v) a training plan will be devised.

- 2.28 This component focuses on: (i) making ship registry more competitive; (ii) improving the consular area by computerizing registry approval and control procedures; (iii) systematizing tax information; and (iv) increasing training opportunities under the new interconnected system.

e. Financial control and Information Systems Directorate  
(US\$250,000)

- 2.29 Under this component, the units responsible for managing and inspecting the data needed for fiscal planning and decision-making at the highest levels will be reinforced by strengthening the DGI's Financial Control Department and setting up and implementing the General Information Systems Directorate (DI) at the MHT, which will be directly accountable to the Minister of Finance and Treasury.
- 2.30 To meet the objectives in these new areas, the following activities will be conducted:

Financial Control Department: (i) government revenue control mechanisms will be improved; (ii) the management reports needed to support tax revenue analysis will be redefined; (iii) audit mechanisms will be established primarily for the revenue areas, in particular for collection activities (banks and government agencies), as will mechanisms applicable to tax revenue on current account and government accounting.

General Information Systems Directorate: (i) the legal and regulatory framework to set up the DI at the MHT will be designed; (ii) the MHT's information systems plan will be prepared and its execution supervised; (iii) the regulations and standards for the information systems area will be drafted and implemented; (iv) the data generated at the various directorates will be consolidated, in particular those involving revenue and expenditures; and (v) management information will be generated to support management at the ministry's executive level.

- 2.31 The stated goals will make it possible to: (i) implement the new information systems at the MHT; (ii) develop a training plan for proper operation of the new system; and (iii) adapt the physical facilities and equipment.

3. Strengthening of financial management (US\$1,539,000)

- 2.32 The purpose of this subprogram is to review and recast the legal and/or regulatory framework required to strengthen financial management, with emphasis on establishing the National Treasury, in order to integrate government resource management into a single account. This subprogram consists of two components:



a. Legal and regulatory framework (US\$620,000)

- 2.33 This component includes the review, update, and compilation of current legislation and the drafting of regulations to promote government initiatives consistent with the scope of the program's components. In addition, support will be provided for the review of regulations, enforcement of current laws, and the drafting of new laws, if necessary.
- 2.34 The following goals have been identified: (i) prepare bills for: (a) setting up the Treasury at the MHT through the enactment of a Treasury Act; (b) adjusting the property tax act; (c) drafting a law on administrative responsibility; and (d) designing and implementing customs regulations; (ii) conduct a study on a financial management framework law; (iii) conduct a study on a public credit act; (iv) adopt a civil service career track for the MHT, MIPPE, and CGR, according to the law enacted in June 1994 which established and regulated the civil service career program; and (v) conduct other studies on legal and regulatory adjustments that may become necessary during the program. A ranking of these activities is provided in paragraph 3.22.

b. Establishment of the National Treasury (US\$919,000)

- 2.35 The objective is to establish an institutional and operational framework for efficient and integrated management of the National Treasury's resources, based on the "integrated account" concept and on the principles of transparency and macrofiscal balance.
- 2.36 To achieve the stated objectives, the following activities will be conducted: (i) under the current legal framework, the National Treasury Act and its implementing regulations will be drafted; (ii) the treasury system, support for the information system, and interconnection with the MHT's revenue systems will be designed conceptually and logically; (iii) the General Treasury Directorate (DGT) will be physically set up, human resources will be assigned, and equipment installed; (iv) the manual on the organizational structure and functions of the DGT and its branch offices will be prepared; (v) an information, recruitment, and treasury systems training plan will be prepared, aimed at public employees; (vi) a database and an outreach network of services for local users connected to the information system, the collection units, and the Banco Nacional de Panamá will be installed; and (vii) the Treasury will begin operations, according to agreed upon criteria in the action plan for the transfer of disbursement functions from the CGR to the new DGT.
- 2.37 This component will focus on: (i) raising the levels of operational capacity in the annual financial execution of public spending; (ii) amending current legislation to make the treasury function legally operational and preparing the proposed DGT basic act; and (iii) conducting organizational development and training

and procuring information systems and equipment needed to start up the Treasury.

D. Scaling of the program

- 2.38 The requirements for the subprogram to strengthen economic analysis were determined based on activities agreed upon with the MIPPE. The scaling of the macroeconomic monitoring and public debt management components is consistent with the consulting, equipment, and training needs identified in the studies conducted by the DAM and the DCP.
- 2.39 The public investment programming component was scaled by analyzing the investment programming process at the MIPPE, the sector executing agencies at the central and provincial levels, and the provinces visited. The four provinces selected to begin activities on a decentralized basis - Panama, Chiriquí, Colón, and Coclé - are representative of large and small provinces, respectively, and were chosen based on their socioeconomic and administrative characteristics.
- 2.40 For the subprogram to modernize tax administration, the sizing was based on experiences acquired during technical cooperation operations conducted with the Revenue and Customs Directorates. The component to establish the Treasury was scaled on the basis of identified strategic stages for transferring the CGR's functions to the MHT. The stages of this component call for setting up the Treasury at the MHT, for which purpose the training, consulting services and computer and office equipment requirements were estimated, based on an action plan agreed upon with the government.
- 2.41 The subprogram to strengthen financial management was sized on the basis of the legal reforms needed to organize the legal framework for financial management. The cost was determined based on an estimate of the number of consulting months required for the priority activities. In addition, an estimate was made of the resources needed to cover the cost of other possible studies, revisions, and implementation of existing regulations, as set forth in paragraph 2.34.

E. The program's total cost and financing plan

- 2.42 The resources of the proposed operation will be used to finance consulting services, training, office remodeling, and equipment for each of the entities involved, including the MIPPE's provincial offices. The total cost of the program to be financed by the Bank is estimated at US\$16 million equivalent and is broken down by investment category and source of financing as shown in Table II-1.

1. Bank financing

- 2.43 The Bank will finance US\$11.2 million towards program execution, which will be disbursed in United States dollars from the Single Currency Facility of the ordinary capital and represents 70% of the program's total cost. The loan proceeds will finance: 77% of the subprograms' costs; 78% of unallocated costs; and 57% of the financial costs. This last percentage is the result of the borrower's decision to use Bank resources to cover some of the interest on the loan during execution.

TABLE II-1  
PROGRAM COST AND FINANCING  
(in thousands of U.S. dollars)

CATEGORY	SOURCE OF FINANCING			
	IDB	Gov't.	TOTAL	%
<b>1. ADMINISTRATION AND SUPERVISION</b>	<b>680</b>	<b>1,423</b>	<b>2,103</b>	<b>13</b>
1.1 Staff and administration	480	648	1,128	7
1.2 Outside consultants (UNDP-CIAT)	0	515	515	3
1.3 Program supervision	200	260	460	3
<b>2. COSTS BY SUBPROGRAM</b>	<b>8,915</b>	<b>2,627</b>	<b>11,542</b>	<b>72</b>
2.1 Strengthening economic analysis	2,908	1,375	4,283	27
1. Equipment	500	35	535	-
2. Office remodeling	-	375	375	-
3. Training	508	500	1,008	-
4. Technical assistance - institutional development	1,900	465	2,365	-
2.2 Tax administration modernization	4,613	1,107	5,720	36
1. Equipment	2,200	70	2,270	-
2. Training	600	120	720	-
3. Technical assistance - institutional development	1,813	917	2,730	-
2.3 Strengthening of financial management	1,319	220	1,539	9
1. Equipment	125	20	145	-
2. Office remodeling	-	120	120	-
3. Technical assistance - institutional development	1,194	80	1,274	-
<b>3. UNALLOCATED</b>	<b>600</b>	<b>0</b>	<b>600</b>	<b>4</b>
<b>4. FINANCIAL COSTS</b>	<b>1,004</b>	<b>750</b>	<b>1,754</b>	<b>11</b>
4.1 Interest	892	612	1,504	9
4.2 Credit fee	0	138	138	1
4.3 Inspection and supervision	112	0	112	1
<b>TOTAL</b>	<b>11,200</b>	<b>4,800</b>	<b>16,000</b>	<b>100.0</b>
<b>FINANCING (%)</b>	<b>70</b>	<b>30</b>	<b>100</b>	

- 2.44 The terms and conditions of the Bank loan will be as follows: (i) amortization period: 20 years; (ii) grace period: 5 years; (iii) interest rate: variable, pursuant to the Bank's interest rate policy; (iv) disbursement period: 4½ years; (v) credit fee:

0.75% on undisbursed portion; and (vi) inspection and supervision: 1% of loan amount.

2. Local contribution

- 2.45 The local counterpart totals US\$4.8 million equivalent, of which US\$2.6 million are for project financing; US\$1.4 million for administration costs; and the balance of US\$750,000 for unallocated and financial costs. The local contribution will be financed by the Government of Panama through a budget allocation to the MIPPE. Sufficient resources have already been allocated for 1997.

### III. BORROWER AND PROGRAM EXECUTION

#### A. Institutional framework

##### 1. Borrower and executing agency

- 3.1 The borrower will be the Republic of Panama, which will be responsible for the loan repayments and will transfer program resources to the executing agency on a nonreimbursable basis. The MIPPE will act as executing agency, through the program coordinating unit (PCU).

##### 2. Program executing agency

- 3.2 As the Executive Branch's programming and regulatory agency, the MIPPE will be the program's executing agency, through the program's Interagency Coordination Committee (COIN). The government is working to set up the COIN to ensure consistency between the MIPPE, the MHT, and the CGR and avoid duplication of efforts to promote modernization of the State in the financial management area. The committee will be comprised of the Comptroller General of the Republic, the Deputy Minister for Finance and Treasury, and the Deputy Minister for Planning and Economic Policy, who will chair the committee. The PCU, in the person of the program coordinator, will act as the committee's technical secretariat.

##### 3. The Interagency Coordination Committee

- 3.3 The makeup of the COIN will ensure that the plans and programs being promoted by the government, in particular the one being financed by USAID (financial management reform - RAF) with the CGR, are known and that the projects and initiatives of the institutions participating in the program are consistent with the general lines of the operation. Technical groups and technical group coordinators at the MIPPE, the CGR, and the MHT will ensure that the activities agreed upon by the COIN will be carried out at each institution.
- 3.4 The functions of the COIN are to: (i) adapt the program and ensure consistency in its design, preparation, and execution; (ii) examine and discuss action plans submitted by the institutions; (iii) appoint the coordinator and members of the PCU; (iv) prepare memoranda of understanding containing the main agreements reached; (v) receive progress reports, assess execution, and agree on adjustments; and (vi) when warranted, the Committee may assign specific tasks to consultants and set up subcommittees to conduct research on the program.

B. Program coordinating unit

- 3.5 Program activities will be coordinated through the PCU, which will be assisted by the technical groups set up at the institutions responsible for program-related functions, and the groups' coordinators. The PCU will be set up at the MIPPE's offices and will be attached to the Office of the Deputy Minister for Planning and Economic Policy. The PCU's general coordinator will be appointed by the COIN.

1. Functions of the PCU

- 3.6 The PCU will: (i) provide overall program supervision and control; (ii) assist the technical groups of the institutions, the MIPPE, the MHT, and the CGR (if applicable) in the execution of program components; (iii) supervise execution of training activities; (iv) follow up on the legal framework review process; (v) supervise the call for offers and award process for contracts to remodel offices and supply goods or services; (vi) approve the timetables for commitment, disbursement, and rendering of accounts; (vii) conduct ongoing assessments of the program; (viii) prepare and manage the program budget, making sure that resources are available on a timely basis; and (ix) fulfill the conditions established in the loan contract and submit annual follow-up reports, including external audits, to the Bank.

2. The program's organizational structure

- 3.7 For execution of the Bank-financed program, the PCU will consist of four to six people, including at least the following: a program coordinator; two professionals; and one administrative assistant. The PCU will also have support from the technical groups set up at the institutions participating in the program. The technical groups will be comprised of MHT, CGR, and MIPPE staff, who will be assisted by consultants hired in their respective areas. **A condition for loan eligibility is that the COIN and the PCU be set up and that the coordinator and other members of the PCU be hired, on the basis of profiles agreed upon with the Bank.**
- 3.8 The MIPPE has provided for the United Nations Development Programme (UNDP) to perform administrative support activities for the PCU in the procurement of goods and contracting of services as indicated by the PCU for all program components, with the exception of the components involving revenue and financial control management and the General Information Systems Directorate, which will be carried out by the Inter-American Center of Tax Administrators (CIAT).

C. Program operating mechanisms

1. UNDP and CIAT support in administration and execution

- 3.9 The government has requested authorization to work with the UNDP on the basis of an administration agreement, in order to take advantage of that agency's successful experience in Panama with other projects financed by the Bank and other multilateral institutions. To this end, a condition precedent to the first disbursement of this loan is that the MIPPE provide evidence to the Bank's satisfaction that it has signed the respective agreement with UNDP.
- 3.10 The government has also requested authorization to work with CIAT to execute the components mentioned in paragraph 3.8, on the basis of an agreement. To this end, a condition precedent to the first disbursement of this loan is that the MIPPE provide evidence to the Bank's satisfaction that it has signed the respective agreement with CIAT.
- 3.11 UNDP will act as administrator for the subcomponent to strengthen economic analysis, the subprogram to strengthen financial management, and the customs administration, property registry, and consular control and ship registry components. In this regard, it has a comparative institutional advantage in that it meets all the requirements set forth under Bank policy (GS-603), to wit: (i) it has a good working relationship with the MIPPE; (ii) it is able to effectively coordinate several individual specialists; (iii) it provides continuity of support beyond project execution; (iv) it has the ability to assist the MIPPE in the administration of, and compliance with, the contractual clauses; (v) it has the ability to facilitate program execution and draw down funds; (vi) it has access to an adequate roster of qualified consultants and a speedy hiring mechanism; (vii) it provides an effective management support system; and (viii) its average evaluation for similar work on Bank projects in Panama has been "very good". In addition, UNDP has provided financial and administrative support in the preparation of this operation and for the startup of its execution, through a Bank-approved operation under the Project Preparation Facility (loan 930/OC-PN for US\$900,000) which it is in charge of administering.
- 3.12 CIAT, as executing agency for the revenue and financial control management and General Information Systems Directorate components, has a comparative technical advantage in that it meets all the requirements set forth under Bank policy (GS-603), to wit: (i) it has the necessary capacity and experience with Bank projects in the region and in Panama; (ii) it has personnel with specific qualifications and experience not easily available at the desired level in other firms or agencies; (iii) it is able to coordinate several individual specialists and prepare consolidated reports;

and (iv) its average evaluation for similar work on Bank projects in Panama has been "very good".

- 3.13 It is recommended that UNDP's and CIAT's participation be accepted from the beginning of program execution, with UNDP as program administrator and CIAT as executing agency for the aforementioned components, since they meet the criteria of having an institutional and technical advantage as described in the Procurement Manual (GS-603), for the aforementioned purposes. The costs of the agreements with UNDP and CIAT will be financed out of the local counterpart.
- 3.14 The MIPPE will ask the Bank to deposit the loan proceeds in a special account and will transfer the local counterpart funds, as appropriate, to UNDP. The PCU will keep the program's books in accordance with generally accepted accounting standards and applicable legislation, and will also keep the budget records by spending category. It will be subject to audits by a public accounting firm, as described in paragraph 3.31.

## 2. USAID-MIPPE coordination

- 3.15 Together with USAID and based on the Bank's suggestions, the MIPPE has prepared a draft interagency agreement to link the MIPPE and USAID during program execution. Thanks to the agreement, (i) USAID financing will be consistent with the program's objectives rather than redundant; (ii) sufficient guarantees will be provided for project coordination and the necessary complementarity; (iii) the relationship between the parties will be formalized; and (iv) the projects will meet their proposed goals.

## D. Subprogram execution 5/

### 1. Strengthening of economic analysis

- 3.16 The MIPPE is responsible for executing this subprogram, working through the DAM for the macroeconomic monitoring and public investment programming components, and through the DCP for the public debt management component.
- 3.17 The public investment programming component will be carried out through the DAM and the MIPPE's provincial offices. To ensure proper coordination of the activities, program funds will be used to hire an international consultant as component coordinator. In addition, the MIPPE has signed a cooperation agreement with Chile's Ministry of Planning (MIDEPLAN) to allow for the MIPPE to use the project bank software developed by MIDEPLAN.

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5/ The specific activities and costs of each subprogram will be detailed in the content and reference point matrix (Annexes II-2 and III-1). The terms of reference are in the technical files.



- 3.18 In the specific case of the debt management component, the government has received support from the United Nations Conference on Trade and Development (UNCTAD), through an agreement that guarantees the transfer of technology, training, and software for the new version of the computerized debt management and analysis system (SIGADE): DMFAS 5.0. This component will therefore be executed in close coordination with UNCTAD, based on an agreement signed with the MIPPE.

## 2. Modernization of tax administration

- 3.19 The MHT is responsible for all matters related to the modernization components of tax and nontax revenue areas.
- 3.20 The components in the revenue areas will be carried out by each of the MHT's directorates in their respective spheres. For the purposes of better coordination of the activities to be conducted, the MHT will have a technical group made up of representatives from the following directorates: Revenue, Customs, Property Registry, and Consular Control and Ship Registry. The technical group will support the program coordinator in MHT-related activities.

## 3. Strengthening of financial management

- 3.21 The COIN will determine whether the MHT or MIPPE is responsible for the legal and regulatory framework component. The MHT will be in charge of executing the component to establish the Treasury. The studies identified will make it possible to revise and draft the proposed reforms and regulations needed for financial management, for which purpose close coordination will be required with the MHT and the CGR. The studies will be performed by consultants hired for that purpose.
- 3.22 The following studies are considered a priority for program execution: (i) the Treasury Act; (ii) the Law on Independent Internal Audits at Public Institutions; (iii) the Tax Integration Act; (iv) the restructuring of property taxes; and (v) customs regulations. In view of their importance, it is recommended that these studies be commissioned within 12 months from the effective date of the loan contract. In addition, and so that agreed upon recommendations may be adopted or implemented during program execution, it is recommended that the documents provide for the MIPPE and the Bank to review the findings of the respective studies and agree upon a plan to implement their recommendations, at meetings to be conducted for program monitoring (see paragraphs 3.35 and 3.37).
- 3.23 In response to the government's decision to consolidate treasury functions at the MHT, the latter will carry out this component pursuant to an interministry agreement between the MHT and the CGR (see technical files). The disbursement functions will be

transferred from the CGR to the MHT and the Treasury will be set up at the MHT pursuant to an action plan produced by the two institutions. This plan provides for three stages of development over a 36-month period: an initial stage for internal development of accounting and information systems, under the CGR's responsibility (12 months); a second stage of institutional, administrative, and information systems design and development, under the MHT's responsibility (12 months); and a third stage of information dissemination, training, and payments decentralization, under the MHT's responsibility, through the DGT (12 months).

- 3.24 Since the first stage of the action plan has support from USAID under the financial management reform project, the present program will focus its efforts on the last two stages, which are expected to be completed in years two and three of the program, according to the timetable agreed upon with the government. To this end, a condition precedent to the first disbursement of this loan is that the government provide evidence to the Bank's satisfaction that it has signed an action plan and agreed upon the criteria for transferring disbursement functions from the CGR to the MHT and for the setup and implementation of the Treasury.
- 3.25 In order to guarantee the establishment of the Treasury in the MHT according to the agreed upon action plan and criteria, a contractual condition has been included requiring the MIPPE to submit evidence that the MHT has begun the second stage provided for in the action plan no later than 14 months after the start of the program. Disbursements for the component to establish the Treasury (see paragraphs 2.35 and 2.36) will be subject to fulfillment of this condition.

E. The program's priority activities

- 3.26 Activities that are considered important for program execution have been ranked by order of priority under each subprogram. The proposed execution periods will be points of reference for annual program follow-up reviews. The activities are listed below:

1. Subprogram to strengthen economic analysis

- Formal organization of the DAM within the MIPPE, including the information systems plan and computer network, in year one.
- SIGADE system installed and operating at the DCP, in year one.
- MIDEPLAN-MIPPE agreement signed and in force, in order to ensure setup of the SINIP at the DAM in year one, and operation of the project bank in year two.

2. Subprogram to modernize tax administration

- Proposal to integrate taxes managed by the DGI and law enacted by the Assembly, in year two.
- Information systems set up at the DCyN that will make consulate accounting control possible, in year two.
- Formal restructuring of the DGC in year one and proposal to restructure property taxes, in year two.
- Implementation of the Tax Accounting Unit and the Information Systems Directorate at the MHT, in year one.
- Draft customs regulations submitted in year one and in force in year two.

3. Subprogram to strengthen financial management

- Action plan to set up the Treasury at the MHT under way and preliminary bill for its establishment in year one, and Treasury Act adopted by the Assembly in year two.

F. Execution period and investment timetable

- 3.27 The program is expected to be executed over a period of four years from the date of entry into force of the loan contract. This period includes the time required to fulfill the conditions precedent to the first disbursement, the calls for bids, awarding of contracts, and execution and settlement of contracts.

INVESTMENT TIMETABLE (millions of U.S. dollars)										
CATEGORIES	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTAL	
	IDB	Gov't.	IDB	Gov't.	IDB	Gov't.	IDB	Gov't.	IDB	Gov't.
Admin. and superv.	0.28	0.30	0.20	0.39	0.10	0.35	0.10	0.28	0.68	1.42
Direct costs	2.32	0.65	3.29	0.96	2.5	0.65	0.90	0.37	8.92	2.63
Unallocated	0.20	0.0	0.10	0.04	0.2	0.00	0.10	0.0	0.60	0.0
Financial costs	0.20	0.25	0.30	0.15	0.40	0.10	0.10	0.25	1.0	0.75
<b>TOTAL</b>	<b>3.0</b>	<b>1.3</b>	<b>3.8</b>	<b>1.5</b>	<b>3.2</b>	<b>1.1</b>	<b>1.2</b>	<b>0.90</b>	<b>11.2</b>	<b>4.8</b>

G. Contracts for consulting services, works, and procurement of goods and services

- 3.28 Calls for bids for the procurement of goods and services and for consulting services contracts will conform to the Bank's

procedures, which will be included as annexes to the loan contract. The program does not involve issuing calls for construction bids with loan resources. The only works considered (office remodeling) will be financed with local counterpart resources. Computer equipment and software procurement will be conducted through international competitive bidding for three packages valued at approximately US\$1,665,000 and local competitive bidding for five packages to remodel offices and acquire support equipment for the PCU and provincial offices, for approximately US\$870,000. Six international open calls for offers for consulting services will be issued for approximately US\$1,877,000 and one local call for offers totaling US\$160,000 (Procurement of main items under the program, Annex III-2).

- 3.29 International competitive bidding will be conducted when loan resources are used and amounts in excess of US\$250,000 for equipment and US\$200,000 for consulting services are involved. Bidding for packages below those amounts will be conducted in accordance with Panamanian law, which provides that local competitive bidding is required for procurement of goods valued between US\$10,000 and US\$250,000; for amounts below US\$10,000, the minor contracts procedure may be used, based on a request for three quotes. For the contracting of consulting services involving amounts below US\$200,000, the Bank's procedures will be followed.

H. Maintenance of equipment

- 3.30 The MIPPE will require that equipment supply contracts include maintenance and installation clauses (minimum period of four years), according to generally accepted technical standards. The contracts will allow the Bank and the lead institutions to conduct inspection visits and if the operation and maintenance levels are deemed unacceptable, appropriate measures will be adopted to fully remedy the deficiencies. The borrower will undertake to cover the operating costs of equipment financed by the program.

I. External auditing

- 3.31 Every year, the MIPPE, as the executing agency, will submit program financial statements through the PCU, within 120 days after the end of the government's fiscal year (December 31), starting in the year in which program disbursements begin and ending in the year in which the final disbursement is made. **These statements will be audited by a public accounting firm acceptable to the Bank.**

J. Recognition and reimbursement of expenses

- 3.32 The government has asked the Bank to recognize a number of expenses covered with financial support from UNDP through a preparatory assistance operation and of others expected to be incurred through April 30, 1997, the date estimated for consideration of this

operation by the Bank. These expenses amount to US\$800,000. To this end, a reimbursement of US\$450,000 equivalent from the Bank loan was estimated for expenses incurred during the 12 months prior to the date of approval by the Bank. In addition, costs of up to US\$350,000, incurred during the 18 months prior to that date, will be recognized as local counterpart funding.

- 3.33 To support program preparation and startup, the Bank signed letter of agreement 930/OC-PN in the amount of US\$900,000, which will be repaid from the first disbursement of the loan. Up to US\$900,000 disbursed under agreement 930/OC-PN will be repaid with resources from this loan's first disbursement, against evidence that requirements substantially similar to those set forth in the loan contract have been fulfilled.

K. Environmental impact

- 3.34 The program was classified as a Category II operation by the CMA on August 1, 1995, because no direct or indirect environmental impact is expected. The activities described will benefit the regulation and implementation of project environmental assessment methodologies, in particular the public investment programming component. The CMA recommended that the application of environmental methodologies consistent with the soon to be implemented Environment Act be emphasized in all public investment projects to be included in the SINIP.

L. Program monitoring

- 3.35 Within two months of entry into force of the loan contract or such other period as may be agreed upon by the parties, the project team will travel to Panama on a technical mission to carry out activities related to startup of the administrative, technical, and financial aspects of the program, together with the Country Office and the MIPPE through the PCU.
- 3.36 As part of the monitoring effort, beginning in 1998, the MIPPE will meet with the Bank by April 30 during each year of program execution to review the program's progress and reach agreements on actions proposed for the following year. For this purpose, it is recommended that, at least 15 days prior to each meeting, the borrower, through the MIPPE, submit the necessary reports on the topics indicated in the program's reference point and contents matrices (technical files, Annexes II-2 and III-1).
- 3.37 If, based on the monitoring meetings or reports, the Bank finds that progress in program execution has been unsatisfactory, the borrower - through the executing agency - will be required to submit the corrective measures it intends to implement and the timetable for same, within 60 days of the date on which the Bank expressed its opinion. If such measures are unsatisfactory, the

Bank may take any such action as it deems appropriate, including suspension of disbursements for the respective component, based on provisions in the loan contract.

M. Program assessment and reports

- 3.38 The MIPPE will be in charge of assessing the program systematically and preparing the respective reports that will be reviewed at the monitoring meetings. The reports will be prepared by the executing agency and submitted to the Bank pursuant to the agreed upon work plan. The Country Office in Panama will be responsible for program management and will conduct periodic reviews. The MIPPE will submit the reports described below.

1. Initial report (work plan)

- 3.39 As a condition precedent to the first disbursement, the executing agency will submit a work plan, based on the contents and reference point matrices agreed upon with the Bank as set forth in the technical files (Annexes II-2 and III-1), with an execution timetable for each subprogram, component, and activity. This plan will include indicators, means of verification, and assumptions for each case.

2. Progress reports and monitoring meetings

- 3.40 Instead of semiannual progress reports, within 30 days following the end of each year and during the entire execution period, starting from the date the work plan is submitted, an annual progress report will be submitted. The report will include a brief description of what was accomplished vis-à-vis the work plan and an operating plan for the following year. The progress reports will include annexes containing lists of training activities and evaluations thereof together with procurements and consultants hired for the period.

3. Midterm evaluation

- 3.41 Within six months after completion of the second year of program execution, a midterm evaluation will be conducted by independent consultants and paid for out of the Bank loan proceeds. The progress, mission, and evaluation reports submitted during program execution will be drawn upon for this purpose.

#### IV. FEASIBILITY, BENEFITS, AND RISKS

- 4.1 Because various components of economic and fiscal management will be consolidated, the program is very complex. For this reason, its objectives and results were identified and agreed upon in advance, as a first stage of a broad plan to be carried out in the macrofiscal area. The goals set can feasibly be accomplished within the anticipated execution period. The proposed components are based on suitable diagnostic and technical studies, reflecting experience in previous operations financed by the Bank and other organizations that have carried out projects in the sector. Some of the components of this program involve activities that continue work and/or reforms begun with resources from other operations or donors, which to date have had positive results.
- A. Program feasibility
1. Institutional and technical feasibility
- 4.2 The program's components seek to resolve the main economic and fiscal management problems facing the public sector. The agreed upon subprograms are consistent with the general guidelines set out by the government to move forward with modernization of the State.
- 4.3 The establishment by presidential decree of an Interagency Coordination Committee (COIN) for the program, which will function as coordinating agency within the MIPPE, will ensure full interagency coordination and consistency in the actions executed by each institution. With the COIN it will be possible to structure the program as a single operation, reflecting the inseparable link between macroeconomic programming, investment programming, financial management, and tax administration in the context of management and control of public sector resources. In addition, the COIN will ensure that the information systems of each of the institutions are compatible and are efficiently organized, and it will optimize the use of resources for information systems and training activities.
- 4.4 By setting up technical groups in each institution, the supervision and execution of assigned activities will be guaranteed and greater integration within each institution will be possible. Moreover, the technical groups are the PCU's main source of support.
- 4.5 UNDP and CIAT support for the PCU will make it possible to ensure the necessary flexibility in contracting for the goods and services needed to carry out the proposed activities at lower costs and on schedule.

## 2. Financial feasibility

- 4.6 The program's financial feasibility was determined by measuring the country's capacity to provide the necessary local counterpart funding. This funding totals US\$4.8 million, of which the government has invested some US\$700,000 in advance. The government will therefore need to allocate an annual average of US\$1,025,000 during program execution. Since these funds will come from the national budget, no additional effort by the government will be required. Because the government has assigned high priority to the program and the annual counterpart figure required to support it is low, the funds are expected to be available as necessary.

### B. Program sustainability

- 4.7 This program represents a further stage in the modernization of the State efforts which Panama began in 1994. The program will supplement and consolidate actions and reforms initiated under other projects financed by the Bank and other international institutions. A number of elements will contribute to the sustainability of this program's benefits, once the execution period has been completed.
- 4.8 Over the short term, the institutional mechanisms designed for program execution seek to provide - through the operation of the COIN - institutional and political support and to make it possible to ensure full knowledge of the plans and programs of each institution and their consistency with the guidelines of this comprehensive operation. Secondly, by delegating responsibility for the coordination and supervision of each institution's activities to the technical groups, it will be possible to institutionalize changes and recommendations directly, thus providing direct support to the PCU. Thirdly, the program provides for information system and equipment activities at each institution, under which new data control and processing systems will be installed and applied.
- 4.9 Over the medium and long terms, the government's legal and regulatory framework will be adjusted to demarcate financial management responsibilities. The organizational structure of some of the MHT and MIPPE directorates will be reviewed and a wide-ranging training plan will be implemented to ensure continuity and make the institutions more efficient. The government is assuming the recurring costs of the recommended changes and reforms, which will ensure the continuity of the activities proposed in the components.

### C. Program benefits

- 4.10 This program's main benefit will be the progress achieved in securing greater operational integration of macrofiscal



programming, budget formulation and execution, and financial management in the public sector.

- 4.11 The subprogram to strengthen economic analysis will make it possible to draft regular reports on the status and outlook for important economic variables and to improve budget execution and the allocation and handling of public resources.
- 4.12 The component for public investment programming will support efficient allocation of the government's investment resources. Greater efficiency in resource allocation will stem from a fewer losses of resources at the ministries and executing agencies, thereby reducing the cost of operating the national investment system, and from improved quality in the projects undertaken, which could potentially engender sizable benefits. Moreover, the system will make it possible to improve decentralized administrative management of the investment budget and should produce better quality data for project monitoring; lower costs for obtaining project information; and better prospects for progress in investment projects.
- 4.13 Through the subprogram to modernize tax administration, the tax collection systems will be consolidated, efforts will be made to curb tax evasion and increase fiscal revenues, and the customs administration will be strengthened. For the private sector, the greatest benefits will be a reduction in unfair competition and improved taxpayer services, as a result of lower costs for procedures and less time spent performing them, in particular in the foreign trade area.
- 4.14 Under the subprogram to strengthen financial management, an institutional structure will be established for handling the resources of the National Treasury. The comprehensive management of public finances will be strengthened under a single command structure and with technical instruments that include revenue collection management and programming and disbursement of payments using the "integrated account" concept. The benefits that will accrue as a result of substantially streamlining the State's budget execution include a reduction in transaction costs and a significant decrease in the amount of time spent processing them.

D. Program risks

- 4.15 The main risk facing this operation would be the unwillingness to transfer disbursement functions from the CGR to the MHT. To offset this risk and guarantee that the transfer of functions will take place, an interministry agreement has been concluded that defines a strategy for incorporating the Treasury into the MHT. In addition, a contractual condition for the loan is that the MHT and CGR sign an action plan and reach agreement on the terms of the transfer. This plan is one of the conditions precedent to the first disbursement.

- 4.16 The other risk lies in the difficulty of reassigning functions and responsibilities of some of the agencies involved in fiscal and financial management. To counter this risk, the program will place special emphasis on reviewing the regulations, on the basis of a consensus between the MIPPE, the MHT, and the CGR, and will support the implementation of recommendations arising from that review. Furthermore, the program has been structured as a single operation in order to fully meet the requirements of the various agencies; an interagency coordination committee (COIN) will be set up to ensure that actions are consistent and to validate recommendations arising from the program.
- 4.17 Difficulties may be encountered in the assignment of clear responsibilities in areas like financial programming, the budget, the treasury, and tax accounting, and in the transfer of these responsibilities to other institutions, because the recipient institutions may not have the necessary trained human resources. To offset this risk, the program includes financing for an extensive training plan under each component.
- 4.18 The risk to the public investment programming component concerns the institutional inertia of current public investment programming practices. This risk will be controlled through: (i) institutional and progressive coverage of the project cycle, with an initial focus on the most important institutions having a multiplier effect; and (ii) strengthening of the supply of formal training opportunities (universities and training institutes).

# PROGRAM TO STRENGTHEN AND MODERNIZE ECONOMIC AND FISCAL MANAGEMENT (PN-0089) LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTION
Establish an integrated financial management system in Panama.	Consolidation of the basic budget, treasury, economic analysis, and investment programming subsystems.	Establishment of a MIPPE-MHT-CGR Coordination Committee to implement and assess the action plan to be followed.	Political will to coordinate activities among MIPPE, the MHT, and the CGR.
Modernize macroeconomic and fiscal management in Panama.	Integration of budget formulation and treasury management operations between the MIPPE and the MHT.	Production of annual operating plans (AOPs) coordinated between the MIPPE and the MHT, based on fiscal goals and preestablished spending limits.	Operational coordination between the MIPPE and the MHT. Presentation of the program to the National Economic Council (CEN).
<b>Component 1: Strengthening of economic analysis</b>			
Strengthen MIPPE's analytical and forecasting capacity.	Establishment at the MIPPE of an information system to support decision-making on macroeconomic and fiscal policy.  Implementation of the macroeconomic monitoring, external debt management, and public investment programming components.	The DAM set up at the MIPPE and in full operation.  SIGADE installed and operating at the DCP.  MIDEPLAN-MIPPE agreement.	Political will at the MIPPE to install an information system.  Institutional reorganization of the MIPPE.
Improve monitoring of general economic activity. Develop policy proposals for high-growth and debt management. Improve public investment and monitoring.	<ul style="list-style-type: none"> <li>Setup of macroeconomic database in the DAM. Production of two reports on current economic trends in year one.</li> <li>Automation of loan registration and control (public debt) and related transactions.</li> <li>20% increase in the level of financial execution of the central government's budget.</li> </ul>	<ul style="list-style-type: none"> <li>Final DAM report on database.</li> <li>Reports on economic trends prepared, disseminated, and discussed.</li> <li>Reports on debt submitted to CENA.</li> <li>List of public investment projects.</li> </ul>	Execution of subprogram according to agreed upon timetable.
<b>Component 2: Modernization of fiscal management</b>			
Improve management of the tax collection system with the MIPPE through a revision of the legal, and operational framework for efficient fiscal management.	Integration of tax collection subsystems.  Improved budget execution system.	Report on integrated tax collection system.  Semiannual MIPPE/MHT/CGR progress report on improvements in budget execution operations.	Political will at the MHT to implement the program and coordinate program activities with the MIPPE and the CGR.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>tax collection systems.</p> <p>collection.</p> <p>customs administration.</p> <p>revenues from real estate</p> <p>competitiveness to raise in ship registries.</p>	<ul style="list-style-type: none"> <li>- Tax unification law adopted in year two.</li> <li>- 15% increase in revenues from taxes on: income, consumers' tax, and economic transactions in fiscal year 1998.</li> <li>- Increased revenues from real estate transactions (10%) and ship registry (10%).</li> <li>- Increased competitiveness of importers/exporters. Nominal increase of 10% in import tariff collection and 10% in export taxes in fiscal year 1998.</li> <li>- 10% increase in annual financial execution of public spending in first three years of program implementation.</li> </ul>	<p>Regular reports from the MHT and the CGR.</p> <p>Regular reports from the MHT and the CGR.</p> <p>Regular reports from the MHT and the CGR.</p> <p>Regular reports from the MHT and the CGR.</p>	<p>Availability of suitable counterparts in the MHT to carry out the program.</p> <p>Training of a core of professional staff required reports on execution of the MHT's subprogram.</p>

### M 3: Strengthening of financial management

financial management.	Startup of first stage to update basic financial management instruments.	Program Coordinating Unit's progress report on successful implementation of proposed changes, recommendations, and possible additional changes required for integration with other systems.	Political will in the MHT, the CGR to coordinate the revision, enactment of laws and implementation of regulations.
<p>amend, and update and legal framework for financial</p> <p>financial execution of the with the creation of the y.</p>	<p>Enactment of legal instruments and drafting of implementing regulations for the basic organization of financial administration in the institutions involved (the MIPPE, the MHT, and the CGR).</p> <ul style="list-style-type: none"> <li>- Bill on internal audits in year one.</li> <li>- Formal reorganization of the DGC in year one.</li> </ul> <p>Reduction in the financial and administrative cost of cash management.</p> <ul style="list-style-type: none"> <li>- Treasury Act adopted in year one.</li> <li>- Institutional and information systems development of the Treasury in year two.</li> </ul>	<p>Summarized list of legislation enacted and/or amended under the program.</p> <p>Presentation of studies and recommendations to the Bank.</p> <p>Regular reports on physical and financial execution of the national budget.</p> <p>Regular reports on the number of days it takes to issue payments and the number of days between payment approval and issuing of check.</p>	<p>Availability of counterpart technical assistance for legal issues and implementation.</p> <p>Political will of Legislative Branch to pass Treasury Act.</p>

## PROCUREMENT OF MAIN ITEMS

PROCUREMENT OF MAIN ITEMS	Financing (%)		Method	Prequalification	Estimated publication (semester)
	IDB	LOCAL			
<b>Services</b>					
Organizational development-macroeconomic monitoring. Value US\$240,000 (approx. 24 consultant/months)	80	20	ICO	Yes	I
Technical assistance MIPPE for public investment programming. Value US\$30,000 (approx. 48 person/months)	90	10	ICO	Yes	I
Administrator training-public investment programming. Total value US\$240,000 (approx. 24 person/months)	80	20	ICO	Yes	I
Information systems development-consular control and ship registry. Total value US\$296,000 (approx. 52 professional/months)	70	30	ICO	Yes	I
Information systems development-property registry management. Value US\$11,000 (approx. 67 professional/months)	80	20	ICO	Yes	I
Customs procedures-customs administration. Value US\$160,000 (approx. 15 professional/months)	40	60	LCO	No	I
Technical support-setup of Treasury. Value US\$210,000 (approx. 21 professional/months)	60	40	ICO	No	I
<b>Equipment</b>					
Equipment for DAM-debt management. New information systems platform. Value US\$55,000.	—	100	LCB	No	I
Equipment DCP-debt management. Expansion of computer capacity. Value US\$10,000.	50	50	LCB	No	II
Equipment Phase I (supply and installation of software and hardware for US\$20,000)	100	—	LCB	No	I
Equipment Phase II (supply and installation of software and hardware for US\$60,000)	50	50	LCB	No	II
Supply and installation of equipment-consular control and ship registry. Value US\$90,000.	100	—	ICB	Yes	II
Supply and installation of software and hardware-Property registry management. Value US\$620,000.	100	—	ICB	Yes	II
Supply and installation of software and hardware-customs administration. Value US\$55,000.	100	—	ICB	Yes	I
<b>Remodeling</b>					
Local remodeling of the MIPPE and provincial offices (approx. 1250 m <sup>2</sup> for US\$75,000). To be done in stages.	—	100	LCB	Yes	II

Technical specifications are available in technical files.

International competitive bidding

LCB = Local competitive bidding

ICO = International open call for offers

LCO = Local call for offers

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PN-0089  
Original: Spanish

PROPOSED RESOLUTION

PANAMA. LOAN \_\_\_\_/OC-PN TO THE REPUBLICA DE PANAMA  
(Program to Strengthen and Modernize Economic and Fiscal Management)

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 República de Panamá for the purpose of granting a financing to cooperate in the execution of a program to strengthen and modernize the fiscal and economic administration. Such financing will be for the amount of up to US\$11,200,000, which are part of the resources of the Single Currency Facility of the Ordinary Capital, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.