



# Board of Executive Directors

## For information

PR-3221-2  
4 January 2008  
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**To:** The Board of Executive Directors  
**From:** The Secretary  
**Subject:** Panama. Proposal for a loan for a competitiveness and trade development program (Phase I). Approved version

**Basic Information:** Loan type ..... Loan for Multi-phase Program (PFM)  
Borrower ..... Republic of Panama  
Amount ..... up to US\$51,323,000  
Source ..... Single Currency Facility of the Ordinary Capital

**Inquiries to:** Mr. Martin Chrisney (extension 2491)

**Remarks:** Distributed herewith for your information, is the above-referenced document, which contains minor editorial modifications. This document was approved by the Board of Executive Directors at its meeting on 19 December 2007.

As reported to the Board of Executive Directors at its meeting on 10 August 2006, the Office of the Secretary is distributing simultaneously a document (PR-3221-1) containing the text of the electronic links of the above-referenced document.

The attached document exceeds the page limit established in document CS-3528-2 "New guidelines on documents for Board consideration", nevertheless, Management deemed necessary to authorize its distribution, due to its special nature.

**Supersedes:** PR-3221(11/07)

**References:** GN-1838-1(7/94), DR-398-5(5/03)

**Other distribution:** Representative in Panama

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **PANAMA**

### **COMPETITIVENESS AND TRADE DEVELOPMENT PROGRAM**

**(PN-L1014)**

### **LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

I.	FRAME OF REFERENCE .....	1
A.	Economic, social, and institutional backdrop .....	1
B.	Panama's sector strategy .....	3
C.	The Bank's strategy .....	3
D.	The Program strategy .....	4
E.	Important inputs for the Program's design: Lessons learned .....	5
II.	THE PROGRAM .....	5
A.	Objectives and description .....	5
B.	Cost and financing .....	17
III.	PROGRAM IMPLEMENTATION .....	18
A.	Borrower and executing agency .....	18
B.	Program implementation and administration .....	18
C.	Procurement .....	23
D.	Implementation period and disbursement timetable .....	24
E.	Revolving fund .....	24
F.	Monitoring and evaluation .....	24
IV.	VIABILITY AND RISKS .....	25
A.	Social and environmental viability .....	25
B.	Financial and institutional viability .....	26
C.	Benefits and beneficiaries .....	26
D.	Risks .....	27

## ANNEXES

Annex I	Logical framework
Annex II	Risks and mitigants
Annex III	Triggers for the Program's second phase

## APPENDICES

Proposed resolution

Electronic Links and References	
Basic socioeconomic data	<a href="http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata">http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata</a>
Status of loans in execution and loans approved	<a href="http://portal.iadb.org/approvals/pdfs/PNen.pdf">http://portal.iadb.org/approvals/pdfs/PNen.pdf</a>
Tentative lending program	<a href="http://opsgs1/ABSPRJ/tentativelending.ASP?S=PN&amp;L=EN">http://opsgs1/ABSPRJ/tentativelending.ASP?S=PN&amp;L=EN</a>
Information available in the ICF/CMF technical files	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1189567">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1189567</a>
Procurement plan	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1223154">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1223154</a>

## ABBREVIATIONS

AMPYME	Micro, Small, and Medium-sized Enterprise Authority
ANAM	National Environment Authority
AUPSA	Panamanian Food Safety Authority
AWPs	Annual work plans
BNP	Banco Nacional de Panamá
CD	Compact Disc
CESI	Committee on Environment and Social Impact
CMACC	Consejo Ministerial de la Agenda Complementaria y Competitividad [Ministerial Council for the Complementary Agenda and Competitiveness]
DGA	Customs Branch
FDI	Foreign direct investment
FINDEC	Financiación para el Desarrollo de la Competitividad y Productividad [Finance Facility for Competitiveness and Productivity Development]
FTA	Free trade agreement
FTZ	Free trade zone
IDB	Inter-American Development Bank
IFIs	Intermediary financial institutions
IP	Intellectual property
IT	Information technology
JPO	Japan Special Fund Poverty Reduction Program
LEP	Loan Enhancement Program
MEF	Ministry of Economy and Finance
MGJ	Ministry of the Interior and Justice
MICI	Ministry of Commerce and Industry
MIDA	Ministry of Agricultural Development
MIF	Multilateral Investment Fund
MINSA	Ministry of Health
MITRADEL	Ministry of Labor and Employment Development
NGOs	Nongovernmental organizations
OC	Ordinary Capital
PM	PANAMARKET
PMF	Program Management Firm
PRODEI	Indigenous Entrepreneurial Development Program
SENACYT	National Science, Technology, and Innovation Secretariat
SIG	Government Innovation Secretariat
SINAPI	National Intellectual Property System
SMEs	Small and medium-sized enterprises
WTO	World Trade Organization

## PROJECT SUMMARY

### PANAMA COMPETITIVENESS AND TRADE DEVELOPMENT PROGRAM (PN-L1014)

Financial Terms and Conditions <sup>1</sup>				
Borrower: Republic of Panama			Amortization period:	20 years
Executing agency: Ministry of Commerce and Industry (MICI), with support from MEF, MIDA, SIG, MINSA, ANAM, SENACYT, MITRADEL, and MGJ			Grace period:	4 years
			Disbursement period:	4 years
Source	Phase I	Phase II	Interest rate:	Variable
IDB (Ordinary Capital)	51,323,000	20,000,000	Inspection and supervision fee:	N/A
Local	37,136,000	50,000,000	Credit fee:	0.25%
IDB: JPO (LEP) Nonreimbursable	1,600,000	0.0	Currency:	U.S. dollars from the Single Currency Facility
Private sector	7,615,000	8,000,000		
Total	97,674,000	78,000,000		
Project at a glance				
<p><b>Project objective:</b></p> <p>The Program's goal is to contribute to the growth of Panama's business and industry base. The purpose is to strengthen the government's export development capacity by improving the quality and targeting of government trade management services and expanding private-sector-mediated financial and nonfinancial business development services.</p> <p><b>Special contractual conditions:</b></p> <p><i>Conditions precedent to the first disbursement of Program funds:</i></p> <ol style="list-style-type: none"> <li>Appointment of the Program coordinator in accordance with terms of reference approved beforehand by the Bank;</li> <li>Selection of a specialized firm (Program Management Firm) to support Program execution, in accordance with terms of reference approved beforehand by the Bank; and</li> <li>Approval and entry into force of the Program Operating Regulations on terms approved beforehand by the Bank (paragraph 3.4).</li> </ol> <p><i>Conditions precedent to the first Subprogram I disbursement:</i></p> <ol style="list-style-type: none"> <li>Evidence that the MICI has signed a cooperation agreement with the respective coexecuting agency for activities in each sector (paragraph 3.5); and</li> <li>The Ministry of Agricultural Development (MIDA) has set up its own Program coordination unit for the activities for which it has delivery responsibility (paragraph 3.8).</li> </ol> <p><i>Conditions precedent to first disbursement for activities in component III of Subprogram I:</i></p> <p>Fulfillment of the conditions precedent to disbursement of technical cooperation operation PN-T1032 (paragraph 3.14).</p> <p><i>Conditions precedent to the first disbursement for component I of Subprogram II:</i></p> <ol style="list-style-type: none"> <li>Evidence that the MICI and the selected ProCompetitividad fiduciary firm have executed the trust agreement (paragraph 3.10); and</li> <li>Evidence that the MICI has approved the ProCompetitividad operating manual.</li> </ol> <p><i>Conditions precedent to the first disbursement for component II of Subprogram II:</i></p> <ol style="list-style-type: none"> <li>Evidence that the MICI and the selected FINDEC fiduciary firm have executed the FINDEC trust agreement (paragraph 3.13); and</li> <li>Evidence that the MICI has approved the FINDEC operating manual.</li> </ol> <p><b>Retroactive recognition of expenses:</b></p> <p>The Bank may recognize up to the equivalent of US\$546,610 against the proceeds of the loan to reimburse for expenses incurred in activities to prepare the Program after 1 August 2006 and up to the date this operation is approved.</p>				

**Exceptions to Bank policies:**

A revolving fund of 10% of the loan proceeds will be created.

**Project consistent with country strategy:** Yes [ X ] No [ ]

**Project qualifies as:** SEQ [X] PTI [ ] Sector [ ] Geographic [ ] Headcount [ ]

**Verified by CESI on:** 12 October 2007

<sup>1</sup> The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.\*

\* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. FRAME OF REFERENCE

### A. Economic, social, and institutional backdrop

- 1.1 Panama's small, relatively open economy is heavily service-based. The predominant service-sector players are the Panama Canal, the offshore banking industry, and the Colón Free Trade Zone (FTZ), which together contribute 75% of GDP and of the nation's exports. Agriculture and manufacturing account for a small and shrinking share of national output (about 7% each). Real GDP growth between 2004 and 2006 averaged 7.5%, considerably ahead of the 4.3% average in the 1990-2003 span. But, despite this robust recent growth record, poverty and inequality are still persistent concerns. Though Panama's per capita income is on a par with the middle-income economies, 37 of every 100 Panamanians still are living in poverty. Poverty rates are much worse in rural areas—63% among the nonindigenous population and 98% in the autonomous indigenous territories, where living conditions are alarming.
- 1.2 Merchandise exports (excluding the FTZ) contribute just 6.6% of GDP, the bulk of these items being produced for the small domestic market. For an economy as advanced as Panama's, total goods exports are very modest (barely US\$1 billion in 2006), made up predominantly (80%) of commodities destined for the United States (50%) and Europe (23%). At present there are about 500 export firms in the country and an indefinite number of businesses that supply to export chains. There are multiple opportunities to boost exports in some specific segments, for example aquaculture, out-of-season fruits, tourism services, forest products, crafts, and information and communication technology services, including call centers and data centers. Moreover, the Panama Canal expansion plan approved in the October 2006 national referendum has created opportunities for local goods and services providers to link into Canal construction and related maritime activities.
- 1.3 **Trade liberalization and institutional reform.** In several trade treaties negotiated in recent years Panama has won favorable tariff structures for external market access.<sup>1</sup> Currently it is in advanced negotiations with four countries and has been invited to join negotiations toward a Central America-European Union free trade agreement (FTA). However, these signed and prospective trade accords afford no automatic guarantee of export increases or faster growth for Panama. The challenge for the country is to boost the production sector's competitiveness and create an institutional base within the public sector to facilitate export development and investment. Three quarters of the small and medium-sized Panamanian businesses interviewed in a recent industry survey said that they find export procedures cumbersome (2007 National Competitiveness Forum, Panama City, September 2007).

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<sup>1</sup> In 1997 Panama took its first trade-opening steps by joining the World Trade Organization and lowering its tariffs. Since then it has negotiated and approved free trade treaties with Taipei China, Singapore, Chile, and El Salvador, as well as partial-scope agreements with Colombia, the Dominican Republic, and Mexico. An agreement reached with the United States in December 2006 is slated for ratification and adoption in 2007.



- 1.4 **Nonfinancial and financial services issues.** There are some serious weak points in the nonfinancial supports currently available to Panamanian businesses. The government does operate a number of programs but there are structural problems in how some of them are run, their reach is minimal, the different agencies' services are not closely coordinated or integrated, and by and large businesses are not being made aware of how the services can help them. Consequently, the business sector has very little confidence in government-run services. Private-sector-backed government programs feature second-floor facilities such as Compite Panamá (1410/OC-PN) and the competitive funds for business innovation operated by the Science, Technology, and Innovation Secretariat (SENACYT). As Panama's economy opens up to global trade there is a need for a wide array of nonfinancial business development services.
- 1.5 On the financial services side, despite the financial depth and broad liquidity of Panama's banking system, producers and exporters have trouble getting credit: for many of them there are few if any sources of working capital, much less term investment and fixed-asset financing. Two banking systems coexist in Panama's financial sector: (i) offshore or international banking, which supplies a relatively small share of finance for local industry and exporters, and (ii) the domestic banking market, with its less sophisticated product offerings and scale fragmentation. For the most part, domestic banks are not interested in the emerging export market because this is a new segment that has yet to constitute a large enough critical mass, and local banks lack know-how and, especially, experience in appraising projects that start from scratch. Consequently, the bulk of the credit flow goes to finance lower-risk business like trade deals (short-term loans via the FTZ) and housing and personal loans.
- 1.6 In a 2006 survey, two thirds of Panamanian export firms classed as micro, small, or medium-sized enterprises cited difficulty in securing investment and production credit as a barrier to their growth (2006 National Competitiveness Forum, Panama City, July 2006). Moreover, Panama's nonbank financial intermediary system is one of the least developed in the region. For instance, only a handful of financial institutions specifically target goods-producing microenterprises. Since the demand for credit outstrips what microfinance institutions, with their very modest balance sheets, are able to supply, they can charge high interest rates on their loans. The unmet demand for credit in this sector (or the volume of credit being supplied via suboptimal vehicles—credit cards and consumer loans) comes to about US\$200 million annually.
- 1.7 **Indigenous peoples and business development.** Indigenous communities make up 10% of Panama's population. Just over half the indigenous population lives in five autonomous territories (*comarcas*) whose traditional political and administrative structures, autonomy, identity, and cultural and historic values are recognized as part of the national fabric. As Panama opens its economy to global trade these communities have the potential to unlock their sociocultural capital and natural resources base to raise their income and reduce poverty. Primary efforts are being

devoted to fostering the indigenous business community's direct international market engagement, by way of national indigenous organizations and cooperatives which are a platform for Panama's indigenous population to organize, secure more resources to build capacity in various areas, and market products. Meanwhile, Law 20 enacted in 2000 has created a legal framework protective of indigenous communities' traditional collective knowledge and cultural expressions. A number of craft products have been registered under the terms of that law and various initiatives have been launched to foster the use of intellectual property tools to protect aspects of indigenous traditional knowledge.

**B. Panama's sector strategy**

- 1.8 The Torrijos administration's strategy is pursuing a broad array of improvements in the nation's institutional apparatus and economic policies, in keeping with its free trade, economic growth, and poverty reduction commitments. In particular, the government is designing ambitious export development initiatives and facilities to better equip businesses to capture new trade opportunities. To deliver on their pledge to grow the economy by opening up trade, the authorities are implementing a Complementary Agenda for Competitiveness to assist the production sectors and act on the opportunities created.<sup>2</sup>
- 1.9 The Complementary Agenda calls for the design of supports to private enterprise, particularly the export industry and activities in the areas of: (i) modernization of the State; (ii) human capital formation; (iii) services for the production sector, and (iv) competitiveness. To coordinate the Agenda's implementation, in September 2006 the government created the Ministerial Council for the Complementary Agenda and Competitiveness (CMACC), with a secretariat appointed by the President of Panama to administer and oversee the Council's prescribed activities. The CMACC's mandate is to come up with a set of policies and programs to assist the production sectors (agriculture, industry, services, and SMEs) and forward them to the Executive for review.

**C. The Bank's strategy**

- 1.10 The aim of the Bank's 2005-2009 country strategy (document GN-2385-1) is to promote sustained economic growth anchored in the development of private business and industry, to create the employment opportunities needed to narrow Panama's vast equality gap. The strategy for achieving those goals is built around two objectives: (i) make the Panamanian economy more competitive and (ii) develop human and productive capital. The strategy's operational focus expressly includes bringing the rural sector, indigenous groups, and women into the production mainstream to help bridge the country's wide equality gap. The operation proposed here is consistent also with the Bank's new Operational Policy on Indigenous Peoples and Strategy for Indigenous Development, inasmuch as it

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<sup>2</sup> MICI. Complementary Agenda and Competitiveness Program, Information Brochure. Panama City: Government of Panama, March 2005.

takes a cross-cutting approach to mainstream “development with identity” in Bank operations.

**D. The Program strategy**

- 1.11 The Bank has supported Panama’s production sectors in the past by means of MIF projects focused on product quality enhancements (ATN/ME-9579-PN) and clean production (ATN/MH-7528-PN) to help businesses produce and market specific items, the decorative clothing accessories called *molas* being one example (ATN/ME-9581-PN). Currently the Bank is funding programs to build international trade negotiating capacity in the Ministry of Commerce and Industry (MICI) and help reengineer its institutional structure (1641/OC-PN), to improve environmental regulations (PN-L1013), and to increase private sector environmental compliance (PN-M1011). The Bank recently completed implementation of the Compite Panamá program (1410/OC-PN) which fostered export industry clusters. Highlights of the Bank’s direct lending to the Panamanian private sector are credit lines provided to Banco del Istmo (Banistmo) and to Banco Aliado under the Regional Trade Finance Facilitation Program. The MIF has negotiated a credit line for Banco Delta to help that institution expand its menu of services to the microenterprise sector.<sup>3</sup>
- 1.12 The strategy aim of the program proposed here is to help the Panamanian authorities strengthen government capacity by means of new instruments and institutional capacity building to pursue the Complementary Agenda. The strategy draws on learnings from other Bank interventions to help bolster industry bases by means of vehicles with a broad reach, large scale, and the potential to become more permanent private-sector supports. The Program’s defined target market are businesses engaged directly or indirectly in the export industry, be they individual enterprises or firms belonging to business clusters (horizontal linkages) or value chains (vertical linkages). The target market includes: (i) existing export firms; (ii) businesses that supply products or services to those firms, and (iii) enterprises with export potential. For reasons of scale, for purposes of providing business development services to this clientele it would not be enough to deal just with existing export firms or export chain participants, so other businesses will be assisted as well, but with lower subsidization of nonfinancial services.
- 1.13 Because of the scope of the government’s initiative and the complexity of the issues being addressed, the Program has been framed as a multiphase operation. Its design therefore affords greater margin for flexibility and incentives for delivery of a series of complex actions. The first phase calls for the creation of financial and nonfinancial services for exporters and a series of enhancements to government export development services. Once the phase-one outcomes are known and the disbursement objectives met, the range of products and services will be expanded in a second phase, with more funding for financial and nonfinancial services according to market demand and the services’ cost-effectiveness and economic

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<sup>3</sup> For related operations see <http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1140702>.

returns. There are provisions in the first phase for staged development of activities with indigenous communities.

**E. Important inputs for the Program's design: Lessons learned**

- 1.14 Learnings from other Bank-backed business and finance development and institutional reform projects were taken into account in designing the program proposed here, to achieve complementarities among the proposed activities.
- 1.15 **Second-floor shared-risk finance.** The object of business development loan programs is to make more credit available to more small businesses. International experience has shown that the best way to get loans and guarantees to that market segment is a second-floor arrangement in which intermediary financial institutions (IFIs) are the first-floor lenders. This ensures that end-borrowers (the beneficiaries) satisfy commercial bank lending requirements. It is crucial also that there be incentives for those private commercial banks to finance higher-risk export ventures, either sharing the finance risk or adopting new financial products to soften the risks.
- 1.16 **Tailored business services.** Nonfinancial services should be specialized and business-needs driven. However, focusing the proposed program on a single service or industry sector would limit the possibility of scale impacts, so it is important that it provide an assortment of products in various sectors to help generate scale impacts across the economy.
- 1.17 **Public sector guidance, private sector delivery.** It is essential that there be mechanisms in place to coordinate the work of different government agencies and private actors, to ensure efficient, effective interventions underpinned by a medium-range strategy vision. Each actor's role thus must be clearly defined. The prime focuses of government in this domain should be the delivery of public goods, setting of industry sector policies and targets for government agencies, and outcomes tracking. Private-sector providers, for their part, are better equipped to supply specialized services that demand flexibility and fast response times.
- 1.18 **Targeting.** Diagnostic assessments done with indigenous communities, through interviews with their producers, authorities, and residents, revealed a whole range of productive activities with strong growth potential. Account having been taken of lessons learned from previous endeavors that ended up being largely unsustainable and created minimal livelihood improvements, this Program's approach is to closely target technical and financial support to existing groups that have joined together, formally or informally, for a specific business purpose.

## **II. THE PROGRAM**

**A. Objectives and description**

- 2.1 The Program's goal is to contribute to the growth of Panama's business and industry base. Its purposes are to: (i) strengthen the government's export promotion capacity by improving the quality and targeting of government trade management

services, and (ii) expand the supply of private-sector-mediated financial and nonfinancial business development services. The Program also includes smaller businesses and business development support for indigenous entrepreneurs' participation in global value chains.

- 2.2 The Program is structured in two subprograms addressing two broad activity spheres: public governance, and business development services for the private sector, and includes specialized technical assistance to indigenous entrepreneurs or producers (with supports under operation PN-T1032). The Program would operate in two phases, each forming part of a long-range strategy mapped out in Panama's Complementary Agenda. At least 50% of each subprogram's funds must have been disbursed before design work can begin on its second phase, and there are specific phase-two triggers for each subprogram (see Annex III). The Program has clear, measurable, independently verifiable objectives for each activity, to be able to evaluate first-phase outcomes. The monitoring and evaluation system devised will ensure that data required for that work are duly collected during the first phase to inform the second-phase design. A firm to be hired at the start of the Program will be performing the monitoring and evaluation work. The administrators of the financial and nonfinancial services also will have systems to monitor and evaluate activities over the course of the Program.

- 2.3 **Subprogram I: Strengthening the competitiveness of public governance for international trade development (US\$23.6 million).** Weaknesses in government agencies and poorly targeted government services for the private business community (governance failures) are holding back export growth. The purpose of this subprogram is to help the Panamanian authorities build capacity for export management, international standards compliance, and investment promotion. It includes a number of business development activities with indigenous authorities in the autonomous indigenous territories.

**1. Component I: Public governance for international trade development (US\$13.7 million)**

- 2.4 **Rationale.** Panama is a party to a number of FTAs and has others on the horizon. The challenge facing the government to be able to deliver on the nation's commitments under these multiple pacts is to implement the agreements, craft new sectoral strategies and policies, and supply the public goods and services needed to derive maximum advantage from the agreements. The Ministry of Commerce and Industry (MICI) needs to bolster its capacity to negotiate and administer trade treaties as well as to promote trade and attract investment. The technical dimension of the institutional apparatus for trade negotiations is in need of further strengthening for the talks with Central America, to supplement supports already addressed in operation 1641/OC-PN. As for trade-related information, there is no single source of information on trade and investment procedures, customs requirements, and other export, import, and investment rules and formalities. The few foreign trade promotion services that do exist are fragmented among a number of agencies, making them less than effective in supplying exporters' needs. On the

export promotion side, for instance, there are no focal points in trading-partner markets. In the intellectual property (IP) protection sphere, interagency coordination problems are hampering Panama's fulfillment of trade treaty undertakings, and IP processes need to be modernized.

- 2.5 **Subcomponent 1: Building trade-agreement negotiating and administration capacity (US\$2.1 million)**
- 2.6 **Information technology (IT) tools to facilitate trade negotiating decisions.** This subcomponent will finance acquisition of the Trade Map<sup>4</sup> and Product Map<sup>5</sup> databases to better equip the Panamanian authorities to analyze, prepare, track, and conduct negotiations with the country's different trading partners. The database purchases include training and multi-user licenses for five years.
- 2.7 **Instilling negotiating and economic analysis capacity.** To build capacity for performance of the obligations Panama would undertake were it to decide to join in the Central American Customs Union process, a unit should be created and financing provided for technical advisory support, training, and equipment to enable it to advance in domains such as intraregional free trade. To address the dearth of readily accessible economic data and analyses this Program component also would fund the creation of an Economic Analysis Unit to produce the following as part of its core mandate: (i) economic analyses as inputs for trade policy makers; (ii) analyses of key markets for Panamanian exports and investment attraction; (iii) broad-level and industry-specific diagnostic assessments and economic impact studies, and (iv) economic analyses in cases of trade disputes, unfair trade practices, and safeguard measures.
- 2.8 **Strengthening of the National Intellectual Property System (SINAPI).** The Program will support the following activities to help modernize SINAPI institutions and update legislation and work processes: (i) identify the government's institutional and organizational constraints for intellectual property (IP) management; (ii) chart shared visions, configure organizational functions, and devise position profiles that match the institution's new requirements; (iii) design and launch a plan to reengineer SINAPI technical, administrative, and technological processes, and (iv) draft and propose legislation changes needed to strengthen protection and observance of IP rights in accordance with applicable international standards. This Program subcomponent also will include technical assistance for: (i) analyses of opportunities in such international forums as the World Intellectual Property Organization (WIPO) and World Trade Organization (WTO); (ii) identification and support to secure protection for Panamanian inventors, innovators, and authors, and (iii) design and launch of public information services

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<sup>4</sup> A market analysis tool that facilitates strategic research into a market, monitoring trade performance at the country and product level, revealing competitive and comparative advantages, and showing market or product diversification potential.

<sup>5</sup> An online tool offering international trade statistics and detailed data on market size, trade flows, regional trends, and competitive products and countries.

and systems, among others. To upgrade professional expertise in this domain the Program will fund training for specialized IP personnel regarding the changes that come with open trade and new legislation governing international trade undertakings. Technical training programs tailored to each SINAPI area also will be designed and delivered.

- 2.9 **Analysis of FTA-related environmental and labor issues.** Free trade agreements include a series of major labor-related and environmental commitments. These include specific undertakings to establish contact points and an environment secretariat,<sup>6</sup> create public participation entry points, foster voluntary environmental compliance mechanisms, and undertake other environmental and labor cooperation activities. This subcomponent will fund: (i) a diagnostic assessment to ascertain the kind of interventions needed to fulfill these labor-related and environmental commitments and (ii) development of comprehensive action plans, timetables, and detailed budgets for each intervention.
- 2.10 **Subcomponent 2: Technical capacity building for export promotion (US\$2.8 million)**
- 2.11 **Development of trade information, intelligence, and promotion services.** The following activities are slated for funding: (i) prospecting and prioritization of Panama's export offerings, consisting of a validation of high-export-potential Panamanian goods and services; (ii) organization and hosting of reverse trade missions, to bring prospective foreign buyers to Panama to learn about companies and their products and generate new deals; this will include: (a) technical assistance before, during, and after the mission, including assistance to select the international buyers and/or agents (in accordance with technical criteria prescribed in the Operating Regulations); (b) selection of participating Panamanian companies; (c) strategic communications and marketing assistance to organize the missions; (d) post-mission follow-up; and (e) preparation of an outcome evaluation report; (iii) expansion of online trade information services, including the following resources: (a) virtual library, a free online information service searchable by topic, product, and market; (b) market data, with links to specialized Web sites; (c) Trade Map and Product Map access; and (d) information on destination-market technical, quality, and environmental standards, which Panamanian businesses must comply with to sell to those markets; and (iv) development and implementation of a plan to cultivate an export culture, including: (a) export culture training for government employees; (b) development of instructional materials, including accounts of Panamanian export success stories; (c) design of secondary-school and university curriculum subjects relating to employment opportunities in the export industry; (d) training of entrepreneurial culture and export culture educators; (e) school-based activities; (f) television and radio programs or spots about foreign trade news and opportunities; and (iv) a diagnostic assessment and action plan on the accreditation capacity for activities and services related to the producing and export sectors.

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<sup>6</sup> "Secretariat" in the meaning given in Article 17.8, paragraph 1, of the FTA.

- 2.12 **Development of the International Business Facilitators initiative.** The Program will help develop a corps of technical advisors on export and investment development. To this end, business facilitators will be designated at Panama's embassies, based on agreements with the Ministry of Foreign Affairs, in its main trading partner countries, particularly those with which it has an FTA in place. These trade facilitators hired with the specific mandate of promoting Panamanian exports and attracting foreign investment to Panama would report directly to the MICI. Their performance would be measured on the basis of volume of deals they help generate; a success fee will be one component of their remuneration. The facilitators' specific functions are to: (i) conduct market surveys to identify such aspects as export potential, market size, prices, standards and regulations, consumer profiles, and market competition and trends; (ii) put Panamanian companies in contact with prospective importers or groups of interest; (iii) devise work agendas and help companies get ready to exhibit at trade fairs and shows; and (iv) perform other tasks and make other arrangements to facilitate the institution's and businesses' activities abroad (reservations, equipment rental, customs procedures, etc.) The plan at the outset is to post facilitators in the United States, Europe, Asia, and Latin America, which means that they will need to speak the language and understand the culture of the countries comprising the respective markets. The Program Operating Regulations will specify facilitator selection and compensation criteria.
- 2.13 **Subcomponent 3: Launch of investment-attraction plans in strategic markets (US\$3.5 million)**
- 2.14 **Validation of strategic sectors for foreign direct investment (FDI) promotion.** Activities funded in this component, to be coordinated by the MICI, will assist in the validation of strategic industry sectors in Panama for FDI attraction, including: (i) an analysis of Panamanian industry sectors to select those with the greatest potential; (ii) determination of the main requirements to leverage the sectors' comparative and competitive advantages, and recommendations on concrete promotional policies and measures to spur development of investment projects; and (iii) from the aforementioned inputs, selection of strategic sectors for FDI promotion.
- 2.15 **Industry branding design and dissemination.** The first facet of this activity is technical advisory support for: (i) a strategic analysis of the validated sectors in the target markets; (ii) framing and recommendation of a set of strategic international-promotion principles for all foreign promotional campaigns, even if their objectives are industry-specific; and (iii) branding design at the industry sector level, coordinated with the existing country brand and tailored to the target markets. The second facet of the subcomponent consists of: (i) hiring of experts knowledgeable about the target markets, to be able to plot a media strategy and choose the media that will most effectively communicate the country and industry branding messages, and (ii) conveying of those messages to audiences of strategic interest, using international media identified beforehand in the target markets (creative



- concept, design, and final artwork of promotional materials, negatives and photographs, CD burning, purchase of advertising space in specialized media).
- 2.16 **Strategic analysis for investment attraction.** The focus of this set of activities is dynamic updating in target markets of the content, message, and dissemination of country and sector branding. This includes: (i) sector-specific analyses and research in the target markets to identify new candidate sectors to bring FDI to Panama, and (ii) analysis of individual investors and firms (targeting) according to their expansion or relocation needs relating to their potential interest in setting up business in Panama.
- 2.17 **Participation in specialized trade fairs.** This set of activities would facilitate Panamanian businesses' participation in specialized trade fairs in the identified target markets. Among other requirements, the trade shows must be focused on the sectors most likely to attract FDI to Panama, based on the previously conducted strategic analysis. This activity will finance consulting services for: (i) selection of specialized trade fairs, in which both the public and private sectors will participate, in conformity with the above-mentioned strategic technical objectives; (ii) selection of Panamanian businesses to take part in these events; (iii) training in specific tasks for government and private-sector trade show participants; and (iv) preparation of a report assessing the trade fair results.
- 2.18 **Subcomponent 4: PANAMARKET—E-government services for international trade and investment (US\$5.3 million)**
- 2.19 **Design and development of an integrated foreign trade information, services, and statistics system: PANAMARKET (PM).** Under SIG coordination, the subcomponent will provide support for the design and development of an e-services platform for foreign trade and investment, to give participating economic agents a central contact point to obtain information, statistics, and services and to complete trade- and investment-related procedures online. Funding is budgeted for the following activities: (i) detail design of the proposed PM structure, contents, services, statistics offerings, and procedures that can be completed online; (ii) identification of the PM's operational, functional, and technology requirements; (iii) process reengineering, bureaucracy reduction, and legal adjustments within each participating agency and design of new interagency processes—two examples being the One-Stop Export Window and One-Stop Investment Window; (iv) procurement of software, hardware, and communications equipment to develop, operate, and maintain the PM; (v) development of PM applications and PM integration with systems in the ministries concerned; (vi) training in PM operation and use, distinguishing between government employees and clients; (vii) promoting PM use; (viii) setup of a customer service call center; and (ix) creation of a PM office, through the selection and hiring of three highly qualified people—a Project Manager, an expert in information system development and management, and a legal expert. This team will be responsible for planning, designing, and supervising PM development, maintenance and operation, under SIG coordination with the participating institutions (the MICI, the Agricultural

Development Ministry (MIDA), the Health Ministry (MINSA), the Ministry of Economy and Finance's Customs Branch (MEF/DGA), SIG, and others). The Program also will support measures to build the core technological capacity needed in each participating agency for the PM to operate well, including IT units in the MICI, MIDA, MINSA, the MEF/DGA, and others.

- 2.20 **Creation of e-government services needed for PANAMARKET.** The Program will help the authorities institute two core e-government services that are still not available in Panama and are critical for development of the PM and other Internet-based initiatives: (i) introduction of digital signature authentication and (ii) development and adoption of interoperability standards to facilitate interagency systems integration and electronic data exchange. The Program also will support expansion of e-payment methods and channels in Panama, which at the moment are available over the Internet for credit cards, with plans to expand into debit cards and electronic transfers.

## **2. Component II: Export development (US\$9.8 million)**

- 2.21 **Rationale.** Panama's agriculture sector agencies are in need of capacity strengthening to be able to deliver on trade-agreement commitments, upgrade their own service offerings, and energize the private sector. This institutional base needs bolstering particularly to do away with functional overlaps and instill an export-oriented approach, with careful attention to sanitary and phytosanitary compliance. To that end, coordination needs to be enhanced between MIDA, MINSA, and the recently created Panamanian Food Safety Authority (AUPSA)<sup>7</sup> and with other agencies. The nation's current research and innovation system is not well aligned to agriculture sector priorities. There are information failures in the sector in the areas of statistics and international market standards on traceability, inspection, and certification procedures. The institutional apparatus for human resources and sector policy development is weak as well, and there is no comprehensive policy in place to identify opportunities for the sector and the most effective strategies and interventions.
- 2.22 **Strengthening of official sanitary services.** These activities are intended to do away with functional overlaps, lower service costs, improve efficiency of veterinary and plant health and food safety checks and certification procedures, and create an integrated capacity to deal with temporary issues that affect Panamanian products' external market access. Funding will be provided for institutional support to reconfigure government sanitary services, specifically: (i) MIDA and MINSA process reengineering to make exporter services more efficient; (ii) upgrades and accreditation of sanitary laboratories and services and associated training; (iii) modernization of the National Agricultural Health System to meet international standards; (iv) a program to assess, control, and eradicate pests or diseases that are barriers to trade and cause significant harm to the economy; (v) design and

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<sup>7</sup> Executive Order 11 of 22 February 2006 created AUPSA, whose remit, pursuant to Article 6 of that decree, is the safety of food imports.

implementation of an agricultural health services pricing system, consistent with the costs incurred to provide the services; (vi) adapting Panamanian laws to international rules and standards; (vii) an agrifood waste, contaminant, and hygiene inspection and monitoring plan; (viii) a program to strengthen and ensure the quality of sanitary and food safety services; (ix) development of plans and support for international negotiations to gain acceptance of agricultural health and food safety advances; (x) an early warning, crisis management, and output recovery system and creation of an avenue for international communication on sanitary matters; (xi) a food safety assurance system; (xii) training for producers and government employees on new sanitary requirements; (xiii) updating of sanitary service manuals and development of electronic certifications; and (xiv) a pilot project for elimination of pesticide containers.

- 2.23 **Agricultural research and innovation.** The aim of these activities is to accelerate the pace of technology progress in this sector by means of investments in: (i) a study about the State's role in agricultural research in Panama and linkages between that research and the nation's science and technology system; (ii) a nationwide inventory of laboratory infrastructure and capabilities to address the recommendations that come out of the study described in (i) above; (iii) creation of producer-headed local research centers to act on those recommendations; (iv) establishment of field schools for small producers; (v) manuals on good agricultural practices; (vi) support for private-sector trials to adapt varieties; (vii) development of innovative products suitable for Panama and having promising international markets; and (viii) review of regulatory framework on the importation and marketing of genetic material.
- 2.24 **Agricultural and forestry information system.** The Program will help develop a modern system for reliable data capture and statistical information processing to facilitate traceability, data georeferencing, and zoning of the sectors. It will fund: (i) a central roster of agricultural establishments and traceability system; (ii) local soil analysis for zoning, (iii) implementation of the Agriculture and Forestry Sector Statistical Information System (SIESAP), including the National Agricultural Survey (ENA); and (iv) expansion of the meteorological network at the local level.
- 2.25 **Human resources and sector policy development in strategic areas.** Based on the studies conducted in MIDA, the following priority activities to be financed by the Program were identified: (i) refurbishing and equipping of the National Agricultural Institute and description of its new role in sector development; (ii) training for producers in new product lines and processes; (iii) training for MIDA staff in new functions and responsibilities; (iv) operation of a coordination unit within MIDA to oversee and coordinate the proposed activities; and (v) updating of agricultural policies. The sector policy areas to be examined and reformulated include: (a) agricultural innovation; (b) technical assistance related to agriculture; (c) MIDA human resources policy; (d) irrigation and water resources management, in coordination with the National Environment Authority (ANAM); (e) a new policy to improve the creditworthiness of producers; and (f) policy on the

sector's fiscal and regulatory framework. Lastly, support will be provided for the development of other sector policies (agriculture, industry, and services) and strategic plans by product line in order to identify and remove barriers to production and marketing.

**3. Component III: Enhancing the indigenous business environment (Indigenous Entrepreneurial Development Program—PRODEI) (US\$200.000 local counterpart)**

- 2.26 **Rationale.** A marginal population group with market entry potential, Panama's indigenous communities have no organizational structures for developing their business activities while preserving their cultural identity in an environmentally and socially sustainable manner. Traditional indigenous leaders understand the importance of nurturing productive ventures and capitalizing on their market-economy access to resolve some very pressing social issues in their communities. However, they consider it crucial that these processes not debase their communities' cultural identity, natural resources, or autonomous structures, hence the need for a dialogue and analysis led by the traditional authorities to identify: (i) clear rules for business activity in the indigenous territories, especially regarding financial governance of businesses, relations between enterprises and between enterprises and the traditional authorities, and nonindigenous investment, and (ii) bridges and alternative avenues to locate nonindigenous business partners, investors, and finance without compromising the territories' collective structures and autonomy.
- 2.27 **PRODEI.** The studies and planned activities to improve governance in traditional territories for indigenous entrepreneurial development will be financed by counterpart resources of the Japan Fund technical cooperation program (Indigenous Entrepreneurial Development Program—PRODEI, PN-T1032). This component will finance: (i) a diagnostic assessment of legislation and the institutional base for business development in the traditional territories; (ii) development, in concert with the traditional authorities, of guidelines for harmonizing business development and operations with traditional indigenous laws and institutions; (iii) development and implementation of a plan to explain and market PRODEI to the indigenous communities; (iv) development and delivery of workshops to introduce the beneficiaries to business development, market intelligence, and financial governance issues; (v) training and nationwide activities to strengthen use of intellectual property protection tools; and (vi) development and implementation of a plan to bring information and communication technologies to the benefiting enterprises and clusters. Financing will be provided for a PRODEI project executive to supervise PRODEI generally and to make arrangements for specific studies to be conducted on the indigenous business environment, among other activities. For this component and for the PRODEI operation generally technical cooperation operation PN-T1032 will finance: (i) a local liaison person for each traditional territory and a business facilitator for each participating

enterprise/cluster; (ii) the information and social marketing plan coordinator; and (iii) the launch workshops and reporting to the indigenous authorities.

- 2.28 **Subprogram II: Export development services (US\$22 million).** The aim of this subprogram is to improve delivery mechanisms for private-sector-mediated nonfinancial and financial services to exporters and potential exporters.

**4. Component I: ProCompetitividad: Nonfinancial services (US\$11.6 million)**

- 2.29 **Rationale.** Panamanian enterprises need business development and financial services to be able to gain a foothold in the global marketplace. At present they can tap only a handful of specialized services to help them develop business plans and marketing strategies, bring in modern technology, and obtain expert technical advice on business management, quality, production, and marketing matters. Consequently, there is a need for better services for the private sector, a comprehensive system to assist and track business service clients, and institutions that have the backing of business and government.
- 2.30 Indigenous communities have even less access to specialized nonfinancial services. They are far from markets, have scant technical capacity and market knowledge, and lack resources and networks of their own to develop and market their products. There is no mechanism in place to nurture indigenous entrepreneurship such as would enable this community to overcome these barriers to growth and thereby build a production platform, expand into new markets, and boost earnings.
- 2.31 **ProCompetitividad.** The object of this component is to increase Panamanian enterprises' production capacity and make them more competitive by making nonfinancial services available to businesses of all sizes in all industry sectors.
- 2.32 The ProCompetitividad facility will provide matching grants to defray a portion of the cost of its services. The largest matching-grant shares will go to export enterprises and suppliers to export chains (70%) and indigenous-owned enterprises (autonomous communities and Naso people) (80%), with a smaller grant share for other businesses (50%). According to interview respondents, all these services are of interest to the business community, which sees them as a necessary ingredient to develop a competitive strategy. Though some of the proposed supports have a track record in Panama, most are new to the Panamanian market. According to a general estimate of likely demand for nonfinancial services, 20,465 businesses might want to tap these supports. Estimates for purposes of the Program put the demand for the individual instruments at around 11,800.
- 2.33 The proposed activities will pursue the following objectives: (i) develop business strategies to identify new products, markets, and production upgrades; (ii) give businesses technical assistance to assess and prepare bankable projects, adopt new technologies, and develop international markets; (iii) institute product quality and quality management systems in businesses to bring them up to international standards (new product development and testing, product redesign, adoption and

certification of quality management, metrology, and production calibration systems); (iv) develop and strengthen business partnerships and clusters to collectively pursue business opportunities and thereby become more competitive; (v) incorporate new technologies and products into enterprises' production processes through innovation and technology transfer; and (vi) provide technical assistance to indigenous community enterprises/clusters through a ProCompetitividad "one-stop indigenous window" to give those businesses subsidized access to Subprogram II supports and fund 100% of priority basic investments that are not ProCompetitividad-eligible, such as small-scale infrastructure.<sup>8</sup>

- 2.34 This component will fund: (i) hiring of the ProCompetitividad fiduciary firm; (ii) a portion of the business services included in the projects; (iii) development of sector and product strategies to guide the Program interventions; (iv) dissemination of activities and training to spur demand for technical services and service-provider development; (v) development of a comprehensive system to assist and track business service clients, and (vi) forums and publications to disseminate the services.

**5. Component II: Financiación para el Desarrollo de la Competitividad y Productividad [Finance Facility for Competitiveness and Productivity Development] (FINDEC) – Financial services (US\$10.4 million)**

- 2.35 **Rationale.** If Panamanian exporters have few finance avenues open to them it is more because of the risk perception and associated costs than because of actual finance availability. When it comes to innovative product manufacturing and exporting, businesses with no credit record, not enough collateral, insufficient critical mass (scale), and perhaps informal status are unlikely to have a loan application approved. This makes for a disconnect between credit supply and demand, and such finance as is available is very expensive and at very short term. Consequently, enterprises that have foreign market outlets for their products and/or firms that supply those businesses do not have the money to expand and upgrade their operations, and agroexporters cannot get short-term credit because they have too few (if any) assets to put up as security.
- 2.36 Public programs aimed at financing the producing sectors have had a limited impact since they have failed to effectively engage the private commercial banking community and thus promote public funds earmarked for the producing sectors. Panama's agricultural development bank (Banco de Desarrollo Agropecuario—BDA) supplies a mere 4% of that sector's credit demand, and has structural problems and high delinquency and loss rates. The current guarantee schemes such as facilities operated by the Micro, Small, and Medium-sized Enterprise Authority (AMPYME) and the National Agricultural Insurance Institute (ISA) do not satisfy

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<sup>8</sup> According to Japan Fund requirements, up to 30% of the technical-cooperation funding—in this case, US\$480,000—can be used for priority basic investments in equipment and materials. (See paragraph 3.7 of the Japan Special Fund for Poverty Reduction operational guidelines, September 2004.)

all the needs. AMPYME guarantees, for instance, are cumbersome because of Banking Superintendency rules and regulations. Nor does Panama have a specific refinancing system for the handful of finance institutions that do target microenterprises or SMEs not served by the banking system. At the moment those finance providers that work with a microenterprise and SME clientele rely on NGOs, multilateral agencies, and other donors for funding, and there are not enough of those resources to supply the existing demand.

- 2.37 **FINDEC.** The aim of this Program component is to better equip Panamanian businesses to compete, giving them readier access to financing through intermediary financial institutions (IFIs). The activities are designed to address two problems, bringing specific products to bear in each case: a guarantee product to address the IFI risk aversion problem, and credit lines to help remedy the shortage of medium- and long-term financing, which is keeping one segment of the business universe from expanding production and enhancing its competitive position.
- 2.38 **Creation and administration of a trust for guarantees and credit lines.** To make more credit available to more Panamanian businesses a trust will be set up with the Ministry of Commerce and Industry (MICI) as trustor. This vehicle will give IFIs access to several finance products, each with separate records and accounting systems. The product menu will include: (i) a guarantee facility to help businesses obtain financing from banks and other financial institutions and (ii) as a pilot vehicle, two credit lines for (a) medium- and long-term financing for eligible projects; and (b) microenterprise and small business finance.
- 2.39 **Operation of the trust arrangement.**<sup>9</sup> The Bank will lend the proposed funds to the Republic of Panama which, by intermediary of the MICI, will set up the trust (FINDEC). Operating as a second-floor bank, FINDEC will onlend the funds to IFIs which will onlend them to eligible enterprises. The intermediating IFIs must have a BB- or higher rating from a rating service registered with Panama's Banking Superintendency. The microfinance institutions, for their part, must have the minimum capital base prescribed in the FINDEC operating manual. The loan proceeds will be transferred to FINDEC as it provides guarantees or disburses funds to the IFIs. For the guarantee product, the plan is to advance funds via a revolving fund, to give the facility liquidity.
- 2.40 The **guarantee facility** will be the trust's anchor product, with an allocation of US\$10 million (US\$6 million from the government, US\$4 million from the Bank). The loans made by IFIs will carry FINDEC guarantees of up to 80% of the loan amount. An annual fee will be charged for the guarantees issued, calculated on the secured outstanding principal. Guarantees provided to any one enterprise may not exceed 2.5% of the total guarantee facility. At the outset the guarantee fee would be 3% and the maximum term of the loans secured would be eight years. In time, different fee rates could be set for individual IFIs depending on their loan-loss

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<sup>9</sup> See FINDEC Operating Manual for more details on the financial products. <http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1140925>.

record. The project team estimates a four-year financial breakeven period for this activity, with near two-to-one leveraging of the funds.

- 2.41 For the **credit lines**, FINDEC (second floor) will onlend the funds to the IFIs (first floor). The interest rates FINDEC charges to the IFIs must not distort the financial market, must use pricing benchmarks, and must be positive in real terms and variable over time (see paragraph 3.13). The IFIs will negotiate lending rates for their loans with each applicant. The banks will be fully liable to FINDEC for repayment of the loans they receive, whether or not the end-borrowers honor their repayment obligations. The per-enterprise borrowing cap under the investment finance line will be US\$500,000. Repayment terms must be at least three years but no longer than eight years, including grace periods of up to 36 months for repayment of principal. Up to 30% of a loan may be for working capital finance for project startups. For the microenterprise and small business credit line FINDEC will transfer funds to the microfinance institutions according to the estimated demand and the IFI's ability to onlend the funds within an agreed timeframe. In no event may this line exceed US\$1 million. The IFIs must demonstrate twice yearly to FINDEC that the credit line end-borrowers meet the eligibility criteria.
- 2.42 The Program will finance: (i) the process of contracting the fiduciary firm; (ii) the trust administration costs; (iii) design and implementation of risk management systems that satisfy bank supervision rules and standards; (iv) new financial product development and updates of current offerings; (v) activities to inform the first-floor IFIs about the finance products and promote them; (vi) quarterly financial reports and audits; and (vii) periodic evaluations of use of the products, to measure demand and update them in light of market conditions.

## **B. Cost and financing**

- 2.43 The estimated total cost of the Program's first phase is US\$97.6 million, US\$51.3 million of it to be funded by the Bank with an Ordinary Capital loan and US\$1.6 million by the Japan Fund (Poverty Reduction Program) which will finance and co-fund the planned indigenous business development activities in the two subprograms. The local counterpart would be US\$37.1 million; the private sector would provide up to US\$7.6 million in matching funds. The Bank may recognize up to the equivalent of US\$546,610 against the proceeds of the loan to reimburse for expenses incurred in activities to prepare the Program after 1 August 2006 and up to the date this operation is approved.



**Table II-1. Program cost and financing, first phase (US\$000)**

Cost item	IDB	Govt. of Panama	JPO	Private sector	Total
<b>Subprogram I. Strengthening public governance</b> for international trade development	23,571	9,836	0	0	33,407
1. Public governance for trade development	13,701	4,644	0	0	18,345
2. Export development	9,870	4,982	0	0	14,852
3. Enhancing the indigenous business environment	0	201	0	0	201
<b>Subprogram II. Business development services</b>	22,035	24,198	1,216	7,615	55,064
1. ProCompetitividad	11,635	7,070	1,216	7,615	27,536
2. FINDEC	10,400	17,128	0	0	27,528
<b>Associated costs</b>	5,717	3,102	384	0	9,203
<b>Program administration*</b>	4,717	1,191	384	0	2,292
<b>Financial costs</b>	0	911	0	0	911
<b>Unallocated</b>	1,000	1,000	0	0	2,000
<b>Total</b>	<b>51,323</b>	<b>37,136</b>	<b>1,600</b>	<b>7,615</b>	<b>97,674</b>

\* Program Management Firm operating costs and evaluation and audit costs.

### III. PROGRAM IMPLEMENTATION

#### A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Panama. The executing agency will be the Ministry of Commerce and Industry (MICI), with support from the Ministry of Economy and Finance, Ministry of Agricultural Development, and the Government Innovation Secretariat. For Subprogram II the MICI will sign trust agreements with the firms selected to manage the ProCompetitividad and FINDEC trusts. The Bank has done institutional capacity assessments of the main executing agencies and has built measures to bolster their implementing capacity into the Program's design (see technical files).

#### B. Program implementation and administration

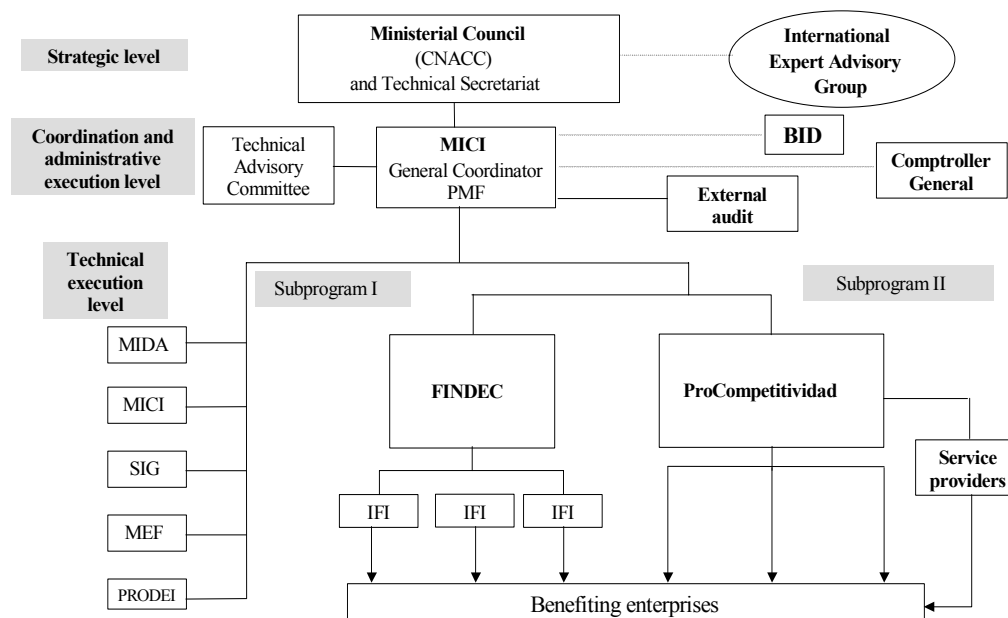
- 3.2 **General structure.** The Program has a three-level organizational structure. At the **policy and strategic level** the Ministerial Council for the Complementary Agenda and Competitiveness (CMACC) will set policies and strategies, with support from an Expert Advisory Group at annual meetings to review the Program's status and discuss competitiveness and trade development issues. For the **coordination and administrative execution level** a MICI-appointed General Coordinator for the Program will be backed by a small team. His or her responsibilities will include supervising Program activities, reporting on progress to the CMACC, implementing directives, ensuring interfaces between the agencies involved. For administrative and financial execution the MICI, through the Office of the Deputy Minister for Foreign Trade, will be supported by the Program Management Firm (PMF) and will

- receive support from the coexecuting agencies. A Technical Advisory Committee made up of the liaisons of the participating government executing agencies will be appointed for coordination among the agencies. On **the technical execution level**, the coexecuting agencies, including the MICI, will have technical delivery responsibility for the activities that fall to each, with PMF administrative and financial support. The PMF will provide support for the drafting of documents and terms of reference and for other specific activities.
- 3.3 **Program coordination.** The PMF will be staffed by an executive director and a project executive in each of the five Program areas. Assisting those officers will be a project procurement and delivery specialist, a technical assistant who will coordinate with the coexecuting agencies to draw up contracts, budgets, and plans, and a public accountant in charge of accounting and financial administration. As part of the contract, an incentive payment is proposed for achieving the performance targets agreed upon with the MICI.
- 3.4 The PMF, in coordination with the Program Coordinator, will have the following functions, among others: (i) devise work plans; (ii) be responsible for the Program's administration; (iii) prepare disbursement requests for the General Coordinator to submit to the Bank; (iv) ensure that the terms of reference for requests for proposals and contract awards are drafted, with technical collaboration from the coexecuting agencies; (v) monitor implementation progress and propose implementation enhancements and new tools; (vi) conduct continuous evaluations and hold work meetings with the General Coordinator; (vii) periodically monitor delivery of component outputs and compliance with timelines, in accordance with the logical framework, execution timetable, and other tools for evaluating verifiable commitments related to Program outcomes; (viii) set up and maintain appropriate contract administration, accounting and financial administration, and internal control systems to manage the funds; (ix) retain original supporting documents for eligible expenditures; and (x) produce reports for submittal to the Bank. Prior to the end of the first year of implementation, the Program General Coordinator will hire a specialized firm to monitor and evaluate Program activities. **As a condition precedent to the first disbursement of Program funds: (i) the MICI must have appointed the Program Coordinator in accordance with terms of reference approved beforehand by the Bank; (ii) the MICI must have hired a specialized firm to support Program implementation (PMF), in accordance with terms of reference approved beforehand by the Bank; and (iii) the Program's Operating Regulations must have been approved and entered into force under the terms approved beforehand by the Bank.**
- 3.5 **Subprogram I implementation (public sector).** Each coexecuting agency will be tasked with coordinating the technical aspects of implementing its assigned activities with its PMF counterpart. To that end, a technical liaison officer will be designated in each agency to facilitate coordination with the Program's administration. Most of the in-office costs of these officers and the requisite equipment will be funded out of the local counterpart. In the case of the Agriculture

Ministry and the Government Innovation Secretariat, the Program will fund personnel costs. The liaison officers will be members of a Technical Advisory Committee to the Program General Coordinator. **As a condition precedent to the first disbursement of Program funds for activities entrusted to each coexecuting agency, a cooperation agreement must have been signed with each agency spelling out each party's responsibilities, including designation of a technical liaison officer, and committing each party to perform the activities specified in its AWP for year 1.** The AWP for subsequent years must have that same backing.

- 3.6 **Ministry of Commerce and Industry (MICI).** As chair of the Ministerial Council for the Complementary Agenda and Competitiveness the MICI will play a lead role in implementation, operating as trustor, appointing the Program coordinator, coordinating work with the coexecuting agencies, and delivering the activities that fall to the MICI itself. Certain activities, for example the international business facilitators initiative, will require special coordination efforts. The structuring of that initiative is intended to overcome constraints that may arise from use of the Foreign Ministry's formal structure might entail, through such measures as: (i) selecting these promotional agents strictly on the basis of technical criteria; (ii) adequately aligning incentives, tying a component of the facilitators' compensation to concrete results, and (iii) effectively concentrating the business promotion effort in target markets in countries with which Panama has a free trade agreement, thereby enhancing the likelihood of success.

Figure III-1. Program organization chart



- 3.7 **Government Innovation Secretariat (SIG).** For the PANAMARKET (PM) activities a PM office will be set up and three highly qualified people will be selected and hired for it: a project manager, an IT systems development and management expert, and a legal expert. This team will be tasked with planning, designing, and supervising PM development, maintenance, and operation, coordinating with the participating agencies (Commerce and Industry, Agriculture, and Health ministries, Panamanian Customs Administration, and others). It will report to the SIG, whose Program-funded project coordinator will have a general mandate to: (i) marshal and coordinate the activities of the participating agencies; (ii) ensure that each agency's work satisfies the project requirements in due time and form, and (iii) with assistance from the PM project manager, report periodically to the PMF on the project's status, alerting the PMF to possible impacts and risks that might obstruct or hold up its activities.
- 3.8 **Ministry of Agricultural Development (MIDA).** Many of the Subprogram I export development activities involve MIDA units and units in other agencies. For instance, Panama's Food Safety Authority, Health Ministry, MIDA, and others will be working on improvements to the agricultural health and food safety coordination apparatus, and the SIG will be involved in the development of georeferenced information systems. Consequently, there needs to be a coordination unit within MIDA, attached to the Minister's office and adequately staffed to coordinate these activities, bolster the Ministry's technical and planning capabilities, and be responsible for Program delivery. **As a condition precedent to the disbursement of funds for MIDA's activities, MIDA will set up the aforementioned coordination unit, including experts in the main disciplines.** The annual work plan for this subcomponent maps out a strategy for priority ranking of activities in the first years of the Program and calls for the use of consulting firms to ensure continuity of the work and prompt delivery and to keep administrative costs low.
- 3.9 **Subprogram II implementation: Nonfinancial services.** The MICI will engage a private fiduciary company, selected using international competitive bidding, to deliver the Subprogram II, component I activities. The trustee firm must have an executive director, a project manager, three project executives, an administration and finance specialist, and a team of professionals for operations and administrative support. One component of their compensation will be a commission for sums disbursed on subcomponent activities.
- 3.10 The MICI, with PMF assistance, will be responsible for producing and revising the ProCompetitividad operating manual, overseeing operation of ProCompetitividad services and adjusting its product menu, and commissioning audits and evaluations. Among its funds-management responsibilities the fiduciary firm will perform its functions following instructions contained in the trust agreement, have an information system in place as a tool for managing the ProCompetitividad funds via the trust arrangement, provide all the information the MICI requests, and maintain a roster of registered suppliers of services to the target businesses. ProCompetitividad may receive funds from other government agencies or private organizations under

service contracts. These monies will be channeled through another trust created by the MICI to ensure transparency in their use and consistency with the Program objectives. **As a condition precedent to the first disbursement for the Subprogram II, component I activities, the MICI must have signed the trust agreement with the selected fiduciary firm to create ProCompetitividad, and must have approved the ProCompetitividad operating manual, in accordance with terms of reference approved beforehand by the Bank.**

- 3.11 **Subprogram II implementation: Financial services.** The FINDEC trustee will be a private firm engaged through international competitive bidding, taking care to avoid any conflict of interest vis-à-vis the participating IFIs. At a minimum the fiduciary firm will appoint an executive director, an operations manager, an administration and finance manager, and administrative support personnel. The firm will be in charge of administration and disposition of the trust as directed by the trustor. One component of its compensation will be a commission based on monies lent.
- 3.12 The MICI will supervise and coordinate the trustee's work and may evaluate the outcomes of services of the promoted programs or products and propose changes and refinements as needed and FINDEC operating manual revisions after securing the Bank's no objection. The Technical Advisory Committee will resolve all matters that, being necessary for normal operation of the trust arrangement, are not expressly covered in the trust agreement or operating manual, and will provide its opinion on exceptions to the stipulations in those instruments. A financial sector representative will join the Technical Advisory Committee for such deliberations.
- 3.13 FINDEC's financial resources will be deposited in separate accounts for each product in Banco Nacional de Panamá. The Bank in turn will deposit the loan proceeds in these accounts through a revolving mechanism. At the start of the Program, the loan proceeds will be used to provide guarantees. The government will deposit the initial portion of the credit lines based on the estimated demand, and the loan proceeds will be provided when effective demand materializes. The fiduciary firm will decide whether to approve or deny loan or guarantee applications; an operation can be approved only if it satisfies the credit conditions prescribed in the FINDEC operating manual. The onlending rates charged to IFIs will be LIBOR based with a spread to cover operating costs, risk, and a minimum return sufficient to make FINDEC financially sustainable. The initial 3% guarantee premium will be adjusted over time to reflect IFI portfolio losses. **As conditions precedent to the first disbursement for the Subprogram II, component II activities, the MICI must have executed a trust agreement with the selected fiduciary firm to create FINDEC and must have approved the FINDEC operating manual, in accordance with terms of reference approved beforehand by the Bank.**
- 3.14 **Indigenous entrepreneurial development (PRODEI).** The activities envisaged in the technical cooperation operation will be closely meshed with the program proposed here so the target population can derive maximum benefit from the funding. This interface is crucial to be able to leverage soft funds and manage those

resources smoothly and effectively. The planned integration encompasses not just Program delivery structures but service delivery modalities as well, to empower indigenous communities in domains in which they traditionally have been unable to participate, as a form of implicit exclusion. **With a view to this integration, fulfillment of conditions precedent to disbursement of PN-T1032 will be a precondition for disbursement of the Program's component III funds.**

- 3.15 To mesh the two programs' activities the government will engage and pay a PRODEI project executive assigned to the PMF. Local liaison officers will be hired to work with each traditional indigenous territory to coordinate activities with the traditional authorities, along with a business facilitator for each benefiting business group. The PRODEI funds will be distributed and administered in two accounts. The first will be set up with enough funds to cover general PRODEI administration costs and implement the Component III activities of Subprogram I, including the communications plan and design and implementation of a reporting system to the traditional authorities. The second account will be opened to transfer revolving-fund monies for ProCompetitividad to finance Subprogram II activities, with an accounting system separate from its other funds. The executive of the window will form part of ProCompetitividad and be appointed by it after the no objection of the Bank is secured. To ensure an expeditious and effective launch the authorities will hire the executive of the PRODEI project within two months after IDB approval of technical cooperation operation PN-T1032.

### **C. Procurement**

- 3.16 Goods and consulting services for the Program that are to be financed in full or in part out of the loan proceeds must be procured, selected and contracted in accordance with the Bank's standard procedures (see "Policies for Selection and Contracting of Consultants Financed by the IDB" (document GN-2350-7) and "Policies for Procurement of Goods and Works Financed by the IDB" (document GN-2349-7).
- 3.17 International competitive bidding will be mandatory for procurements of goods with cost estimates of US\$250,000 or more. Goods worth US\$50,000 or more but less than US\$250,000 will be procured through national public bidding. Goods costing less than US\$50,000 will be acquired through price comparison (shopping). For consulting contracts with cost estimates of US\$200,000 or more a shortlist of six highly geographically representative firms must be compiled, with national and international advertising. For consulting contracts worth US\$100,000 or more but under US\$200,000 the required shortlist of six firms may consist entirely of national consultants, with nationally advertised calls for proposals. The six-firm shortlists to be presented for consulting contracts under US\$100,000 may consist entirely of national firms.

#### **D. Implementation period and disbursement timetable**

- 3.18 The Program will be implemented over a 48-month span. The loan proceeds will be disbursed over 54 months counted from the effective date of the loan contract. Table III-1 presents the tentative disbursement timetable.

**Table III-1. Tentative disbursement timetable (US\$000)**

Source	Year 1		Year 2		Year 3		Year 4		Total
	1 <sup>st</sup> six months	2 <sup>nd</sup> six months	1 <sup>st</sup> six months	2 <sup>nd</sup> six months	1 <sup>st</sup> six months	2 <sup>nd</sup> six months	1 <sup>st</sup> six months	2 <sup>nd</sup> six months	
IDB	6,682	6,682	6,773	6,773	6,986	6,986	5,221	5,221	51,323
Local contribution: Government	6,726	6,693	3,495	3,462	4,166	4,132	4,184	4,278	37,136
Local contribution: Private sector	952	952	952	952	952	952	952	952	7,614

#### **E. Revolving fund**

- 3.19 Given the proposed activities and anticipated implementation pace during year 1 and the need for the fiduciaries to respond nimbly to demand, it is recommended that a revolving fund of up to 10% of the Bank's loan be created. The PMF will report to the Bank on the revolving fund's status twice yearly, within 60 days after the end of each calendar half-year.

#### **F. Monitoring and evaluation**

- 3.20 Each year over the life of the Program the PMF is to present the audited financial statements of the Program, including the trusts. Program audits will be performed by a firm of independent external auditors acceptable to the Bank or by the national audit office, as the government and the Bank shall determine. Audits must be conducted in accordance with Bank requirements. The Program's annual financial statements must be presented within 120 days after each fiscal year end throughout the Program; the closeout financial statements are to be submitted within 120 days after the last disbursement.
- 3.21 In year 1 of the Program the PMF will engage a firm to monitor and evaluate PRODEI, ProCompetitividad and FINDEC. The fiduciary firms must report quarterly on their accounts and activities to facilitate an evaluation of their operation, and they must undergo independent audits each year. Furthermore, as part of its Program monitoring work the PMF will institute a system to evaluate the participating ministries' and government agencies' programs. It will be the PMF executive director's responsibility to ensure that a system is in place to gather operational data with which to evaluate outcomes and track the status of the Program's second-phase triggers. The PMF will have the requisite staff and resources to do the implementation monitoring, measure progress toward the agreed

outcome indicators (outputs and effects), and have baseline data for the effect indicators that are to be tracked. The midterm and final evaluations will be contracted out to an independent firm, which will perform the midterm review 18 months into the Program or when the loan is 50% disbursed. The Program also will be subject to standard reviews by the Office of the Comptroller General of Panama, which will conduct ex post evaluations of the two trusts.

#### **IV. VIABILITY AND RISKS**

##### **A. Social and environmental viability**

- 4.1 Since the investment projects to be funded under the Program may require an environmental impact assessment and mitigating measures, the FINDEC Operating Manual contains provisions on safeguards for the financial products and periodic environmental reviews of a representative sample of projects (see document GN-2208-20, Environmental and Safeguards Compliance Policy). In brief, the provisions call for: (i) independent prescreening of credit line intermediaries; (ii) an exclusion list of environmentally harmful products and activities; (iii) a system to rate the environmental risk of all clients' (beneficiaries') business operations, and (iv) a monitoring system featuring annual reporting and periodic environmental audits of a sample of transactions by an independent consultant. This periodic evaluation will show whether the environmental classification system is operating properly and mitigating measures are being duly adopted. As one of the nonfinancial services envisaged in the Program, businesses will have access to consultant support where the need for environmental impact mitigants is indicated.
- 4.2 With regard to the planned activities with indigenous entrepreneurs, an environmental analysis and environmental management plan will be required for each business plan developed under the Program. One of the first PRODEI activities will be to develop baseline social, cultural, and economic indicators to track as part of the monitoring and evaluation program that will operate throughout the Program. Extensive consultations and interviews are planned with the target indigenous communities to design PRODEI. This consultation exercise satisfies the requirements of the Bank's Operating Policy on Indigenous Peoples (OP-765) for projects intended to benefit indigenous communities. The proposed operation has been very well received by those communities, who provided valuable inputs for design of the PRODEI methodology and priority ranking of the businesses/clusters that will come in for support. Indigenous leaders validated the PRODEI strategy, and their comments were taken into account in the final design. One facet of the monitoring and evaluation system will be establishment of an economic and sociocultural baseline of the communities that stand to benefit directly or indirectly and continual monitoring of changes in those indicators to be able to adjust PRODEI activities if any adverse impacts are observed over the course of the operation.



**B. Financial and institutional viability**

- 4.3 The Program's starting premise is that measures of its impact should not look just at financial sustainability of the products and facilities themselves but also at their effect on businesses' exports and productivity. Consequently, the Program gives special attention to the need for careful evaluation of the proposed interventions' outcomes. A demand analysis was done of the financial and nonfinancial supports to analyze the potential for their use and the financial viability of FINDEC activities.
- 4.4 Given the wide range of stakeholders and the varied menu of supports offered, the Program has been conceived as a two-phase operation, to be able to learn and adapt as the operation unfolds. During the preparation stage international evidence on the cost-efficiency of the proposed delivery modalities was reviewed, with particular attention to the private trust manager mechanism for delivery of activities involving nonfinancial and financial business development services. The services' administrative costs have been confirmed to fall within the indicated ranges of other programs and the mechanisms are flexible enough to allow for in-course adjustments as needed to make optimal use of the financing resources. Furthermore, a number of mechanisms in the proposed institutional apparatus provide for institutional development of the planned products and facilities that open the way for models sustainable in the long term. In the best case, the action focuses can be broadened in the Program's second phase and, drawing on the experience gathered, new finance vehicles can be devised, including participation of the private sector or other donors and finance providers. These prospects are one of the topics to be addressed in the first-phase studies.
- 4.5 The activities intended to make agroexports more competitive (Subprogram I, component II) mark a first effort on the government's part to modernize the public agricultural sector, particularly the delivery of agricultural health and food safety, research, and information services targeted to that sector. This work will need to be coupled with continuous sector policy dialogue throughout the Program between the Bank (through its Rural Development division) and the government, to ensure that the planned investments are sustainable. In the course of this dialogue it might be decided to redirect funds toward activities that can make the aforementioned services more efficient and enhance the quality of public agricultural spending by modernizing the Ministry of Agricultural Development, if such were agreed.

**C. Benefits and beneficiaries**

- 4.6 The Program's significant benefits will take the form of export business generation which will, in turn, raise incomes and create employment. Among the anticipated outcomes are increases in export volumes and revenues and in value added. Another potential outcome is greater product and market diversification, since enhanced government promotional efforts will help refine new-market prospecting. The Program also will have positive social and economic benefits for indigenous communities.

- 4.7 Sustainability of the proposed activities, particularly in Subprogram II, will depend on the first-phase outcomes. The authorities intend to continue these activities and also build a permanent institutional base. Accordingly, the PMF will devote part of its time to devising ways to make the trust institutional apparatus a lasting one, including: (i) heightening private-sector involvement in financing these vehicles, (ii) creation of public-private entities, and (iii) formalizing the role of second-floor bank with government financial assistance but operational autonomy.
- 4.8 In terms of the Program's economic benefits the team estimated that export sales would have to rise by some US\$1 million annually for the Program to achieve a 12% internal rate of return. Based on estimates of demand by businesses and the impact of their increased exports, the results well exceed this amount (see technical files).

**D. Risks**

- 4.9 One of the primary rationales for the Program is Panama's trade-opening policy, which is being bolstered with each new trade accord it signs. Even if some of the ongoing sets of trade talks were to end without an agreement, the export sector still has to become more competitive to take on its international competitors.
- 4.10 The chief implementation risks for this operation have to do with the number of agencies involved, the fact that some of the entities and activities are new, and the Program's administrative complexity (see Annex II). In addition, the innovative nature of many of the planned activities makes it difficult to scale the components ex ante. The structure devised for the Program minimizes these risks and maximizes the possibility of in-course adjustments. For instance, there are separate implementing arrangements for each component to make sure it can operate nimbly in its respective domain. The Program also features a continuous monitoring mechanism with quarterly reporting on FINDEC and ProCompetitividad activities. The Program Management Firm, the focal point for communication with the participating ministries, will report regularly to the Bank. As for the Program's scaling, the government will finance most of ProCompetitividad's and FINDEC's innovative products, thereby allowing greater flexibility for adjusting the amounts in response to effective demand, laying the foundation for long-term sustainability and reducing the financial costs associated with borrowing. Were the maturity date of any of the financial products to fall after the end-date of the administration contracts, the portfolio would be transferred to Banco Nacional de Panamá or another suitable institution.

## COMPETITIVENESS AND TRADE DEVELOPMENT PROGRAM (PN-L1014) LOGICAL FRAMEWORK

<b>Program goal:</b> Contribute to the growth of Panama's business and industry base.	
<b>Program purposes:</b> (i) Strengthen the government's export promotion capacity by improving the quality and targeting of government international trade management services. (ii) Expand private-sector-mediated financial and nonfinancial business development services.	
<b>Subprogram I</b> <b>Strengthening the competitiveness of public governance for international trade development</b> <b>Objective:</b> Improve the quality and targeting of government trade management services. <b>Components</b> <ol style="list-style-type: none"> <li>Public governance for international trade development</li> <li>Export development</li> <li>Enhancing the indigenous business environment (PRODEI)</li> </ol>	<b>Subprogram II</b> <b>Export development services</b> <b>Objective:</b> Expand private-sector-mediated financial and nonfinancial business development services. <b>Components</b> <ol style="list-style-type: none"> <li>ProCompetitividad: Nonfinancial services</li> <li>Financiación para el Desarrollo de la Competitividad y Productividad (Finance Facility for Competitiveness and Productivity Development) (FINDEC): Financial services</li> </ol>

Summary	Indicators	Means of Verification	Assumptions
<b>Goal</b>			
Contribute to the growth of Panama's business and industry base.	Improvement in its competitiveness index (increase of 2.5% in its nominal rating). <b>Baseline:</b> 2007-2008 ranked 59 out of 131 countries in the Global Competitiveness Index (rating of 4.18)	World Competitiveness Forum statistics	The Panamanian government maintains a stable macroeconomic policy and pursues open trade.  World trade continues to grow at the present rate or faster.
<b>Purpose</b>			
Strengthen the government's export promotion capacity by improving the quality and targeting of government international trade management services and expanding private-sector-mediated financial and nonfinancial business development services.	<p><b>At the end of the first phase:</b> Merchandise exports increase 5% on average in the two years following first-phase completion. <b>Baseline:</b> 2001-2005 average: 3% for exports. The value of Panamanian exports in 2006 was US\$1,014,276,000.</p> <p>The number of export firms and their suppliers is up 10% at the end of the second year following first-phase completion. <b>Baseline:</b> According to the Exporters Directory there currently are 419 export firms in Panama.</p> <p>Goods and services exports from autonomous indigenous territories increase 15% on average in the two years following first-phase completion. <b>Baseline:</b> 2005/06 to be determined.</p>	<p>Statistics (Comptroller General's Office)</p> <p>Ministry of Commerce and Industry (MICI) statistics</p> <p>Data extracted from Program evaluation reports</p>	<p>The concerned ministries and agencies actively coordinate their export and investment promotion efforts (SIG, MICI, MEF, MIDA, MINSA).</p> <p>There is sufficient demand for export finance services and sustained growth in key activities.</p> <p>Successful conclusion of free trade agreements enhances international market access for Panamanian goods and services.</p>
<b>Subprogram I: Strengthening the competitiveness of public governance for international trade development</b>			
<b>Component I:</b> Public governance for international trade development			The concerned ministries and agencies actively coordinate their export and investment promotion efforts.

Summary	Indicators	Means of Verification	Assumptions
<b>Subcomponent:</b> Building trade-agreement negotiating and administration capacity			There is sufficient interest on the part of nonfinancial and financial intermediaries in taking part in the Program.
1.1 Trade-agreement negotiating and administration capacity strengthened.	1.1 FTAs negotiated and signed with five new countries or regions (e.g. Costa Rica, Guatemala, Nicaragua, Honduras, European Union). <b>Baseline 2007:</b> FTAs being negotiated with Costa Rica, Guatemala, Nicaragua, and Honduras.	MICI data	Indigenous communities are prepared to engage actively in global markets.
1.2 Capacity to manage intellectual property rights and obligations strengthened.	1.2 Number of IP registrations in Panama increases 10% annually and number of IP registrations by Panamanians rises 5% annually. <b>Baseline 2005-2006 period:</b> 13,001 trademarks registered and 363 patents awarded in Panama; 2,500 trademarks registered by Panamanians and three patents awarded to Panamanians.	MICI data	The government would not have been able to negotiate the treaties without the Program technical supports.
<b>Subcomponent:</b> Strengthening of technical capacity for export promotion			
1.3 Trade information and intelligence services expanded and improved.	1.3 20 business contracts as a result of primary target-market data. <b>Baseline:</b> In 2006, no primary data on export markets.	MICI data	
<b>Subcomponent:</b> Launch of investment-attraction plans in strategic markets			
1.4 Information and intelligence services on investment attraction expanded and improved.	1.4 Branding design and international dissemination done for five strategic sectors (transportation, services, information and communication technologies, logistics, agribusiness); five investment-seeking missions organized; three new strategic sectors validated. <b>Baseline:</b> 2006, no strategic-sector branding developed/disseminated; one investment-seeking mission organized in 2004-05.	MICI data	

Summary	Indicators	Means of Verification	Assumptions
<b>Subcomponent:</b> E-government services for trade and investment			
1.5 Government capacity to deliver foreign-trade technical services to the private sector strengthened.	1.5 An online integrated foreign trade and investment system has been developed and is operating, with 5,000 registered users, 3,000 unique daily visits to the site, and 2,500 transactions monthly (payments, filings, certifications, other trade- and investment- related procedures). <b>Baseline:</b> The country has no integrated foreign-trade services system.	Government Innovation Secretariat (SIG) data	
<b>Component II:</b> Export development			
1.6 Sanitary and phytosanitary systems strengthened.	1.6 Panama achieves its goals of being declared fruitfly free and certified Newcastle disease free. <b>Baseline:</b> These certifications do not exist.	Ministry of Agricultural Development (MIDA) data	
1.7 Laws, standards, and institutions meet importing-country requirements.	1.7 5 new agricultural products receive sanitary certification for export. <b>Baseline:</b> 2007 – certifications do not currently exist.	MIDA data	
1.8 Agricultural research system strengthened and focused on the highest-growth-potential products.	1.8 10 trials of new varieties of seeds and seedlings conducted. <b>Baseline:</b> to be determined.	MIDA data	
1.9 Agriculture-sector human capital strengthened.	1.9 600 people from the public and private sectors trained in the new policies, processes, and technical procedures in the sector. <b>Baseline:</b> Currently there is no training in these areas.	MIDA data	
<b>Component III:</b> Enhancing the indigenous business environment (Indigenous Entrepreneurial Development Program—PRODEI)			
1.10 Guidelines for business development in indigenous territories devised.	1.10 Guidelines developed and approved by the traditional authorities setting out clear rules and alternative tools for business development in each traditional territory (five autonomous comarcas and Naso territory). <b>Baseline:</b> New activity.	Program Management Firm (PMF) data	

Summary	Indicators	Means of Verification	Assumptions
1.11 Workshops held and national intellectual property strategy for indigenous peoples developed.	1.11 A national strategy to protect the intellectual property of indigenous entrepreneurs in Panama has been validated by the traditional authorities, and IP registrations by indigenous people under Law 20 have increased. <b>Baseline:</b> The strategy is a new activity. At this writing there are three indigenous IP registrations on record in the Department of Collective Rights and Expressions of Folklore, MICI Intellectual Property Registration Directorate.	Department of Collective Rights and Expressions of Folklore, MICI Intellectual Property Registration Directorate	
<b>Subprogram II: Export development services</b>			
<b>Component I: ProCompetitividad:</b> Nonfinancial services			
2.1 Private-sector-mediated nonfinancial services created.	2.1.1 At least 10 nonfinancial services are operational over the life of the Program. <b>Baseline:</b> No privately mediated business development services in Panama at present.  2.1.2 Business services are of good quality, as attested by a 75% positive rating (satisfactory, good, or excellent) by Program beneficiaries in satisfaction surveys. <b>Baseline:</b> No satisfaction surveys at present.	ProCompetitividad records sent quarterly to, and verified by, the PMF  Survey of a sample of beneficiaries conducted by an external evaluation firm hired by the PMF	
	2.1.3 ProCompetitividad is performing well, achieving at least 80% of the targets set in the contract with MICI. <b>Baseline:</b> This is a new contract.	Midterm review assessments	

Summary	Indicators	Means of Verification	Assumptions
	2.1.4 Six to 10 business diagnostic assessments performed and strategic and business development plans produced and being implemented; basic investments consummated with indigenous entrepreneurs. <b>Baseline:</b> New activity.	PMF data	
	2.1.5 Five business plans of ProCompetitividad-eligible indigenous enterprises/clusters are being implemented. <b>Baseline:</b> New activity.	PMF data	
<b>Component II:</b> Finance Facility for Competitiveness and Productivity Development (FINDEC)			
2.2 Financial services intermediated by financial institutions established.	2.2.1 At least three financial services are operational during the life of the Program. <b>Baseline:</b> No privately intermediated business development services operating at present.	FINDEC records sent quarterly to, and verified by, the PMF	
	2.2.2 Operation of the financial services is shown to be financially sustainable. <b>Baseline:</b> No such vehicles exist at present.	FINDEC records sent quarterly to, and verified by, the PMF	



**COMPETITIVENESS AND TRADE DEVELOPMENT PROGRAM (PN-L1014)**  
**RISKS AND MITIGANTS**

<b>Risks</b>	<b>Level</b>	<b>Proposed mitigant</b>
<b>Macroeconomic:</b>		
Fiscal instability and limited availability of counterpart funds	Low	Implementation of a fiscal reform program and Fiscal Responsibility Law updates to limit fiscal risks. The IDB is supporting these reforms by means of 1722/OC-PN.
<b>Political:</b>		
Weak political commitment to make the requisite changes to laws and institutions	Low	The government has clearly stated its commitment to trade opening as part of its strategy and has actively advocated the business model featured in this operation. Creation of the Ministerial Council for the Complementary Agenda and Competitiveness is a strong signal of this commitment. As well, the authorities have a majority in the legislative assembly.
<b>Implementation:</b>		
Insufficient institutional capacity in the coexecuting agencies	Medium	During the preparation stage the project team did an institutional capacity assessment of the coexecuting agencies and made capacity-strengthening recommendations to the authorities. Assigning technical personnel and support to each coexecuting agency is a further measure to enhance Program implementation, as is the creation of a Program Management Firm (PMF) responsible for administration.
Limited demand for services on the part of indigenous communities	Medium	Using Social Inclusion Fund (PN-T1026) resources an assessment was done of indigenous business activities in the five autonomous territories and with the Naso community to gauge demand, prioritize activities to target for support, and design culturally appropriate products and facilities to ensure access for indigenous entrepreneurs. Extensive consultations with the indigenous communities were a core facet of the PRODEI design, to be sure to address priorities identified by the communities themselves and take their interests, capacities, and vision into account.
Inadequate delivery of nonfinancial and financial services	Medium	The fiduciary firms to be hired will be offered incentive payments for effective delivery of Program activities. Also, the multiphase approach will enable the Program to grow in the early stages and make midcourse adjustments based on early-stage learnings.
Risks relating to producing activities' impacts on indigenous communities' sociocultural milieu	Medium	A local liaison person will be assigned for each traditional territory to maintain continual communication between the communities and the PMF. One of these individuals' functions will be to monitor potential impacts and remedy adverse impacts during the life of the Program. The liaison persons will be the communities' direct voice to the coexecuting agency to alert it to potential conflicts and undesirable impacts.
Weak demand for the Program's financial and nonfinancial services	Medium	The service offerings have been identified as priorities by independent consultants, by means of IDB assessments, and in concert with private-sector stakeholders. The experience with Compite Panamá (1474/OC-PN) demonstrates that there is strong demand in the business community for export-development partnering and clustering projects that need matching funding. The first-phase activities will concentrate on services for which the potential demand is greatest.

<b>Risks</b>	<b>Level</b>	<b>Proposed mitigant</b>
Distorting effects on allocation of financing resources owing to outside influences and inadequate credit management	Low	The second-floor agency configuration limits the chance of this occurring, and the use of a trust arrangement will make lending decisions and processes more transparent.
Funds not available for FINDEC and ProCompetitividad	Low	The authorities have indicated on various occasions that they intend to finance these trusts and that funds are available.
Sustainability of units created in the participating ministries	Low	Reassignments of current government employees will lessen the challenge of making the proposed units sustainable.
Law 22 applies to financial and nonfinancial service contracts.	Low	Under Panama's new procurement law, any use of public funds may be reviewed ex ante. This could limit the flexibility of the instruments proposed in the Program. Based on experience, the Program design includes a PMF managed by a firm hired to administer contracting and payments. The Comptroller General's Office has accepted this mechanism at various times in the past, authorizing ex post reviews.
Sustainability of units created in the Program	Low	Business support is expected to be secured and the authorities are expected to support the agencies involved, through increases in value added, demand for services for the private sector, and tax revenues and by enhancing the credibility of public services.
<b>Development impact:</b>		
The financing and technical assistance do not produce an increase in exports or value added.	Low	Learnings from international experiences informed the design of the Program, which aims to provide a range of services offering effective export-expanding interventions.
Expansion of economic opportunities in indigenous communities has a limited poverty-reduction impact.	Low	The Program will closely monitor impacts using tools and indicators designed to track progress, assess successes and failures, and disseminate good practices and lessons learned.

**COMPETITIVENESS AND TRADE DEVELOPMENT PROGRAM (PN-L1014)**  
**SECOND-PHASE TRIGGERS**

Area	Trigger	Means of verification
<b>Subprogram I: Strengthening public governance for international trade development</b>		
<b>Component I:</b> Public governance for international trade development	5% annual increase in number of intellectual property (IP) registrations in Panama and 2.5% annual increase in number of IP registrations by Panamanians. Baseline period 2005-2006: 13,001 trademarks registered and 363 patents awarded in Panama; 2,500 trademarks registered by Panamanians and three patents awarded to Panamanians.	MICI data
	Five business contacts as a result of primary target-market data. Baseline: In 2006, no primary data on external markets.	MICI data
	PANAMARKET system version 1.0 developed (with initial content, services, and permit, certification and other online trade- and investment-related filings and procedures), with 1,500 registered users, 1,000 unique daily visits to the site, and 500 transactions monthly (payments, certifications, permits, other procedures).	SIG data
<b>Component II:</b> Export development	Two new agricultural products receive sanitary certification for export.	MIDA data
<b>Subprogram II: Export development services</b>		
<b>Component I:</b> ProCompetitividad: Nonfinancial services	At least five nonfinancial services are operational during the life of the Program.  200 projects under way or concluded with 350 beneficiaries.	ProCompetitividad records sent quarterly to, and verified by, the PMF
<b>Component II:</b> Financiación para el Desarrollo de la Competitividad y Productividad [Finance Facility for Competitiveness and Productivity Development] (FINDEC)	At least two financial services are operational during the life of the Program.  US\$5 million total provided in guarantees and/or loans under the credit lines.	FINDEC records sent quarterly to, and verified by, the PMF

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/07

Panama. Loan \_\_\_\_/OC-PN to the Republic of Panama  
Competitiveness and Trade Liberalization Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a competitiveness and trade liberalization program. Such financing will be for the amount of up to US\$51,323,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ 2007)

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