



Board of Executive Directors

For consideration

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To: The Executive Directors
From: The Secretary
Subject: Panama. Proposal for a loan for the project "Support for Panama's Transport and Logistics Sector Reform Program"

Basic Information: Loan type Programmatic Policy-Based Loan (PBP)
Borrower Republic of Panama
Amount up to US\$150,000,000
Source Ordinary Capital

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Remarks: This operation is the first loan in a programmatic series of three consecutive single-tranche operations, technically related to one another but independently financed as programmatic policy based loans, in accordance with document CS-3633-1, "Policy-based Loans: Guidelines for Preparation and Implementation. New version".

As established in document GN-1838-1, "Criteria and norms for Board and Management relations", dated 1 July 1994, policy-lending operations are considered by the Board of Executive Directors by Standard Procedure.

Reference: GN-1838-1(7/94), DR-398-17(1/15), GN-2200-13(4/05), CS-3633-1(6/14), CS-4091(6/15), PR-3710(6/11), DE-53/11, PR-4148(5/14), DE-42/14, DE-43/14

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

SUPPORT FOR PANAMA'S TRANSPORT AND LOGISTICS SECTOR REFORM PROGRAM

(PN-L1110)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Policy letter https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39660761
2.	Means of Verification Matrix https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39545359
3.	Results Matrix https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39493728
OPTIONAL	
1.	Rationale for classifying the operation under the Regional Integration Objective https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39531298
2.	Economic analysis of the program https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39537977
3.	Monitoring and evaluation plan https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39531142
4.	Institutional assessment of the sector https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39534704
5.	Analysis of the Regulatory Framework for Freight Logistics in Panama https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39534723
6.	Government Strategic Plan, 2010-2014 https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39513992
7.	Government Strategic Plan, 2015-2019 https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39422837
8.	What Panama needs to become the Singapore of Latin America? http://www.gatech.pa/docs/presentations/What%20does%20Panama%20need%20to%20become%20Singapore%20for%20LATAM%20final.pdf
9.	Program for Measuring the Impact of the Panama Canal on Panama's Economy https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39504754
10.	Measuring the Impact of Trade Facilitation Reform http://www10.iadb.org/intal/intalcdi/PE/2014/14927a13.pdf
11.	National Strategic Freight Logistics Plan (PNLOG) https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39534721
12.	The Logistics Agenda in Latin America and the Caribbean – Panama https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39534722
13.	Assessment of Needs, Course Offerings and a Pilot Technical Training Plan in Logistics https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39423493
14.	Consulting assignment for mapping and diagnostic assessment of foreign trade processes https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39422986

15. Analysis for the Improvement of Freight Logistics and Trade in Mesoamerica
<https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39513820>
16. Evolution of the National Logistics Policy in Colombia and the Bank's Support
<https://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39537916>

ABBREVIATIONS

ACP	Autoridad del Canal de Panama [Panama Canal Authority]
AMP	Autoridad Marítima de Panama [Panama Maritime Authority]
ANA	Autoridad Nacional de Aduanas [National Customs Authority]
ATTT	Autoridad de Tránsito y Transporte Terrestre [Ground Transport and Transit Authority]
CAUCA	Código Uniforme Aduanero [Uniform Customs Code]
COEL	Consejo Empresarial Logístico [Logistics Business Council]
FAL 65	Convention on Facilitation of International Maritime Traffic
FDI	Foreign direct investment
LCO	Coordinación Logística [Logistics Coordination Office]
GDP	Gross domestic product
MEF	Ministry of Economy and Finance
MICI	Ministry of Industry and Commerce
MOP	Ministry of Public Works
PBP	Programmatic policy-based loan
PMLOG	Plan Maestro de Logística [Logistics Master Plan]
PMTL	Plan Maestro de Transporte y Logística [Transport and Logistics Master Plan]
PNLOG	Plan Nacional de Logística [National Logistics Plan]
PTLZI	Plan Maestro de Transporte y Logística de la Zona Interoceánica [Master Transport and Logistics Plan for the Transoceanic Zone]
RECAUCA	Reglamento del Código Uniforme Aduanero [Uniform Customs Code Regulations]
SIGA	Sistema Integrado de Gestión Aduanera [Integrated Customs Management System]
UABR	Unidad Administrativa de Bienes Revertidos [Reverted Assets Administrative Unit]
VALS	Value-added logistics services
VUCE	Ventanilla Única de Comercio Exterior [foreign trade one-stop window]

PROJECT SUMMARY

PANAMA SUPPORT FOR PANAMA'S TRANSPORT AND LOGISTICS SECTOR REFORM PROGRAM (PN-L1110)

Financial Terms and Conditions				
Borrower: Republic of Panama Executing agency: Ministry of Economy and Finance (MEF)			Flexible Financing Facility*	
			Amortization period:	15 years
			Original weighted average life:	8 years
			Disbursement period:	10 months
			Grace period:	12 months
Source	Amount	%	Inspection and supervision fee:	**
IDB (Ordinary Capital)	US\$150.0 million	100	Interest rate:	LIBOR
Local	0.0	0.0	Credit fee:	**
Total	US\$150.0 million	100	Currency of approval:	U.S. dollars from the Ordinary Capital (OC)
Project at a Glance				
Project objective/description: The objective of the program is to help improve Panama's logistics performance by reducing regulatory and institutional restrictions that limit the country's performance, primarily in the following areas: (i) Value-added Logistics Services; (ii) logistics that support the agriculture sector; and (iii) logistics that support regional trade. The program's specific objectives are to: (i) strengthen the legal and regulatory framework; (ii) consolidate the institutional framework for the transport and logistics sector; and (iii) strengthen the multisector planning and trade facilitation system.				
Special contractual clauses: Subject to the borrower's compliance with the conditions set out in the Policy Matrix (see Annex II).				
Exceptions to Bank policies: None				
Project qualifies as:				
	SEQ []	PTI []	Sector []	Geographic []
				Headcount []

* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions, subject in all cases to the final repayment date and the original weighted average life (WAL). The Bank will take market conditions and operational and risk management considerations into account when reviewing such requests.

** The original weighted average life of the loan may be shorter, depending on the effective date of signature of the loan contract.

I. DESCRIPTION AND RESULTS MONITORING

A. Context and objectives

- 1.1 **Macroeconomic environment.** Panama's economy has grown steadily: the gross domestic product (GDP) rose an average of 7.8% per year between 2008 and 2014, compared with a regional average of 3.2%. This growth was driven by investment, especially that associated with the expansion of the Panama Canal and the execution of an ambitious public investment program in infrastructure (paragraph 1.7). According to data from the Ministry of Economy and Finance (MEF), in 2014 the country had a growth rate of 6.2%. The current account deficit in 2014 was 11.4% of GDP,¹ but is expected to converge at lower levels in the next few years, since the completion of the Canal works will reduce external demand for goods. Currently, this deficit is primarily financed through foreign direct investment (10.2% of GDP in 2014).
- 1.2 **Economic model.** Panama is an open economy.² The country's principal economic sectors are transport and communications, construction, real estate, and financial services, which are all closely related to the Panama Canal cluster³ and the International Banking Center (IBC)⁴.
- 1.3 **Source of financing.** The gross financing needs of the nonfinancial public sector (NFPS) for 2015 are estimated at US\$3 billion. This operation is therefore equivalent to 5% of the disbursements required in 2015.⁵
- 1.4 Panama is at the center of the world's trade flows;⁶ however, its trade balance presents a deficit of exports to imports of goods of around US\$7 billion per year (14.8% of GDP).⁷ This deficit is partly offset by the trade surplus of the Colón Free Trade Zone, which handles significant imports and re-imports for the size of the national economy. There is also a surplus in the trade of services, which helps reduce the external deficit.
- 1.5 Considering that 93.6% of the freight that enters or leaves the ports is merely transshipped, there is a major opportunity for the country to evolve from its

¹ Preliminary figure.

² The sum of exports and imports in 2014 represented approximately 84% of GDP.

³ This cluster encompasses all activities related to the Panama Canal, including ports, transport, logistics, and trade, as well as financial services and telecommunications.

⁴ The IBC is very important in Central America, given the region's highly internationalized banking activities. Panama accounts for 52.1% of the assets and 41.3% of the capital of the Central American banking sector. Technical Note "Financial System and Financial Inclusion in Panama," IDB, 2011.

⁵ MEF-Medium-term fiscal framework 2015-2019. Includes the central government's financing needs plus NFPS amortizations.

⁶ Sixteen percent (16%) of the world's container volume passes through the Panama Canal. Source: Government Strategic Plan, 2010-2014.

⁷ The trade deficit has expanded in recent years due to the drop in agricultural exports, National Statistics and Census Institute of the Comptroller's Office of the Panamanian government (2014).

traditional maritime transshipments model to a more promising and sustainable vision: adding value through logistics services associated with the Canal and improving local producers' access to international markets, thereby integrating the country in regional and global productive chains.

B. The transport and logistics sector

- 1.6 Panama plays an important role in regional and international integration, because of its privileged geographic location and the quality and connectivity of its infrastructure and transport services. The canal, which connects the Pacific and Atlantic oceans, is its most important asset. Its five world-class ports, which handle about 15% of port freight in Latin America,⁸ its transoceanic railroad, its highway and road network, and the Tocumen airport, which served 7.8 million travelers in 2013, comprise the country's transport infrastructure.⁹ The transport and logistics sector is the backbone of the Panamanian economy, accounting for 19.5% of GDP¹⁰ in 2013. In the last five years, the sector grew an average of 9.2% per year and is expected to remain one of the principal engines of the country's growth.¹¹
- 1.7 **Canal expansion.** The expansion of the Panama Canal began in 2007, and is due to be inaugurated in 2016. With an investment of about US\$5 billion, the expansion will make it possible for ships with triple the current capacity to use the Canal.¹² It will also cut ship waiting time and will promote an unprecedented increase of business in the country, which will spark the interest of private and public actors in the development of a value-added logistics services (VALS) hub,¹³ which represents a shift from the country's traditional transshipment hub model.¹⁴
- 1.8 **Creating a VALS hub.** Panama will seek to leverage traffic to generate revenue by offering value-added services for goods passing through the country. In particular, it could capitalize on the opportunity to become part of regional and international production chains by attracting industrial activities that are currently being carried out in Asia,¹⁵ or become part of distribution chains by attracting container

⁸ In all, 15% of the freight in terms of volume, equivalent to 6.8 million containers per year – ECLAC 2013.

⁹ According to the World Bank's Logistics Performance Index, Panama ranks 54th among 150 countries (third in Latin America).

¹⁰ Including transport, storage, and communications activities, 2015-2019 Government Strategic Plan.

¹¹ The top countries in the Logistics Index list are Germany, the Netherlands, and Singapore, whose transport and logistics sectors account for 13.4%, 10%, and 9.4% of GDP, respectively. After Panama, Mexico is the second country listed in the Logistics Index for Latin America and the Caribbean, with 13%, Government Strategic Plan (2015-2019).

¹² From 5,000 to 13,000 TEUs (Twenty-Foot Equivalent Units).

¹³ VALS consist of a range of activities related to shipment, including traditional warehousing, cold storage, selection and packing, packaging, labeling, customization, and finishing and final assembly. These activities usually take place at the end of the value chain and may be located near a factory, consumers, or any other location within the transport chain.

¹⁴ Source: Government Strategic Plan, 2010-2014.

¹⁵ Similar to the case of Mexico with its nearshoring model.

deconsolidation activities,¹⁶ for example, which currently take place on the west coast of the United States.¹⁷ The country also has the opportunity to develop agricultural centers with logistics services that support agricultural production and improve market access conditions for small and medium-sized producers.

C. Infrastructure and services challenges

- 1.9 Despite the opportunities that exist, Panama's competitiveness may be limited by certain problems in the area of infrastructure and services (i) road accessibility and connectivity problems have been identified in the transoceanic area's various logistics assets (ports, railroad, and special zones), stemming from high levels of congestion; furthermore, the secondary road network used to transport agricultural products is in poor to fair condition,¹⁸ which contributes to high transport costs;¹⁹ (ii) the Paso Canoas border crossing, which is the largest foreign trade point between Panama and Central America,²⁰ does not have adequate customs or warehousing facilities for freight that did not clear customs;²¹ (iii) with the exception of the Panama-Pacific Special Economic Zone,²² the country does not have a properly structured supply of logistics infrastructure to expand VALS development; several projects have been identified to increase the supply, but these are not part of a coordinated plan;²³ and (iv) the logistics services offered to agricultural producers in Panama are limited to transport. In the cold chain, the lack of warehouses for perishable goods and the lack of traceability systems limit the producers' access to the market and increases product loss.

D. Regulatory and institutional policy challenges

- 1.10 Despite the level of infrastructure investments in recent years (paragraph 1.7), there are still problems that keep the country from taking full advantage of its geographic comparative advantages, as well as other advantages associated with the expansion of the Panama Canal. Although some of these barriers are related to the availability of infrastructure and services (paragraph 1.9), many others stem from and are associated with legal, regulatory, and institutional issues (paragraph 1.13). In order

¹⁶ Deconsolidation refers to the process of splitting goods shipped in one container into smaller packages to service specific customers and regions. It includes customs and logistics processes.

¹⁷ These activities have the potential to add some US\$2 billion to the GDP each year and create an estimated 100,000 to 200,000 jobs by 2020 (Government Strategic Plan 2010-2014).

¹⁸ In all, 80% of the rural network, where primary production occurs, is in poor to fair condition.

¹⁹ The average cost of domestic transport of a container (for distances of up to 60 km) is US\$7.3/km, whereas the average rate for transport to or from other points in Central America is US\$1.8/km.

²⁰ In all, 85% of highway flows in the region pass through Paso Canoas, as does 99% of Free Trade Zone freight being shipped to Central America (National Logistics Plan (PNLOG), 2014). According to customs activity indicators (2014), the average customs clearance time for freight is 15.23 hours.

²¹ The Bank is currently preparing an investment project for this border crossing (CR-L1066).

²² The Special Economic Zone is located in the western part of the country, adjacent to the Canal.

²³ The Ministry of Commerce and Industry (MICI) conducted an inventory of logistics surface area in active use and found 836.6 active hectares in 20 lots out of a potential total of 2,100 hectares, which by far exceeds the surface areas available in the Netherlands, Le Havre (France), and Barcelona (PNLOG 2014).

to move forward toward its goal in an orderly and sustainable manner, Panama needs regulatory and institutional reforms that will complement its investments in infrastructure.

- 1.11 According to international evidence, institutional reforms have a positive correlation with greater productivity²⁴ and increased direct investment.²⁵ Countries such as Colombia²⁶ and Uruguay²⁷ instituted significant reforms in their logistics management as a competitiveness tool. Countries such as Singapore have been including logistics as a government policy for more than 50 years.²⁸
- 1.12 Some key factors that have impeded the definition and implementation of public policies on logistics that would lead to Panama's integration in global chains include: (i) the government's lack of a long-term vision and policy for logistics (paragraph 1.13); (ii) the lack of any systematic coordination between public and private entities (paragraph 1.17); (iii) the absence of any comprehensive planning that includes infrastructure, related services, and the territorial integration of the country (paragraph 1.20); (iv) inefficiencies in foreign trade processes and the lack of coordination between agencies (paragraph 1.23); and (v) the shortage of technical human resources (paragraph 1.13). Given this situation, this operation seeks to help solve these problems and their causes, as described in the following paragraphs.

E. Policy and regulatory considerations

- 1.13 In the regulatory area in general, the main problem is that Panama does not have a national logistics policy that addresses the sector's problems in an integrated manner with a long-term perspective that makes logistics a government policy (paragraph 1.12.i). The main reason is that the most recent regulatory framework related to this topic, the National Maritime Strategy of 2008, primarily focuses on maritime transport and the Canal area. The Panamanian government took major steps to introduce logistics in the country's legal and policy framework in 2014, when it prepared the draft National Logistics Plan (PNLOG), a mandate of the Logistics Cabinet (paragraph 1.19), which was formulated through working groups

²⁴ *How Do Institutions Lead Some Countries to Produce So Much More Output per Worker than Others*, Chapter 3 of Eicher, T.S. and C. García-Peñalosa (2006). *Institutions, Development and Economic Growth*, pages 65-80. The authors concluded that institutional changes and capital investment have complementary positive effects on productivity.

²⁵ *Hard or soft? Institutional reforms and infrastructure spending as determinants of foreign direct investment in China*, *Japanese Economic Review*, December 2005. In the United States, Japan, and China, institutional reforms are the most important elements for attracting direct investment to the country.

²⁶ As a result of a Policy Loan (CO-L1090) and the Bank's technical cooperation support, Colombia implemented the national logistics policy and other key reforms in the sector.

²⁷ In 2010, Uruguay created the National Logistics Institute comprised of public and private entities, in order to promote professionalism and efficiency in the sector through research activities, and to advise the Executive Branch, among other activities.

²⁸ *What Panama needs to become the Singapore of Latin America?* Gomez, Carlos, Georgia Tech, 2013.

that included the private and academic sectors.²⁹ In terms of the next steps to be taken, the PNLOG must provide inputs for the Government Strategic Plan (paragraph 1.41i), a Logistics Master Plan (PMLOG), a National Logistics Strategy, and the National Logistics Law, consolidating the binding instruments involving logistics policy at the highest level.³⁰

- 1.14 Closing the gaps in the legal framework related to investment and foreign trade requires: (i) reforming the legal framework for customs in order to adapt the procedures to those established in integration agreements with Central America (paragraph 1.41.ii); and (ii) modifying the legal framework for maritime services in order to stimulate foreign direct investment (paragraph 1.41.iii).
- 1.15 **The Customs Law.** Panama formally joined the Central American Integration System in 2013, undertaking to adapt its customs laws to comply with the requirements of the regional integration body. To this end, the law has to be adjusted to the Uniform Customs Code and the Uniform Customs Code Regulations by reforming the customs criminal proceedings, expanding the free zone system, and incorporating the concept of an authorized economic operator, as well as new technological concepts.
- 1.16 **Delivery of services and foreign investment.** The Ancillary Maritime Services Law requires bunkering³¹ companies that operate using floating materials to have at least 75% Panamanian capital. This restriction is an obstacle to attracting foreign investment in that sector.

F. Institutional organization of the sector

- 1.17 The main problem with the institutional framework for transport and logistics in Panama is the lack of any systematic coordination between public and private entities to prioritize their actions, as well as the lack of managerial, technical, and political leadership for addressing challenges in the sector (paragraph 1.12.ii), primarily due to the fragmentation of the institutional framework ([optional electronic link 4](#)). The lack of an executive agency in charge of sector policy, including infrastructure, services, and regulations, is addressed by certain autonomous agencies, including the Panama Maritime Authority (AMP), the Panama Canal Authority (ACP), and the National Customs Authority (ANA).³²

²⁹ The working groups were comprised of participants from all public and private logistics entities (and headed by the Logistics Business Council (COEL)) and academia discussed topics in the areas of infrastructure and services, foreign trade processes, human resources and innovation, financing, and legal and institutional frameworks.

³⁰ The PNLOG is an indicative tool that gave rise to the Logistics Master Plan (PMLOG) and the National Logistics Strategy as binding instruments, and the National Logistics Act defines the policies, components and areas of responsibility of the sector's institutions.

³¹ Bunkering service consists of supplying fuel to a ship. The AMP estimates that this market has fallen 40% in the country in recent years due to the lack of competitiveness.

³² Including the Civil Aviation Authority, the Ground Transport and Transit Authority (ATTT), the ACP, Tocumen Airport, Empresa Nacional de Autopistas [national highway company], and the Panama Canal Railway.

Some entities were created to address specific areas or the need to execute certain projects,³³ so their functions and those of the Executive Branch³⁴ remain uncoordinated and lack a comprehensive systemic vision. Furthermore, none of these institutions has a mandate or institutional capacities to oversee a PMLOG.

- 1.18 Coordination with the private sector is also adversely affected by institutional fragmentation. Since 2012, the private sector has been organized through the COEL, in order to help improve the competitiveness and positioning of the logistics sector, and institutionalize private sector participation in the formulation and implementation of sector development strategies. However, the government still needs to define a mechanism to ensure the systematic and sustainable participation of the COEL in the formulation of sector policy.
- 1.19 In order to strengthen the decision-making process in the area of logistics in the different institutions, in 2012 the government created the Logistics Cabinet, an interagency entity in which 12 public agencies participate.³⁵ The Logistics Cabinet was established under the guidance of the Ministry of Commerce and Industry (MICI), with the main objective of formulating and implementing a National Logistics Plan (PNLOG) (paragraph 1.13) to promote the country as an international logistics hub. However, the Logistics Cabinet does not operate on a regular basis³⁶ and has only met twice from 2012 to 2014. Therefore, in order to ensure the sustainability of the reforms, two things are necessary: (i) implementing a Logistics Coordination Office (LCO) attached to the Ministry of the Presidency, to function as a technical secretariat for the Logistics Cabinet (paragraph 1.43.i, ii, iii), and (ii) raising the Logistics Cabinet to the level of the Ministry of the Presidency (paragraph 1.43.iv).

G. Comprehensive planning processes

- 1.20 The biggest problem facing the country in terms of planning is the lack of an overall perspective on infrastructure, associated services, and territorial and regional integration (paragraph 1.12.iii). The causes stem partly from the institutional framework (paragraph 1.13), since the areas of responsibility in policy making and planning are spread out among several institutions. The ACP and the AMP have authority in the Canal area and port system, respectively. In the transport sector, the MOP and the ATTT are responsible for carrying out road works and traffic control projects and transport regulation, respectively. In terms of land use, the Ministry of Housing and Land Use Planning is the highest authority in the area of land-use planning, but the Reverted Assets Administrative Unit (UABR) has

³³ Such as the ACP, the Metro Department, the Cold Chain Department, and the ATTT, among others.

³⁴ MEF, MICI, the Ministry of Public Works (MOP), the Metro Department, the Ministry of the Presidency, and the Canal Ministry, among others.

³⁵ Ministry of the Presidency, MICI, MEF, MOP, Ministry of Foreign Affairs, ACP, AMP, Civil Aeronautics Authority, ANA, ATTT, and the Department of Science, Technology, and Innovation.

³⁶ See Institutional Evaluation of the Sector ([optional electronic link 4](#)).

autonomy to promote the economic development of reverted assets.³⁷ The UABR has issued calls for bids to grant land with logistics potential in the transoceanic corridor, based on a study prepared with the assistance of the World Bank.³⁸

- 1.21 However, the institutions have little incentive to coordinate with each other to work on integrated planning. There is a significant lack of long-term planning tools; other than the Master Port Plans and the Strategic Customs Plan, the country has no transport plans (urban or freight) or road plans related to components of the National Logistics System (infrastructure, services, and systems that support processes).
- 1.22 The challenge, therefore, the challenge is to improve horizontal coordination with respect to means of transport and logistics services, as well as vertical coordination between the various strategy, policy, planning, evaluation, investment, and operation levels. This requires having closely coordinated plans that address these dimensions and territorial integration in a complementary manner, including: (i) a Transport and Logistics Master Plan for the Transoceanic Zone (PTLZI) to manage investments in the Canal area (paragraph 1.46.i); (ii) a Transport and Logistics Master Plan (PMTL), to integrate multimodal planning of infrastructure and logistics services at the national level, taking into account the principal economic sectors, including agricultural producers (paragraph 1.46.ii); (iii) a land-use policy (PNOT) and a land-use law, which will ensure the effective use of the country's productive and logistics potential (paragraph 1.46.iii).³⁹

H. Trade facilitation processes

- 1.23 The biggest problem in foreign trade is inefficient processes and a lack of coordination between agencies⁴⁰ (paragraph 1.12.iv). The causes stem primarily from the absence of systematized processes and the lack of integrated systems, which lead to long wait times in the service windows, necessitating the use of processing agents. Of the delays in ports, airports, and border crossings, 18% are due to inefficient processes.⁴¹ To resolve this problem, Panama has been gradually improving trade facilitation processes.
- 1.24 **Convention on Facilitation of International Maritime Traffic (FAL65).** With respect to ports, Panama joined the FAL 65 Convention⁴² in 2008, but has not yet started to implement it. In February 2014, the government set up the National

³⁷ Properties returned to the Panamanian government by the United States after the Canal reverted to Panama.

³⁸ Strategy for the Enhancement of Reverted Areas, 2012-2022. World Bank for UABR, 2012.

³⁹ The PTLZI and PMTL and the Land-use Plan are detailed operational plans for implementing the actions indicated in the strategic plans (PNLOG, PMLOG, National Logistics Strategy).

⁴⁰ Basically those national agencies in charge of customs, maritime transport, and the Panama Canal, i.e. the ANA, AMP, and ACP, respectively.

⁴¹ Source: PNLOG page 79, and Mapping and Diagnostic Assessment of Foreign Trade Processes, IDB 2014.

⁴² The convention seeks to simplify formalities and documents for the arrival, stay, and departure of ships.

Facilitation Committee in order to make the movement of people and freight at the ports more efficient.

- 1.25 **The Integrated Customs Management System.** The website of the Integrated Customs Management System (SIGA) is a one-stop window for Panamanian merchants, customs users, government agencies, and other users of the ANA's services.⁴³ The system is still not operating optimally and has a high rate of transmission failures (50%), as well as data entry errors and congestion. The system is not interconnected with customs warehouses and the electronic signature function has not been fully implemented.
- 1.26 **The Single Foreign Trade Window.** The foreign trade one-stop window (VUCE) is currently limited to export processes, has not been completely computerized, and does not include all entities. The VUCE project should include standardized processes for licenses and certificates, and requires all agencies in the field to be computerized.⁴⁴
- 1.27 **Human capital.** There is a severe shortage of human resources in the sector, particularly in technical areas.⁴⁵ The current shortage is estimated at 16,000 people, which represents more than 13% of the total number of professionals in the sector. This shortage may exceed 100,000 people in the next 10 years⁴⁶ ([optional electronic link 13](#)). Of the required training, 51% is not offered in the country. In the port of Balboa, for example, it is estimated that 68.1% of the delays are related to a lack of trained human resources.⁴⁷
- 1.28 The next steps to be taken in terms of trade facilitation processes include: (i) defining work arrangements between the AMP and ACP in order to design a national ports one-stop window in connection with the FAL 65 Convention (paragraph 1.48.i); (ii) authorizing coordination of the work of the directors of one-stop window systems in Panama and Costa Rica (paragraph 1.48.ii); (iii) starting the modernization of the SIGA and incorporating the VUCE (paragraph 1.48.iii); (iv) in the Logistics Cabinet, giving priority to digitizing the National Logistics System, integrating the SIGA, the International Merchandise Transit System,⁴⁸ and the VUCE (paragraph 1.48.iv); (v) issuing regulations for measures to facilitate the

⁴³ On the website it is possible to submit manifests, declarations for approval by the respective agencies, perform customs inspections, risk assessments, valuation and recording of the process and payments, legislation, and troubleshooting.

⁴⁴ Only the AMP, the ANA, and the Food Protection and Safety Authority have computerized systems.

⁴⁵ According to the World Economic Forum's *Global Competitiveness Report*, inadequate labor is the main barrier to doing business in Panama.

⁴⁶ Assessment of Needs, Academic Offerings, and a Pilot Technical Training Plan in Logistics, IDB.

⁴⁷ Consulting assignment for mapping and diagnostic assessment of foreign trade processes, IDB, 2014.

⁴⁸ The International Merchandise Transit System is a customs facilitation mechanism involving the simplification and streamlining of the formalities required to travel through a given country with freight in international transit. Uniform procedures are adopted under an international control system, which decreases the risk of inaccurate information, thereby eliminating unnecessary delays.

sharing of statistical information (paragraph 1.48.v); and (vi) formulating a strategy to increase the supply of technical human resources in the area of logistics (paragraph 1.48.vi).

I. Rationale for the project, strategic alignment, and the Bank's experience in the sector

- 1.29 **Project rationale.** The logistics sector is strategic for Panama because of its economic importance and its role in creating jobs and generating foreign exchange. By linking the various productive activities, the logistics sector fosters economic growth and increases the competitiveness of national production. The government's priorities in terms of the sector's development, which are reflected in the PNLOG, revolve around three subsystems: (i) the Canal cluster's VALS hub; (ii) logistics to support the agriculture sector; and (iii) logistics to support regional trade.
- 1.30 The program will help address the policy, regulatory and institutional challenges described above (paragraphs 1.10, 1.11, and 1.12), through: (i) the reform and consolidation of the logistics regulatory framework (paragraph 1.41); (ii) strengthening of the logistics organizational framework and institutional context, by setting up high-level entities that will coordinate decision-making and coordination for the implementation of plans and projects (paragraph 1.43); (iii) strengthening of multisector planning (paragraph 1.46); and (iv) integration of foreign trade processes, adoption of regional integration protocols, and narrowing of the human resources gap (paragraph 1.48).
- 1.31 **The Panamanian government's strategy.** The program is consistent with the government's strategy set out in the Government Strategic Plans for 2010-2014 and 2015-2019. In the latter, logistics is one of the four pillars⁴⁹ of the strategy on the diversification and productivity of the economic base. In addition, the Panamanian government has identified the actions that must be taken to develop the logistics subsystems (paragraph 1.29) in various areas, including: (i) logistics and infrastructure services; (ii) legal and institutional framework; (iii) human resources and innovation; (iv) foreign trade processes; and (v) financing.
- 1.32 The Bank has spearheaded support for the formulation of the PNLOG and integration of the sector's public and private actors in Panama (paragraph 1.34). This program consolidates this support through a policy-based loan that addresses the country's financing needs (paragraph 1.3), and creates an incentive to accelerate and consolidate key reforms aimed at achieving the country's objectives in terms of logistics policy and economic growth.
- 1.33 The first operation focuses on establishing reform priorities and the institutional framework required to implement them. The second operation focuses on formulating the necessary legal, planning, and process improvement instruments. The third operation focuses on approval by the applicable authorities of the legal and institutional instruments developed, which will establish a concrete, long-term

⁴⁹ Together with the agriculture, rural development, tourism, and mining sectors.

link with public policies. In addition, during all three operations, conditions will be established to ensure the sustainability and continuity of the reforms.

- 1.34 **Bank support in the logistics sector.** The Bank's support started in 2012 in connection with the Mesoamerica Project, starting with regional studies and diagnostic assessments.⁵⁰ In 2013, the Bank approved the technical cooperation project PN-T1108 (ATN/MR-13885-PN), with which it supported the formulation of: (i) Panama's PNLOG in a participatory manner through working groups; and (ii) a basic technical document on formulation of the PMLOG and the National Logistics Law, among others. In addition, the Bank made two consultants available to the LCO, and is processing a new request for technical cooperation funding submitted by the Panamanian government for technical support for the unit to continue.
- 1.35 **The Bank's experience in other reforms of the transport and logistics sector.** The Bank has worked on six policy operations in the transport sector in the region,⁵¹ which yielded the following lessons learned that were applied to this operation: (i) provide up-to-date regulatory instruments; (ii) provide integrated planning tools; (iii) with Bank support, consolidate technical support groups in the coordination units; (iv) strengthen the dialogue with the private sector needs to be strengthened; and (v) seek interagency coordination at the highest level of government is needed. The Program to Support the National Logistics Program in Colombia (CO-L1090) approved in 2011 is worth mentioning, in view of its similarities with this program, especially in institutional and legal matters, and with the creation of interagency committees, a national logistics policy, and trade facilitation considerations.⁵² Although it is not possible to measure its impact since it was only recently implemented, the short-term outcomes are consistent and sustainable. Colombia now has institutions that are aligned under a national logistics policy, as well as an efficient national planning system with clear indicators,⁵³ and has made concrete progress in areas such as foreign trade and the quality of logistics operators.⁵⁴ In addition, in 2014, the Bank approved the Program to Reform Transport Sector Policies in Bolivia (BO-L1089), which is focused on the enabling regulations of the new Transport Law, multiyear planning of the sector, the prioritization of investments, and the management of existing assets.

⁵⁰ Analysis, strategy, and instruments to improve freight logistics and trade in Mesoamerica. IDB, 2013.

⁵¹ Air Transport Reform Program (1042/SF-GY); Air Transport Reform Program (2682/OC-BH); Fiscal Stability Consolidation Program for the State of Alagoas (3061/OC-BR); Program to Support the National Logistics Policy (2540/OC-CO); and the Program to Reform Transport Sector Policies (BO-L1089).

⁵² In Colombia, a deputy ministry for transport has been created to cover the planning weaknesses in individual agencies.

⁵³ Evolution of the National Logistics Policy in Colombia and the Bank's support, IDB, 2014 ([optional electronic link 16](#)).

⁵⁴ According to LPI surveys, 2014.

- 1.36 **Strategic alignment.** The program is consistent with the Bank's strategy with Panama (document GN-2596), in that it helps expand economic and social opportunities in areas outside the Canal zone, primarily through comprehensive planning of transportation infrastructure, and is aligned with the strategic pillars specified in the Bank's dialogue with the country for the period 2015-2019 in the logistics sector. The project will also contribute to the financing priorities of the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9) (document AB-2764): (i) lending program for small and vulnerable countries; and (ii) lending program for competitive global and regional integration, under the following criteria: (a) multinational focus, since it is aimed at achieving Panama's increased participation in international production chains; and (b) national subsidiarity, through the adoption of regional and international standards and conventions on customs and trade facilitation processes (paragraphs 1.15 and 1.28) ([optional electronic link 1](#)). It will also contribute to the regional development goal related to "intraregional trade in Latin America and the Caribbean as a percentage of the total trade of goods" as defined in the Results Matrix ([required electronic link 3](#)). The program is also aligned with the Sustainable Infrastructure Strategy, since it seeks to promote continuous improvements in the governance of infrastructure in order to increase efficiency in the delivery of infrastructure services, as well as with the Transportation Sector Framework, in the dimensions of success related to: (i) developed and efficient logistics networks; (ii) sustainable trade integration corridors; and (iii) institutions with the capacity to generate and implement transportation sector policies.

J. Proposed program

- 1.37 **Objective.** The objective of the program is to help improve Panama's logistics performance by reducing regulatory and institutional restrictions that limit the country's performance primarily in the following areas: (i) Value-added Logistics Services (VALS); (ii) logistics that support the agriculture sector; and (iii) logistics that support regional trade. The program's specific objectives are to: (i) strengthen the legal and regulatory framework; (ii) consolidate the institutional framework for transport and logistics; and (iii) strengthen the multisector planning and trade facilitation system.
- 1.38 **Beneficiaries.** The main program beneficiaries are Panamanian producers who will have better access to international markets, logistics services firms that will benefit from better infrastructure, and the general population that will indirectly benefit from GDP growth.

K. Description of components

- 1.39 **Component I. Macroeconomic stability.** The objective of this component is to ensure a macroeconomic environment that is consistent with the program objectives as set out in the Policy Matrix ([required electronic link 1](#)). Under the terms of document CS-3633, **the maintenance of a stable macroeconomic environment**

that is consistent with the program objectives will be a condition for disbursement of the loan.

- 1.40 **Component II. Regulatory and institutional framework for the transport and logistics sector.** This component is divided into two subcomponents, with their respective objectives.
- 1.41 **Subcomponent II.1. Regulatory framework for logistics.** Support the reform of the regulatory framework for logistics, which will introduce a long-term vision and guidelines for the sector (paragraph 1.13). The first operation includes: (i) implementation of the mandate to formulate the PMLOG, the National Logistics Strategy, and the National Logistics Law in the Government Strategic Plan; (ii) preparation of the Customs Bill that will ensure harmonization with Central America's regional customs code; and (iii) amendment of the Ancillary Maritime Services Law to stimulate foreign direct investment (FDI).⁵⁵
- 1.42 The second operation is expected to include: (i) the Logistics Cabinet's approval of the PMLOG and the National Logistics Strategy; (ii) passage and enactment of the Customs Law that will ensure harmonization with Central America's regional customs code; and (iii) the AMP's approval of an FDI development plan to energize ancillary maritime services. The third operation is expected to include: (i) the Logistics Cabinet's approval of the National Logistics System bill; (ii) approval of the regulations of the Customs Law; and (iii) evaluation of the actions and outcomes of the FDI development plan.
- 1.43 **Subcomponent II.2. Institutional framework for logistics and transport.** Support the strengthening of the organizational framework and institutional context by setting up high-level entities that will coordinate the implementation of plans and projects, and facilitate decision-making among key sector institutions (paragraph 1.17). This first operation includes: (i) creation of the Competitiveness and Logistics Department by modifying the mandate of the Economic Affairs and Competitiveness Department;⁵⁶ (ii) creation of the LCO⁵⁷ in order to strengthen the technical work of the Logistics Cabinet; (iii) allocation of technical and financial

⁵⁵ The approval process for each bill under the authority of the Legislative Branch typically includes the following stages: (i) preparation and approval of the bill by the relevant ministry or the Logistics Cabinet; (ii) approval of the bill by the Cabinet Council; (iii) submission of the bill to the National Legislative Assembly; (iv) approval by the Assembly; and (v) enactment of the law by the Office of the President.

⁵⁶ Located under the Ministry of the Presidency, it will be renamed the Logistics and Competitiveness Department and will have the mandate to coordinate the activities specified in the PNLOG (plans, projects, and strategic actions) in conjunction with other public and private entities; the technical aspects of this coordination are carried out through the LCO attached to this department, and the strategic and political aspects are carried out through the Logistics Cabinet.

⁵⁷ The LCO's functions include the following: raising awareness about the PNLOG and other strategic instruments among public and private actors; coordination of activities with the ministries and public entities for the formulation and implementation of logistics sector plans and projects; and other activities assigned to it by the Logistics Cabinet that are consistent with the PNLOG.

- human resources for the LCO's work plan; and (iv) confirmation of the Logistics Cabinet as the high-level agency responsible for interagency coordination.
- 1.44 The second operation is expected to include: (i) strengthening the work performed by the LCO via approval of the LCO's multiyear work plan; and (ii) approval by the Logistics Cabinet of the LCO's performance report with the outcomes achieved in the preceding year as well as strategic guidelines for the following year. The third operation is expected to include: (i) evaluation of the actions and outcomes of the LCO's work, through the use of indicators; and (ii) approval of the LCO's performance report with the outcomes from the preceding year.
- 1.45 **Component III. Comprehensive planning and trade facilitation processes.** This component is divided into two subcomponents with their respective objectives.
- 1.46 **Subcomponent III.1. Comprehensive planning processes.** Support the strengthening of comprehensive planning (paragraph 1.22) in order to improve the national logistics development, value-added activities, and the logistics services that support the agriculture sector. This first operation includes: (i) formation of an interagency committee that will begin the process of formulating the PTLZI by defining the plan's scope; (ii) formulation and approval of the Tocumen Air Cargo Strategic Plan as input for the PMTL; (iii) implementation of the mandate to formulate the National Land Use Policy and the Land Use Law in the Government Strategic Plan; and (iv) notice of public consultation meetings on the Urban Development Plan for metropolitan areas along the Pacific and Atlantic coasts.
- 1.47 The second operation is expected to include: (i) formulation of the PTLZI; (ii) formulation of the PMTL and monitoring of the plans by the working groups;⁵⁸ (iii) approval of the National Land Use Policy; and (iv) updating of the Urban Development Plan for metropolitan areas along the Pacific. The third operation is expected to include: (i) the Logistics Cabinet's approval of the PTLZI; (ii) formulation of the rules for the strategic environmental evaluation of the infrastructure plans (PTLZI, PMT, etc.); (iii) the Logistics Cabinet's approval of the PMTL; (iv) submission of the proposed Land Development, Use, and Integration Bill to the Assembly; and (v) approval of the Urban Development Plan for metropolitan areas along the Pacific and Atlantic coasts.
- 1.48 **Subcomponent III.2. Trade facilitation processes.** Support the coordination of the processes among the different agencies involved in foreign trade (ANA, AMP, ACP), the adaptation to regional integration procedures (paragraph 1.23), and narrowing of the human resources gap (paragraph 1.27). This first operation includes: (i) an interagency agreement between the AMP and the ACP to design a one-stop window for the ports; (ii) approval of the institutional framework for the coordinated work of the directors of one-stop window systems in Panama and

⁵⁸ The purpose of the working groups was to formulate the PNLOG. They also serve as a consensus-building and dialogue mechanism during the plan's monitoring stage. These working groups should be reactivated by the LCO in order to deal with specific technical issues in the logistics sector, with the participation of the private sector (represented by COEL) and the public sector.

Costa Rica in order to streamline foreign trade formalities; (iii) creation of a unit responsible for collecting user requests as input for modernizing the SIGA and incorporating the VUCE; (iv) implementation of the mandate to fully digitize the national logistics system under the purview of the Logistics Cabinet; (v) regulations for measures to facilitate the sharing of statistical information between the ANA and the AMP;⁵⁹ and (vi) formulation of a strategy to increase the supply of technical human resources in the area of logistics.⁶⁰

- 1.49 The second operation is expected to include: (i) the approval of processes harmonized between the ACP and the AMP systems for receiving ships under FAL 65; (ii) preparation of the draft bill to approve the World Trade Organization's (WTO) Agreement on Trade Facilitation – Bali Package; (iii) identification of steps for implementing the facilitation measures agreed upon by the Central American Council of Ministers for Economic Integration (COMIECO); (iv) incorporation into the SIGA and VUCE platforms⁶¹ of the changes to customs processes made in connection with the Central American regional integration process; (v) the LCO's approval of the master plan for complete digitization of the National Logistics System and submission of this plan to the Logistics Cabinet; (vi) approval of the technical arrangements for sharing statistical information between the AMP and ANA; and (vii) submission of the pilot logistics training plan to the Logistics Cabinet. The third operation is expected to include: (i) integration of the ACP and AMP systems in the same platform; (ii) submission of the bill for approval of the WTO's Agreement on Trade Facilitation to the Assembly; (iii) implementation of at least three measures agreed upon by COMIECO; (iv) external functional audit of the SIGA to evaluate the changes made; (v) implementation of the master plan for complete digitization of the National Logistics System and monitoring by the working groups; (vi) evaluation of the actions and outcomes of the arrangements to share statistical information between the AMP and ANA; and (vii) implementation of the pilot logistics training plan.

L. Key results indicators

- 1.50 The principal expected outcomes of the program include: (i) increase in the portion of public investment resulting from sector planning; (ii) decrease in customs processing times at Paso Canoas; (iii) increase in the number of bunkering firms with foreign capital; (iv) number of ports equipped to export national products; (v) enhanced performance of the SIGA; and (vi) increase in the logistics training options available in the country. The program will help improve the following impact indicators: (i) Logistics Performance Index; (ii) percent increase in logistics

⁵⁹ Primarily the movement of freight, the value and types of merchandise, means of transport, as well as information in the manifests and port records. The objective is to map supply and demand and recommend improvements.

⁶⁰ The strategy is based on the diagnostic assessment agreed upon by the working groups coordinated by the MICI, and is submitted to the High Commission on Labor to be considered in the national priorities.

⁶¹ The SIGA and VUCE platforms are prepared in the first operation; new customs processes are incorporated in the second operation, and outcomes and compliance are evaluated in the third operation.

GDP with respect to the annual increase in GDP; (iii) number of jobs in the logistics sector; (iv) value of the exports of Panamanian products; and (v) value of trade through the Paso Canoas border control.

- 1.51 **Economic analysis** ([optional electronic link 2](#)). This analysis is based on the economic principles that gave rise to the policy-based program. It analyzes the potential impact of reforms to the regulatory, institutional, and planning frameworks and their catalytic effect on the Panamanian economy. The contribution of the VALS, agriculture, and fishing sectors to the increase in GDP that is attributable to the program is estimated using different scenarios. An order of magnitude of the net present value (NPV) of the policy-based loan is calculated. The annual GDP increases attributable to the PBL in the basic scenario, discounted over 20 years at an annual rate of 12%, is equivalent to US\$20.985 billion in 2015. This figure could drop to US\$6.4 billion in a low scenario, or rise to US\$32 billion in the high scenario. In addition, it is assumed that annual public investment will be US\$825 million, and that annual private investment will be of equal magnitude, for an annual total of US\$1.65 billion. This series of investments, discounted at the same rate, has an NPV of US\$12 billion. The results should be assessed in order of magnitude and as evidence that the high and basic scenarios are very favorable for the Panamanian economy, whereas the low scenario where specific actions are not fully implemented due to external factors entails the need to step up efforts so that the effectiveness of the PBL can quickly become a reality.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The program is structured under the programmatic policy-based loan (PBP) modality (document CS-3633-1), and is comprised of three separate but technically related operations. The first operation will be for up to US\$150 million, with a single disbursement scheduled in 2015, once the respective loan contract is signed and the policy conditions have been met as stipulated in the Means of Verification ([required electronic link 2](#)). The definition and amounts of the second and third operations will be based on the country's financing needs and the programming exercise with the Bank. The modality is appropriate due to the complexity of the actions required for the program reforms, which may necessitate making adjustments to future trigger mechanisms based on the new knowledge acquired.

B. Social and environmental risks

- 2.2 In accordance with Operational Policy OP-703, the provisions of Directive B.13 apply to this PBP, so the program does not require classification in terms of its environmental impact. Policy changes and the institutional strengthening resulting from this program will not have any significant direct effects on Panama's environment and natural resources. The comprehensive planning processes that will be supported by the program, particularly the formulation of the PTLZI, PMTL and POT, will be subject to a strategic environmental evaluation and public consultation

process. The environmental evaluation of these planning processes will benefit from the institutional changes that are taking place in Panama, which are supported by the Bank, particularly by raising the National Environmental Authority to the ministry level. The Bank is preparing an operation for institutional strengthening of the new Ministry of Environment as well as regulations for the strategic environmental evaluation. The Bank will verify the existence and application of the strategic environmental evaluation regulations to plans such as the PTLZI and PMTL, which will be prepared with the program's subsequent operations. This complementarity and institutional strengthening effort is consistent with the crosscutting environmental principles set out in the Environment and Safeguards Compliance Policy (OP-703). The instruments resulting from this operation will be used as inputs for the next two policy reform operations, and the PTLZI will take the strategic environmental evaluation into consideration.

C. Fiduciary risks

- 2.3 This is a low-risk operation, since the funds to be provided are unrestricted and managed through national budget support systems, based on the existence of a responsible fiscal policy framework.

D. Other risks and special considerations

- 2.4 The principal identified risks are: (i) problems in the operation and sustainability of the LCO; and (ii) the possibility that the private sector's expectations will not be met when the reform is implemented. These risks will be mitigated taking into consideration the lessons learned from similar programs in the region (paragraph 1.35), by creating an LCO under the Ministry of the Presidency with a defined work plan and earmarked resources, as well as by organizing working groups with the private sector. In addition, the Panamanian government has asked the Bank for technical cooperation funding to continue to strengthen the LCO with full-time consultants.
- 2.5 **Sustainability of the reforms.** The sustainability of the reforms is based on three fundamental pillars: (i) the Panamanian government's commitment to the reform and its priority for the sector, as reflected in the government plan; (ii) the fact that the executive and technical agency will be raised to the level of the Ministry of the Presidency; and (iii) the resources required for the LCO are based on the approval of its work plan.

III. IMPLEMENTATION AND MANAGEMENT ARRANGEMENTS

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Panama and the executing agency will be the MEF, which will monitor fulfillment of the requirements established in the Policy Matrix ([Annex II](#)), with the support of the Logistics Cabinet's technical unit. The LCO, in accordance with its mandate

(footnote 55) and through its coordinator, will be the main agency responsible for coordinating and linking the MEF with the different agencies.

B. Summary of monitoring and evaluation arrangements

- 3.2 The borrower and the Bank have agreed to monitor program execution through annual meetings as described in the monitoring and evaluation plan ([optional electronic link 3](#)). The MEF will coordinate fulfillment of the conditions stipulated for the first operation, as well as the other commitments, will be responsible for providing information on the progress made with respect to the Policy Matrix and Results Matrix, and will also send evidence of the means of verification to the Bank. The indicators in the Results Matrix will guide program monitoring and evaluation, after the last operation has been completed. Information will be collected on a quarterly basis, with the pertinent explanation provided in the event of distorted data.
- 3.3 The Program Completion Report will be prepared at the end of the final operation, will evaluate the impact of the program and the achievement of its objectives, and must be submitted within 90 days from the final disbursement. The borrower and the Bank have agreed upon the indicators, the baseline, and the targets for the final evaluation, which will be based on the reflective evaluation method and will capture the changes introduced by the program in both qualitative and quantitative terms.

IV. POLICY LETTER

- 4.1 **Policy Letter.** The Policy Matrix for the proposed operation is aligned with the Policy Letter ([required electronic link 1](#)) issued by the Government of Panama.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program	-Lending to small and vulnerable countries -Lending to support regional cooperation and integration			
Regional Development Goals	-Intraregional trade in LAC as percent of total merchandise trade			
Bank Output Contribution (as defined in Results Framework of IDB-9)				
2. Country Strategy Development Objectives		Not Aligned		
Country Strategy Results Matrix				
Country Program Results Matrix		The intervention is not included in the 2015 Operational Program.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Evaluable	Weight	Maximum Score
		8.3		10
3. Evidence-based Assessment & Solution		9.7	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		4.0		
3.3 Results Matrix Quality		2.7		
4. Ex ante Economic Analysis		9.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		2.0		
4.2 Identified and Quantified Benefits		2.0		
4.3 Identified and Quantified Costs		2.0		
4.4 Reasonable Assumptions		2.0		
4.5 Sensitivity Analysis		1.0		
5. Monitoring and Evaluation		6.1	33.33%	10
5.1 Monitoring Mechanisms		1.5		
5.2 Evaluation Plan		4.6		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Low		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		B.13		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/FMP Criteria)				
Non-Fiduciary				
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	RG-T1660 Analysis of freight logistics and Trade in Mesoamerica PN-T1108 Support for the National Logistics Plan RG-T2275 Support for the definition, development and implementation of National Logistics Plans	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan				

The project is Evaluable.

Panama is an open economy in which there is a great opportunity for the country to move from its traditional maritime transfer vision, to a more promising and sustainable vision: add value through logistics services associated with the Channel and improve access to worldwide markets for local production. The main problem is associated with the lack of a long term vision of a logistics policy. The challenges to overcome this problem are presented with sufficient evidence. The proposed project is clearly articulated with the detailed analysis of the logistics situation in Panama and proposes a reform of the sector's institutional and legal framework.

As a result of this diagnosis, an intervention is proposed, which has a clear vertical logic and whose ultimate impacts are associated with the project's contribution to improving logistics performance especially in the areas of: (i) value added logistics services, (ii) logistics support to the agricultural sector, and (iii) logistic support to regional trade.

A general economic analysis is included and it is based on scenarios derived from the evidence and from similar international experiences. The Monitoring and Evaluation Plan proposes an ex-post economic evaluation.

POLICY MATRIX

Objective

The objective of the program is to help improve Panama's logistics performance by reducing regulatory and institutional restrictions that limit the country's performance, primarily in the following areas: (i) Value-added Logistics Services (VALS); (ii) logistics that support the agriculture sector; and (iii) logistics that support regional trade. The program's specific objectives are to: (i) strengthen the legal and regulatory framework; (ii) consolidate the institutional framework for logistics and transport; and (iii) strengthen the multisector planning and trade facilitation system.

Objective and Scope	Responsible Agency	Policy Reforms First Program	Indicative Reforms Second Program	Indicative reforms Third Program
Component I. Macroeconomic stability				
Contribute to greater macroeconomic stability.		1. The borrower's macroeconomic environment is stable and consistent with the program objectives and the Sector Policy Letter.	1. The borrower's macro-economic environment is stable and consistent with the program objectives and the Sector Policy Letter.	1. The borrower's macroeconomic environment is stable and consistent with the program objectives and the Sector Policy Letter.
Component II. Reform and consolidation of the regulatory and institutional framework for logistics				
Component II.1 Reform of the regulatory framework for logistics				
Consolidate a regulatory framework for the logistics sector that introduces a long-term vision and establishes guidelines for this sector, including: <ul style="list-style-type: none"> Objectives, programs, and projects; Long-term vision, approach strategy, and monitoring system; Policy guidelines, core elements of the logistics sector, and institutional areas of responsibility. 	Ministry of the Presidency	2. Implementation of the mandate to formulate the Logistics Master Plan (PMLOG), the National Logistics Strategy (ELN), and the National Logistics Law in the Government Strategic Plan.	2.1 The Logistics Cabinet's approval of the PMLOG, including its objectives, programs and projects , and submission of the plan to the Logistics Cabinet 2.2 The Logistics Cabinet's approval of the National Logistics Strategy, including the sector vision, approach strategy, and monitoring system , and submission of the strategy to the Cabinet Council.	2. The Logistics Cabinet's approval of the National Logistics Bill, including policy guidelines, core elements of the sector, and institutional areas of responsibility , and submission to the Cabinet Council.

Objective and Scope	Responsible Agency	Policy Reforms First Program	Indicative Reforms Second Program	Indicative reforms Third Program
Reform the customs legal framework in order to ensure compliance with the protocol for Panama's integration in the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) and harmonize it with the regional customs code (CAUCA, RECAUCA)	National Customs Authority (ANA)	3. Formulation of the preliminary draft of the Customs Bill that that will ensure harmonization with Central America's regional customs code , including simplification of customs formalities, streamlining of processes, and creation of the Customs Criminal Court and the Public Defender's Office.	3. Passage and enactment of the Customs Act that will ensure harmonization with Central America's regional customs code , including simplification of customs formalities, streamlining of processes, and creation of the Customs Criminal Court and the Public Defender's Office.	3. Approval of the regulations for implementing the Customs Law that will ensure harmonization with Central America's regional customs code , including simplification of customs formalities, streamlining of processes, and creation of the Customs Criminal Court and the Public Defender's Office.
Amend the legal framework for maritime services in order to stimulate foreign direct investment (FDI) in the ancillary maritime services subsector.	Panama Maritime Authority (AMP)	4. Amendment of the Ancillary Maritime Services Law to stimulate FDI , thereby removing the requirement that 75% of the capital of bunkering firms be owned by Panamanians.	4. Approval by the AMP of a development plan for FDI in ancillary maritime services.	4. Evaluation of the actions and outcomes of the development plan for FDI in ancillary maritime services.
Component IL2 Consolidation of the institutional framework for logistics and transport				
Strengthen the organizational framework and institutional environment in order to consolidate an interagency entity at the highest level of government , which will facilitate coordination and decision-making in the area of logistics, and will include the private sector.	Ministry of the Presidency	5.1 Creation of the Competitiveness and Logistics Department by modifying the mandate of the Economic Affairs and Competitiveness Department.	5. Strengthening of the actions of the LCO by approving its multiyear work plan , including the allocation of human and technical resources required to: (i) prepare the National Logistics System Bill; and (ii) define the monitoring indicators and monitoring and evaluation arrangements.	5. Evaluation of the actions and outcomes of the LCO's work by implementing and analyzing monitoring indicators and monitoring and evaluation arrangements .
		5.2 Creation of the Logistics Coordination Office (LCO) in order		

Objective and Scope	Responsible Agency	Policy Reforms First Program	Indicative Reforms Second Program	Indicative reforms Third Program
		to strengthen the technical work of the Logistics Cabinet.		
		<p>5.3 Allocation of human, technical, and financial resources for the LCO's work plan for the first year, which includes:</p> <ul style="list-style-type: none"> • Calendar of regular meetings with the public, private and academic sectors; • Work plan to organize working groups of the public and private sectors; • Calendar of activities to raise awareness about the PNLOG. 		
	Ministry of the Presidency	<p>6. Confirmation of the Logistics Cabinet as a high-level institution responsible for interagency coordination, which will henceforth be chaired by the Minister of the Presidency and comprised of representatives of key sector entities.</p>	<p>6. The Logistics Cabinet's approval of the LCO's performance report including the outputs and outcomes associated with the previous year's work plan, as well as strategic guidelines for the following year.</p>	<p>6. The Logistics Cabinet's approval of the LCO's performance report including the outputs and outcomes associated with the previous year's work plan, as well as strategic guidelines for the following year.</p>

Component III. Establishment and modernization of comprehensive planning and trade facilitation processes				
Subcomponent III. 1 Establishment of comprehensive planning processes				
Formulate a Transport and Logistics Plan for the Transoceanic Zone (PTLZI) in order to structure investments in the Canal area and promote the development of value-added activities.	Ministry of the Presidency LCO National Environmental Authority (ANAM)	7. Formation of an interagency committee that will begin the process of formulating the PTLZI by defining its scope.	7. Formulation of the PTLZI, including the following: <ul style="list-style-type: none"> • Magnitude of future demand for value-added services in the transoceanic zone; • Available land; • Relevant transport and logistics infrastructure plans and projects; • Investment requirements; • Proposed mechanisms that will help harmonize the areas of responsibility of the different public entities; • Strategic environmental evaluation. 	7.1 The Logistics Cabinet's approval of the PTLZI , which should include the items identified in the second reform program.
				7.2 Formulation of strategic environmental evaluation regulations for the infrastructure plans (PTLZI, PMTL, etc.)
Develop a Transport and Logistics Master Plan (PMTL) in order to integrate multimodal planning of infrastructure and logistics services at the national level, taking into account the main economic sectors, including agricultural producers.	Ministry of the Presidency LCO	8. Formulation and approval of the Strategic Air Cargo Plan for Tocumen International Airport, as input for the PMTL.	8. Formulation of the PMTL, with monitoring of the plan added to the activities of the working groups. The PMTL should include: <ul style="list-style-type: none"> • Identification of the infrastructure and service needs of the main logistics segments, and resulting national and international flows; • Integration of existing initiatives in the area of infrastructure and services; 	8. The Logistics Cabinet's approval of the PMTL , which should include the areas identified in the second reform program.

Objective and Scope	Responsible Agency	Policy Reforms First Program	Indicative Reforms Second Program	Indicative reforms Third Program
			<ul style="list-style-type: none"> • Proposal on relevant transport and logistics infrastructure projects; and • Prioritization of investments and proposed models for managing private investments in infrastructure. 	
Develop national land use and planning instruments to ensure the appropriate use of the country's production and logistics potential.	Ministry of Housing and Land-use Planning (MIVIOT)	9.1 Implementation of the mandate to formulate the National Land Use Policy (PNOT) and the Land Development, Use, and Integration Law (focused on the country's potential in the areas of production and logistics) in the Government Strategic Plan.	9.1 Approval of the PNOT focused on the country's production and logistics potential.	9.1 Submission to the Assembly of the Land Development, Use, and Integration Law , focused on the country's production and logistics potential.
		9.2 Call for public consultation on the Urban Development Plan for metropolitan areas along the Pacific and Atlantic , in order to identify priority areas for strengthening national logistics development.	9.2 Updating of the Urban Development Plan for metropolitan areas along the Pacific and Atlantic, incorporating changes stemming from the public consultation process , in order to identify priority areas for strengthening national logistics development.	9.2 Approval of the Urban Development Plan for metropolitan areas along the Pacific and Atlantic , in order to identify priority areas for strengthening national logistics development.

Objective and Scope	Responsible Agency	Policy Reforms First Program	Indicative Reforms Second Program	Indicative reforms Third Program
Subcomponent III. 2 Modernization of trade facilitation processes				
Implement the commitments assumed by Panama with respect to the trade facilitation agreements established with international organizations to modernize trade facilitation: <ul style="list-style-type: none"> the commitments in the FAL 65 Convention on Facilitation of International Maritime Traffic established in International Maritime Organization (IMO). the commitments in the World Trade Organization's Agreement on Trade Facilitation – Bali package. 	AMP ACP MICI	10. Interagency agreement between the AMP and ACP to design a ports one-stop window in connection with the meetings of the National Trade Facilitation Committee and the FAL65 convention .	10.1 Approval of processes harmonized between the ship reception systems of the ACP and AMP in the Canal's area of influence under the terms of the FAL65 convention .	10.1 Integration of the ACP and AMP systems in a single IT platform 10.2 Submission of the bill to the Assembly for approval of the WTO's Agreement on Trade Facilitation – Bali package .
			10.2 Preparation of the draft bill for approval of the WTO's Agreement on Trade Facilitation – Bali package .	
Implement the commitments assumed by Panama with respect to the trade facilitation agreements agreed upon by the Central American Council of Ministers for Economic Integration (COMIECO) .	MICI	11. Approval of the institutional framework for coordinating the work of the directors of one-stop window systems in Costa Rica and Panama, to streamline import and export formalities and the sharing of the required documentation.	11. Identification of measures for implementation in the short term of the framework agreed upon by COMIECO , including the allocation of a budget or technical cooperation resources for its implementation.	11. Implementation of at least three short-term measures agreed upon by COMIECO .

Objective and Scope	Responsible Agency	Policy Reforms First Program	Indicative Reforms Second Program	Indicative reforms Third Program
Promote the systematization of foreign trade control operations , including: <ul style="list-style-type: none"> modernization of the Integrated Customs Management System (SIGA); complete adaptation of the SIGA to national practices and procedures and those stemming from the Central American regional integration process (CAUCA, RECAUCA); development of the foreign trade one-stop window (VUCE). 	ANA	12.1 Creation of a unit responsible for receiving complaints and requests from users, as input for modernizing the SIGA.	12. Incorporation in the SIGA and VUCE platforms of changes to the customs processes formulated in the context of the Central American regional integration process (CAUCA, RECAUCA).	12. External functional audit of the SIGA and VUCE platform that evaluates consistency with the stipulated processes related to the Central American regional integration process (CAUCA, RECAUCA) and the degree to which the changes introduced resolve the problems identified by users.
		12.2 Incorporation of the VUCE in the SIGA IT platform.		
Promote the complete traceability of merchandise flows through the complete digitization of the activities that support the oversight of foreign trade operations.	Ministry of the Presidency	13. Implementation of the mandate to fully digitize the national logistics system in connection with the confirmation of the Logistics Cabinet , to ensure the traceability of merchandise flows, including: <ul style="list-style-type: none"> (i) regulation of data transfers and security; (ii) standardization of the databases of government agencies. 	13. The CLO's approval and submission to the Logistics Cabinet of the master plan for complete digitization of the National Logistics System , including: <ul style="list-style-type: none"> (i) regulation of data transfers and security; (ii) standardization of the databases of government agencies. 	13.1 Implementation of the master plan for complete digitization of the National Logistics System , which should include the items identified in the second reform program.

Objective and Scope	Responsible Agency	Policy Reforms First Program	Indicative Reforms Second Program	Indicative reforms Third Program
Promote the sharing of information between government agencies in order to monitor the performance of the logistics system and facilitate decision-making related to public policies and investments.	AMP	14. Regulations for measures to facilitate the sharing of statistical information between the AMP and the ANA.	14. Approval of the arrangements for sharing statistical information between the AMP and the ANA in order to obtain information from individual companies.	14. Evaluation of the actions and outcomes of the arrangements for sharing statistical information between the AMP and the ANA in order to obtain information from individual companies.
Develop a technical training plan in logistics in order to provide human resources of the quality and number required by the different logistics subsystems in the country.	Ministry of the Presidency LCO	15. Formulation of a strategy to expand the supply of technical human resources in the area of logistics in Panama, including guidelines for a pilot plan for training.	15. Submission of the pilot logistics training plan to the Logistics Cabinet.	15. Implementation of the pilot logistics training plan and incorporation of this plan in the activities carried out at the working groups.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/15

Panama. Loan ____/OC-PN to the Republic of Panama
Support for Panama's Transport and Logistics
Sector Reform 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 program to support Panama's transport and logistics sector reform. Such financing will be for the amount of up to US\$150,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2015)