

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

**SUPPORT FOR PANAMA'S TRANSPORT AND LOGISTICS SECTOR
REFORM PROGRAM II**

(PN-L1119)

LOAN PROPOSAL

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ABBREVIATIONS

ACP	Panama Canal Authority
AMP	Panama Maritime Authority
ANA	National Customs Authority
CAUCA	Uniform Central American Customs Code
COMIECO	Central American Council of Ministers for Economic Integration
FAL 65	Convention on Facilitation of International Maritime Traffic
FDI	Foreign direct investment
LCO	Logistics Coordination Office
MIVIOT	Ministry of Housing and Land Use Planning
PBL	Policy-based loan
PMTL	Transport and Logistics Master Plan
PNLOG	National Logistics Plan
PNOT	National Land Use Policy
PTLZI	Transport and Logistics Master Plan for the Transoceanic Zone
RECAUCA	Regulations of the Uniform Central American Customs Code
SIGA	Integrated Customs Management System
VALS	Value-added logistics services
VUCE	Foreign trade one-stop window
WTO	World Trade Organization

PROJECT SUMMARY
PANAMA
SUPPORT FOR PANAMA'S TRANSPORT AND LOGISTICS SECTOR
REFORM PROGRAM II
(PN-L1119)

Financial Terms and Conditions				
			Flexible Financing Facility ^(a)	
Borrower: Republic of Panama			Amortization period:	20 years
Executing agency: Ministry of Economy and Finance			Original weighted average life:	11 years
			Disbursement period:	12 months
Source	Amount (US\$ million)	%	Grace period:	24 months
IDB (Ordinary Capital):	200	100	Inspection and supervision fee:	(b)
			Interest rate:	LIBOR-based
Total:	200	100	Credit fee:	(b)
			Currency of approval: U.S. dollars from the Ordinary Capital	
Project at a Glance				
Project objective:				
<p>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.</p> <p>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, which will help to improve investment planning in the transport and logistics sector, expand the surface area devoted to logistics in use, reduce customs clearance time for freight, and provide human resources for the logistics area.</p> <p>This operation is the second loan in a series of three consecutive single-tranche operations, technically related to one another but independently financed as programmatic policy-based loans.</p>				
Special contractual conditions:				
Disbursement will be contingent upon the borrower's compliance with the policy reform conditions set out in the Policy Matrix (Annex II) and the other conditions established in the loan contract.				
Exceptions to Bank policies: None				
Strategic Alignment				
Challenges ^(d):	SI <input type="checkbox"/>	PI <input type="checkbox"/>	EI <input checked="" type="checkbox"/>	
Crosscutting themes ^(e):	GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input type="checkbox"/>	

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

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

^(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

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

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problems, and rationale

- 1.1 This operation is the second in the programmatic series of three policy-based loans (PBLs) to support the Panamanian government in the implementation of reforms in the transport and logistics sector. The proposed policy measures for this second operation are consistent with those of the first program, and continue to build on the process of modernization and the reforms already under way. The specific objectives of the programmatic series include: (i) strengthening the legal and regulatory framework; (ii) consolidating the institutional framework for the transport and logistics sector; and (iii) strengthening the multisector planning and trade facilitation system.
- 1.2 **Macroeconomic framework and economic development conditions.** Panama's economy has grown at a steady pace: gross domestic product (GDP) rose an average of 7.6% per year between 2008 and 2015, compared to 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. In 2014, the country had a growth rate of 6.5% (and a projected rate of 6% in 2015), consistent with the expansion of the canal and the performance of the global economy. The projected current account deficit in 2015 is roughly 8.8% of GDP, which is primarily financed through foreign direct investment (13.4% of GDP in 2014). With regard to public finances, the nonfinancial public sector deficit is expected to end 2015 at about 2% of GDP, consistent with the medium-term consolidation strategy. The public debt amounted to 37.1% of GDP in 2014, reaching 39.1% of GDP in 2015, which is within the parameters of the Fiscal Responsibility Law.¹ This financing has been obtained mainly from external sources, especially debt with multilaterals, which accounts for 26% of the total.
- 1.3 Panama is at the center of the world's trade flows;² however, its trade balance presents a deficit of around US\$6 million per year.³ Exports of Panamanian goods are quite small in comparison to the country's imports.⁴ This deficit is partly offset by the trade surplus of the Colón Free Trade Zone (ZLC) and of trade in services, which help reduce the external deficit.

¹ The Fiscal Responsibility Law establishes a fiscal deficit of up to 2% of GDP in 2015 and net public debt below 40% of GDP.

² Sixteen percent (16%) of the world's container volume passes through the Panama Canal. Source: Government Strategic Plan 2010-2014.

³ The trade gap has widened in recent years. One of the main causes has been a drop in agricultural exports and other export goods, which slipped from US\$1,126,810,000 to US\$821,600,000 between 2007 and 2014. Source: Government Strategic Plan 2015-2019, page 50.

⁴ The weak growth, low productivity, and composition of agricultural production have not kept pace with domestic demand, leading to growing dependence on food imports. In the last five years, such imports have grown at a pace of more than 20% annually, until reaching US\$550 million. Meanwhile, food prices have been steadily increasing to an average of over 7% per year. Source: Government Strategic Plan 2015-2019.

- 1.4 **The transport and logistics sector.** 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,⁵ its transoceanic railroad, its highway and road network, and the Tocumén airport, which served 7.8 million travelers in 2013, comprise the country's transport infrastructure. The transport and logistics sector is the backbone of the Panamanian economy, accounting for 18% of GDP⁶ in 2015. In the last five years, the sector grew an average of 8.9% per year and is expected to remain one of the principal engines of the country's growth.
- 1.5 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 canal⁷ and cut ship waiting time. The canal's expansion is expected to promote an unprecedented increase of business in the country, sparking the interest of private and public actors in the development of a value-added logistics services (VALS) hub,⁸ which represents a step beyond the country's traditional transshipment hub model⁹ ([optional electronic link 6](#)).
- 1.6 **Assessment and challenges of the logistics sector reform.** Despite the level of infrastructure investment in recent years (paragraph 1.5), some indicators point to low utilization of the opportunities associated with Panama's privileged geographic location with respect to the canal. In fact, 93.6% of the freight that enters or leaves the country's ports is merely transshipped, the level of integration with global chains is low, and so is value-added, as reflected in the trade gap (paragraph 1.3). Agricultural products have little access to canal

⁵ In terms of volume, equivalent to 6.8 million containers per year – Economic Commission for Latin America and the Caribbean 2013.

⁶ The transport and logistics sector, including transport, storage, and communications activities – Government Strategic Plan 2015-2019.

⁷ From 5,000 twenty-foot equivalent units (TEUs) up to 13,000 TEUs.

⁸ 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. In the case of Panama, VALS can be applied to industrial activities associated with the Mexican and Asian nearshoring models, to distribution chains (U.S. model of container deconsolidation, i.e. the process of splitting goods shipped in one container into smaller packages to service customers), or to the development of agricultural centers offering logistics services to support agricultural production that improve market access conditions for small and medium-sized producers. The expansion of the canal and, consequently, of its logistics service offerings, create quality employment at the technical level—e.g. skilled workers to operate and maintain state-of-the-art machinery—and the academic and management levels—e.g. managers and coordinators of the sector's businesses.

⁹ Source: Government Strategic Plan 2010-2014.

- infrastructure, which limits their growth. Panama also needs to deepen its integration with Central America—an important trading partner.¹⁰
- 1.7 These problems are directly related to the insufficient availability of infrastructure and logistics services for integrating domestic and regional markets,¹¹ and exacerbated by the need to improve and modernize legal, regulatory, and institutional instruments.
- 1.8 Against this backdrop, the Bank approved the first programmatic PBL in the country's transport and logistics sector in 2015 (operation PN-L1110). Described below are the specific problems identified in the program, the progress made since the approval of the first operation in 2015, and, lastly, the milestones that are expected to be achieved in 2016 ([optional electronic link 14](#)).
- 1.9 **Regulatory framework.** The specific problems of Panama's regulatory framework for transport and logistics center on: (i) the lack of a long-term logistics policy, since the country has no regulatory instruments to guide and define integrated policies for the sector as a whole; (ii) the lack of harmonization between national regulations and the Central American integration agreements,¹² since the country's legal framework does not include regulations to simplify and streamline customs formalities or external trade processes; and (iii) the lack of incentives for direct investment in maritime services, since the existing legal framework does not adequately promote direct investment in these services¹³ ([optional electronic link 4](#)).
- 1.10 The following advances were made in the first operation: (i) the Government Strategic Plan 2015-2019 recognized logistics as one of the main pillars of economic development and established priority for the development of guiding

¹⁰ Panama's trade with Mesoamerica—both into and out of the ZLC—accounts for about 19% of its foreign trade (around 2 million tons). With respect to Central America, its trade with Costa Rica, El Salvador, and Nicaragua is significant; it is shipped overland and associated with high value-added production chains (e.g. medications).

¹¹ 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. Although no formal demand study has been conducted, this congestion is evident in the long lines of ships along the coastal belt and the growth of demand at coastal terminals, which increased 3.2% in 2014. In addition, 80% of the secondary road network used to transport agricultural goods is in poor to fair condition, which contributes to high transport costs (US\$7.30 per km per container, while the average cost to or from other points in Central America is US\$1.80 per km). In terms of maritime transport, the country's inland terminals—which handle one million metric tons of cargo per year—account for a small portion of the country's foreign trade, due in part to administrative and operating deficiencies that hamper current operations (Transport Sector Note, 2014). Of Panama's 32 ports, only six handle export containerized cargo ([Georgia Tech, 2015](#)). With respect to border infrastructure, border crossings lack adequate customs facilities and warehouses for cargo that fails to clear customs, resulting in an average delay of 15 hours to clear goods, as well as product losses. The country also lacks an orderly supply of logistics infrastructure to facilitate an expansion of VALS development and agricultural exports (warehouses for perishable goods, e.g. in the cold chain) [PNLOG Assessment, 2013](#) and [Transport Sector Note](#).

¹² As a condition for its accession to the Central American Integration System (SICA) in 2013, Panama was required to adapt its laws to the Uniform Customs Code (CAUCA) and its Regulations (RECAUCA).

¹³ The Ancillary Maritime Services Law requires bunkering companies that operate using floating materials to have at least 75% Panamanian capital. Currently, only 50% of bunkering companies operate with foreign capital.

- instruments for the sector ([optional electronic link 5](#)); (ii) a legal framework for customs was established to ensure harmonization with Central America's regional customs code; and (iii) amendments to the Ancillary Maritime Services Law were approved to stimulate foreign direct investment (FDI).
- 1.11 As part of the second operation, the Logistics Cabinet, supported by the private and academic sectors, as well as international organizations, will review the National Logistics Plan (PNLOG) ([optional electronic link 7](#)) and will monitor the preparation of the National Logistics Strategy. In addition, the legal framework for customs will be approved to ensure harmonization with Central America's regional customs code (paragraph 1.35).
- 1.12 **Institutional framework for logistics.** Panama's current institutional framework for transport and logistics is fragmented, with responsibilities distributed among various agencies and no effective coordination between them. The main cause for this is the absence of an apex organization to integrate and prioritize the different activities carried out in the logistics sector, and to promote coordination between the public and private entities. The existing agencies were created to address specific areas or execute certain projects, but have neither a mandate nor institutional capacity to monitor a logistics master plan or strategy¹⁴ ([optional electronic link 3](#)).
- 1.13 The first operation resulted in the following advances: by executive decree, the Ministry of the Presidency: (i) created the Logistics and Competitiveness Department to coordinate the public and private entities in the national logistics sector; (ii) endorsed the creation of the Logistics Cabinet to serve as the country's leading logistics authority, in which the country's main institutions participate; and (iii) instituted a Logistics Coordination Office (LCO) to function as a technical secretariat for the Logistics Cabinet.¹⁵
- 1.14 As part of the second operation, the LCO is in the process of preparing its multiyear plan with the support of The Georgia Institute of Technology (Georgia Tech), one of the sector's most prestigious research institutions. The Ministry is also working to link the Logistics Cabinet to a consultative committee¹⁶ comprised of representatives from the private sector and members of the World Economic Forum (paragraph 1.37).

¹⁴ The lack of an executive agency in charge of logistics policy is addressed by certain autonomous agencies, including the Panama Maritime Authority (AMP), the Panama Canal Authority (ACP), and the National Customs Authority (ANA).

¹⁵ 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.

¹⁶ Its role is to offer proposals, opinions, and issue recommendations on the actions and decisions of the Logistics Cabinet. The committee is comprised of a representative of each of the logistics services subsectors (maritime, overland, air, and freight transport) who are appointed by the Logistics Business Council, and three members of the private sector appointed by the Executive Branch to a one-year term.

- 1.15 **Sector planning.** Panama lacks adequate planning instruments for the logistics sector to integrate the multimodal dimension of infrastructure and logistics-related services,¹⁷ which is reflected in its Logistics Performance Index (LPI) score¹⁸ ([optional electronic link 8](#)). The impact of this lack of planning is also reflected in a number of dimensions, such as deficient road connectivity¹⁹ between the transoceanic area's various logistics assets (ports, railroad, and special zones) that causes high levels of congestion, the poor quality of road infrastructure in the country's interior, and the suboptimal use of surface area devoted to logistics.²⁰
- 1.16 The first operation resulted in the following advances: (i) The Ministry of the Presidency created an interagency committee for the process of formulating a Transport and Logistics Master Plan for the Transoceanic Zone (PTLZI) that will manage investments in the Canal Area and promote the development of value-added activities; (ii) the Tocumén Air Cargo Strategic Plan was approved as input for the Transport and Logistics Master Plan (PMTL), which will integrate multimodal planning of infrastructure and logistics services at the national level; and (iii) with regard to land use planning, the Government Strategic Plan 2015-2019 prioritized the formulation of the National Land Use Policy and the Land Use Law; and progress has been made on the public consultation meetings on the Urban Development Plan for metropolitan areas along the Pacific and Atlantic coasts.
- 1.17 As part of the second operation, the entity responsible for the PTLZI will be selected, and the scope of the PMTL will be defined. Moreover, the Ministry of Housing and Land Use Planning (MIVIOT) will approve the guidelines for the National Land Use Plan (PNOT) and the urban development plans (paragraph 1.40).
- 1.18 **Trade facilitation processes.** The specific problems surrounding trade facilitation center on: (i) the inefficiency of foreign trade processes; and (ii) the deficient supply of managerial and technical human resources. The main causes of the inefficiency of these processes stem from the lack of systematization²¹ and

¹⁷ 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), no clear plan for expanding logistics surface area, or road plans related to components of the National Logistics System.

¹⁸ Panama is ranked forty-fifth on the Logistics Performance Index (LPI), owing primarily to the quality of trade and transport-related infrastructure (fifty-second), the competence and quality of logistics services (sixty-eighth), and the timeliness of shipments in reaching destination within the scheduled or expected delivery times (forty-second) (LPI 2014, World Bank).

¹⁹ The amount devoted to road maintenance and rehabilitation for the period 2007-2014 has been irregular. In 2014, this investment was maintained at its 2007 level (US\$100 million). [PNLOG Diagnostic Assessment, 2013](#) ([optional electronic link 7](#)).

²⁰ Out of a potential total of 2,100 hectares of logistics surface area in Panama, only 836 hectares are in use ([PNLOG Diagnostic Assessment, 2013](#)) ([optional electronic link 7](#)).

²¹ The Integrated Customs Management System (SIGA) is 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 (PNLOG Diagnostic Assessment, 2013) ([optional electronic link 7](#)).

integration²² of control operations and the excessive number of formalities to verify the arrival, stay, and departure of ships.²³ The impact of inefficient trade facilitation processes is reflected in delays in customs clearance of goods ([optional electronic link 10](#)). According to a study of the Paso Canoas border crossing, customs clearance time for freight is 15 hours. One of the problems in this regard concerns institutional coordination to exercise controls and implement trade facilitation measures. With the improvements in infrastructure and these processes—i.e. implementation of the one-stop window and computerized processes—clearance time would be reduced by 87%.²⁴

- 1.19 Panama's labor market does not have the necessary supply of human resources to perform the managerial and technical functions in the logistics field. The main cause is the lack of a human resources strategy for the logistics sector that includes a permanent plan of staff renewal and professional training. Of the 60 disciplines required for the logistics field, only 29 are taught in the country. The current deficit is estimated to be 16,000 people, which represents more than 13% of the total number of professionals in the sector. This deficit could exceed 100,000 people in the next 10 years.²⁵
- 1.20 The main advances achieved in the first operation were: (i) signing of an interagency agreement between the Panama Maritime Authority (AMP) and the Panama Canal Authority (ACP) to design a ports one-stop window (VUP); (ii) approval of the institutional framework for coordinating the work of the directors of one-stop foreign trade windows (VUCE) in Costa Rica and Panama; (iii) decision to incorporate the VUCE in the IT platform of the Integrated Customs Management System (SIGA); (iv) implementation of the mandate to digitize the National Logistics System (SLN); (v) regulation of measures to facilitate the sharing of statistical information between the AMP and ANA; and (vi) formulation of a strategy to expand the supply of human resources in the area of logistics.
- 1.21 This second operation will focus on harmonizing the processes and the sharing of information between public agencies; implementing the measures agreed upon in the Central American Council of Ministers for Economic Integration (COMIECO), approving the bill for the ratification of the World Trade Organization's Agreement on Trade Facilitation – Bali Package; moving ahead

²² The VUCE is not fully automated and does not integrate all agencies (only three have automated systems) (PNLOG Diagnostic Assessment, 2013) ([optional electronic link 7](#)).

²³ Panama has yet to fully implement the Convention on Facilitation of International Maritime Traffic (FAL 65 convention), the Bali Package, or the short-term measures agreed upon by the Central American Council of Ministers for Economic Integration (COMIECO), which seek to streamline the customs processes of its member countries.

²⁴ The particulars are available for reference in the following reports: *Estudios de Tiempos Utilizando Teoría de Colas en el Puesto Fronterizo Paso Canoas* [Time Studies based on Queuing Theory for the Paso Canoas Border Crossing] by Georgia Tech ([optional electronic link 15](#)); and *Diseño de un Esquema Operativo de Control y Facilitación para los Centros de Control Integrado de Paso Canoas* [Design of a Control and Facilitation Operating Scheme for the Integrated Control Centers of Paso Canoas] by EPYPSA ([optional electronic link 16](#)).

²⁵ *Estudio de Necesidades, Ofertas Académicas y Plan Piloto de Formación a nivel Técnica en Logística* [Study of Needs, Academic Programs, and Pilot Plan for Technical Training in Logistics], IDB ([optional electronic link 9](#)).

on the incorporation in the SIGA and VUCE of changes in accordance with Uniform Customs Code (CAUCA) and the Uniform Customs Code Regulations (RECAUCA); developing the conceptual design of the master plan for complete digitization of the National Logistics System; and developing a logistics training plan (paragraph 1.42).

- 1.22 **Summary of the rationale for the programmatic series.** The first operation focused on establishing reform priorities and the institutional framework required to implement them. This second operation focuses on formulating the necessary legal, planning, and process improvement instruments. The third operation will focus on the securing approval of the legal instruments—whether through the enactment of laws or presenting legislation in the Assembly²⁶—and on developing planning instruments, which will establish a concrete, long-term link with public policies. In addition, during all three operations, conditions will be established to ensure the sustainability and continuity of the reforms.

B. Rationale for the project, strategic alignment, and the Bank’s experience in the sector

- 1.23 **Project rationale.** The logistics sector is strategic for Panama due to its economic significance and role as an engine of growth for the country—creating jobs and generating foreign exchange. By linking the various productive activities, the logistics sector fosters economic growth and enhances the competitiveness of national production. The government’s priorities in terms of the sector’s development, which are reflected in the PNLOG and the Government National Plan, revolve around three subsystems: (i) the canal cluster’s VALS hub; (ii) logistics to support the agriculture sector;²⁷ and (iii) logistics to support regional trade.

- 1.24 **Correlation between reforms in the logistics sector, foreign trade, and economic growth.** According to empirical international evidence, institutional reforms in the logistics and foreign trade sector have a positive correlation with economic growth²⁸ and increased logistics FDI.²⁹ Countries in the region such as

²⁶ The enactment of a law will be proposed when required by subsequent conditions. As a general practice, however, when a law is presented to the Assembly, the obligations of the Executive Branch of government are considered fulfilled and the conditions for moving ahead with the reforms are met.

²⁷ The reforms are expected to spur the growth of the country’s agriculture sector, since the logistics strategy and plans will ensure priority for investment driven by sector demand (e.g. warehouses for perishable goods in the cold chain, the upgrading of ports located closest to production centers for export activities, and investment in road infrastructure); customs regulations and trade facilitation will shorten the clearance time for goods, which, in the case of perishable products, is very important.

²⁸ [*The impact of business regulatory reforms on economic growth. Journal of The Japanese and International Economies. Haidar, 2012.*](#) The author notes that “[E]ach positive reform in trading-across-borders regulations (i.e. time, costs, and procedures needed to export or import a cargo) is associated with a 0.88% increase in average economic growth rate” (page 287).

²⁹ [*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. In *The Economic Growth Effect of Logistics Industry FDI Analysis*, Wang and Wang conclude that a 1% increase in logistics FDI in China promotes economic growth of 0.413%.

Colombia³⁰ and Uruguay³¹ have made progress instituting significant reforms in their logistics management as a competitiveness tool. Countries such as Singapore, which has become a global benchmark for logistics performance, have been including logistics as a government policy for more than 50 years.³² Behar, Manners, and Nelson concluded that by improving logistics performance a country can raise exports by 8%.³³

- 1.25 **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 pillars³⁴ of the strategy on the diversification and productivity of the economic base. In addition, the government has identified the actions that must be taken to develop the logistics subsystems in various areas, including: (i) logistics services and infrastructure; (ii) legal and institutional framework; (iii) human resources and innovation; (iv) foreign trade processes; and (v) financing ([optional electronic link 5](#)).
- 1.26 **Bank support in Panama's logistics sector.** The Bank's support began in 2012 in connection with the Mesoamerica Project, starting with regional studies and diagnostic assessments.³⁵ In 2013, the Bank approved technical cooperation project PN-T1108, through which it supported the formulation of: (i) the PNLOG in a participatory manner through working groups with the private sector; and (ii) a basic technical document on formulation of the PNLOG and the National Logistics System Law, among others. In addition, the Bank made two consultants available to the LCO, and has approved a nonreimbursable technical cooperation project³⁶ to provide additional support for the unit's operation and for sector planning. Three loan operations are also in preparation at the Bank, involving logistics activities that complement and support the implementation of the policies.³⁷

³⁰ As a result of a policy-based loan (CO-L1090) and the Bank's technical cooperation support, Colombia implemented the national logistics policy and other key reforms in the sector.

³¹ 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.

³² [What Panama needs to become the Singapore of Latin America?](#) Gómez, Carlos, Georgia Tech, 2013.

³³ [Exports and International Logistics, 2011](#). The authors examine the relationship between improving the efficiency of customs procedures and the clearance of goods (using LPI sub-indicators) and the growth of exports.

³⁴ Together with the agriculture, rural development, tourism, and mining sectors.

³⁵ Analysis, strategy, and instruments to improve freight logistics and trade in Mesoamerica. IDB, 2013. This study examines logistics, transport services, trade facilitation measures and customs, internal distribution costs, and bottlenecks in the region ([optional electronic link 11](#)).

³⁶ In November 2015, the Bank approved technical cooperation project PN-T1140 in the amount of US\$400,000 from the Spanish General Fund. In addition, technical cooperation project PN-T1144 is in preparation and will support the National Land Use Policy.

³⁷ Program to Improve the Competitiveness and Public Services through e-Government (PN-L1114), which addresses support for a logistics platform, one-stop window, and the SIGA; Land Border Crossing Integration Program (PN-L1107), which addresses border infrastructure; and Innovation for Social Inclusion and Competitiveness (PN-L1117), which addresses training.

- 1.27 This program consolidates this support through a policy-based loan that addresses the country's financing needs, 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.
- 1.28 **The Bank's experience in other reforms of the transport and logistics sector.** The Bank has worked on six policy reform operations in the transport sector in the region,³⁸ yielding, *inter alia*, the following lessons learned that have been applied to this operation: (i) provide up-to-date regulatory instruments, which is addressed with the legal framework for customs; (ii) provide integrated planning tools, which has been applied to this operation by formulating a PNLOG and master plans; (iii) with Bank support, consolidate technical support groups in the coordination units, which is addressed by including strengthening of the LCO; (iv) strengthen the dialogue with the private sector, which is addressed by establishing the consultative committee within the Logistics Cabinet; and (v) seek interagency coordination at the highest level of government, which is achieved by strengthening the Logistics Council under the Ministry of the Presidency. The Program to Support the National Logistics Policy in Colombia (CO-L1090) approved in 2011 is noteworthy 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. Colombia now has institutions that are aligned under a national logistics policy, as well as an efficient national planning system with clear indicators.³⁹
- 1.29 **Strategic alignment.** The program is consistent with the Bank's country strategy with Panama 2015-2019 (document GN-2838)⁴⁰ since it furthers the objective of enhancing logistics services, efficiency, and connectivity of the productive infrastructure; and is consistent with the National Logistic System's increased competitiveness indicator. The program is also consistent with the Update to the Institutional Strategy 2010-2020 (document GN-2788-5) and in line with the development challenge of economic integration in that it facilitates alignment with integration instruments and policies through the reforms necessary to implement the VUCE, the harmonization and implementation of regional agreements, and the complete digitization of the logistics system, thereby helping to increase the value of Panamanian goods and services exports. In accordance with the Sector Strategy to Support Competitive Global and Regional Integration (document GN 2565-4), the operation is defined as an operation of: (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 ([optional electronic link 13](#)). The main integration area on which this

³⁸ 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).

³⁹ Evolution of the National Logistics Policy in Colombia and the Bank's support, IDB, 2014 ([optional electronic link 12](#)).

⁴⁰ The project is included in the [Country Program Document 2016](#).

operation focuses is institutional strengthening and capacity building.⁴¹ Lastly, according to the alignment analysis based on the indicators of the Corporate Results Framework (CRF) 2016-2019, the results indicator “average customs clearance time at Paso Canoas” set out in the matrix is similar and equivalent to the CRF indicator associated with processing times of internationally traded good and services by the responsible public agencies, thus its contribution also applies.

- 1.30 The program is also aligned with the IDB Infrastructure Strategy, Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), 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 (document GN-2740-3), in the dimensions of success related to: (i) developed, efficient logistics networks; (ii) sustainable trade integration corridors; and (iii) institutions with the capacity to generate and implement policies in the transportation sector and in the strategic area of logistics.

C. Proposed program

- 1.31 **Objective.** The program’s objective 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) 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, which will help to improve investment planning in the transport and logistics sector, expand the surface area devoted to logistics in use, reduce the clearance time of goods, and provide human resources for the logistics area.

- 1.32 **Beneficiaries.** The main program beneficiaries are Panamanian producers⁴² who will have better access to international markets, logistics services firms⁴³ that will benefit from better infrastructure and connectivity, and the general population that will benefit from the country’s growth and the creation of employment opportunities.

D. Description of components

- 1.33 **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.

⁴¹ The pillar of the integration strategy related to the software area is aligned with operations that support such actions as policy reforms, activities associated with the regulatory framework, institutional strengthening, and development of the capacities necessary to facilitate the cross-border movement or transaction of goods, services, capital, direct investment, people, and technology, with the aim of enhancing the integration of national systems and private operators in the global economy.

⁴² Panama has a total of 245,105 producers, according to the Seventh National Agricultural Census 2011, National Institute of Statistics and Census (INEC), an agency of the Office of the Comptroller General of the Republic.

⁴³ A total of 300 companies. Source: [Directory of Logistics Services of the Georgia Tech Logistics Platform](#).

- 1.34 **Component II. Reform and consolidation of the regulatory and institutional framework for the transport and logistics sector.** This component is divided into two subcomponents, with their respective objectives.
- 1.35 **Subcomponent II.1. Reform of the regulatory framework for logistics.** The objective is to support the reform of the regulatory framework for logistics, which will introduce a long-term vision and guidelines for the sector. The following policy reforms have been agreed upon for the second operation: (i) Logistics Cabinet's approval of the PNLOG, including objectives, programs, and projects;⁴⁴ (ii) Logistics Cabinet's approval of the National Logistics Strategy, including the vision for the sector, approach strategy, and monitoring system;⁴⁵ (iii) approval of the new legal framework for customs, which will ensure harmonization with Central America's regional customs code. The new legal framework for customs includes the simplification of customs formalities, the facilitation of processes, and the creation of new areas of customs-related responsibility for the Customs Criminal Court and the Public Defender's Office;⁴⁶ and (iv) the AMP's approval of an FDI development plan for ancillary maritime services.
- 1.36 The third operation is expected to include: (i) submission of the draft National Logistics Law to the Logistics Cabinet; (ii) approval of the legal framework for customs and its regulations that will ensure harmonization with the Central America's regional customs code; and (iii) evaluation of the actions and outcomes of the investment plan in ancillary maritime services.
- 1.37 **Subcomponent II.2. Consolidation of the institutional framework for logistics and transport.** The objective is to support the strengthening of the institutional framework by setting up high-level entities that will coordinate the implementation of plans and projects, and facilitate decision-making among key sector institutions. The expected policy reforms for the second operation are: (i) strengthening of the actions of the LCO via creation of a permanent consultative committee comprised of private sector representatives and approval of the LCO's multiyear work plan, including the allocation of human and technical resources for the preparation of a National Logistics System bill and the definition of monitoring indicators and monitoring and evaluation arrangements;⁴⁷ and (ii) 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.

⁴⁴ The indicative condition established in the first operation is adjusted as follows: the name of the PMLOG instrument is now PNLOG to reflect its official name. Also, the approval of the instrument falls under the purview of the Logistics Cabinet.

⁴⁵ The indicative condition established in the first operation is adjusted as follows: the approval of the instrument falls under the purview of the Logistics Cabinet.

⁴⁶ Following an extensive consultation process that included the private sector, the decision was made to divide the legal framework into two parts: an executive decree that includes the aspects related to the simplification of customs procedures; and the Financial Action Task Force (FATF) Law that deals with criminal matters. Dividing the legal framework this way strengthens the condition, since the aforementioned decree and law must be approved at the time of disbursement.

⁴⁷ The indicative condition established in the first operation is strengthened with the creation of the private-sector consultative committee.

- 1.38 The third operation is expected to include: (i) evaluation of the actions and outcomes of the LCO's work, through the implementation and analysis of monitoring indicators and monitoring and evaluation arrangements; and (ii) 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.
- 1.39 **Component III. Establishing and modernizing comprehensive planning and trade facilitation processes.** This component is divided into two subcomponents with their respective objectives.
- 1.40 **Subcomponent III.1. Comprehensive planning processes.** Support the strengthening of comprehensive planning in order to reinforce national logistics development, value-added activities, and logistics services that support the agriculture sector. This second operation includes: (i) formulation of the PTLZI, including the following: 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; and strategic environmental evaluation; (ii) formulation of the PTML, with monitoring of the working groups' activities. The PMTL should include: 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; proposal on relevant transport and logistics infrastructure projects; and prioritization of investments and proposed model for managing private investments in infrastructure; (iii) approval of the MIVIOT Strategic Plan, which contain the guidelines of the National Land Use Policy, focused on the country's production and logistics potential and the approval of land use regulations for urban development;⁴⁸ and (iv) 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.
- 1.41 The third operation is expected to include: (i) Logistics Cabinet's approval of the PTLZI; (ii) formulation of the rules for the strategic environmental evaluation of the infrastructure plans (PTLZI, PMTL, etc.); (iii) 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 coast.
- 1.42 **Subcomponent III.2. Modernization of trade facilitation processes.** Support the coordination of the processes among the different agencies involved in foreign trade (ANA, AMP, ACP), the adaption to regional integration procedures, and narrowing of the human resources gap. This second operation includes: (i) approval of processes harmonized between the ACP and the AMP systems for receiving ships in the canal's area of influence under the terms of the FAL 65

⁴⁸ The indicative condition established in the first operation is strengthened with the addition of the MIVIOT Strategic Plan and rules governing land use planning for urban and rural development.

convention; (ii) approval and publication of the law for ratification of the WTO's Agreement on Trade Facilitation – Bali Package;⁴⁹ (iii) identification of trade facilitation measures agreed upon in the framework of COMIECO for implementation in the short term in the Republic of Panama. These measures should include the allocation of a budget or financial resources for its implementation;⁵⁰ (iv) 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); (v) Government Intelligence Agency's (AIG) approval of the master plan for complete digitization of the National Logistics System, including regulation of data transfers and security and standardization of the databases of government agencies;⁵¹ (vi) approval of the arrangement for sharing statistical information between the AMP and the ANA in order to obtain information from individual companies; and (vii) submission of the pilot logistics training plan to the Logistics Cabinet.

- 1.43 The third operation is expected to include: (i) integration of the ACP and AMP systems; (ii) submission of the bill for ratification of the WTO's Agreement on Trade Facilitation – Bali Package to the Assembly; (iii) implementation of at least three of the short-term measures agreed upon by COMIECO; (iv) 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); (v) implementation of the master plan for complete digitization of the National Logistics System; (vi) evaluation of the actions and outcomes of the arrangement for sharing statistical information between the AMP and ANA; and (vii) implementation of the pilot logistics training plan and incorporation of this plan in the activities carried out at the working groups with the private sector.
- 1.44 The adjustments in policy actions with respect to the triggers defined in the first operation, included in this document (footnotes 44 through 49) and explained in detail in the comparative matrix ([optional electronic link 18](#)), have no impact on the objectives of the programmatic series or this operation.

E. Key results indicators

- 1.45 According to the Results Matrix ([required electronic link 3](#)), the program's main expected impacts and outcomes in the period 2014-2020 include: (a) impacts: (i) improvement in the Logistics Performance Index (LPI); (ii) increase in goods and services exports with respect to GDP; and (b) outcomes: (i) increase in public investment carried out in the transport and logistics sector with respect to total public investment; (ii) reduction in the average customs clearance time for Central America; (iii) increase in the number of ports able to export Panamanian agricultural goods; (iv) increase in the percentage of logistics surface area in use with respect to total logistics surface area available; and (v) increase in courses

⁴⁹ The indicative condition established in the first operation is strengthened with the progress made in the law's publication in the Official Gazette.

⁵⁰ Financed by technical cooperation project RG-T2547.

⁵¹ The indicative condition established in the first operation is adjusted to make the Government Intelligence Agency responsible for the instrument's approval.

or certifications for occupational profiles in the logistics disciplines required by the country.

- 1.46 **Economic analysis.** To calculate the contribution of the program's policy actions to the growth of Panama's GDP, two specifications of input-product models⁵² were used for the 14 sectors on which the National Institute of Statistics and Census (INEC) reports.⁵³ These models were built on the basis of the Panamanian economy's supply and use matrixes, following the methodology proposed by Eurostat (2008). From the input-product matrixes, Leontief inverse matrixes were calculated, which convert the final demand increments in the sectors of interest—01, 02, and 09—into increases in GDP by sector and total GDP. The total increases in GDP found for 2018—the year the catalytic effects of operation PN-L1119 will begin to materialize—were of the following magnitude: in the base case scenario, US\$232 million in 2014 dollars (0.36% of GDP); in the high scenario, US\$680 million in 2014 dollars (1.04% of GDP); and in the low scenario, US\$188 million in 2014 dollars (0.29% of GDP). These impacts will materialize over the operation's period of influence (20 years) in an order of magnitude consistent with the nature of the operation, and are robust to the two specifications of the models used. An ex post economic evaluation will be conducted at the end of the third operation using the same methodology as the ex ante economic analysis ([optional electronic link 1](#)) ([optional electronic link 2](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The program is structured under the programmatic policy-based loan (PBL) modality (document CS-3633-1), and is comprised of three separate but technically related operations. All of the conditions established in the first operation were satisfactorily fulfilled. The policy measures for each of the components are defined in the Policy Matrix (Annex II) and supported by the Panamanian government's Policy Letter ([required electronic link 1](#)). This second operation will be for up to US\$200 million, with a single disbursement scheduled for 2016. The public system's gross financing needs for the period 2015-2019 are estimated at US\$12 billion,⁵⁴ or US\$2.4 billion per year. This operation is therefore equivalent to 8.3% of needs in 2016. The definition and amount of the third operation will be based on the country's financing needs and the programming exercise with the Bank. The PBL modality is best suited to the dynamic of the policy dialogue with the country's authorities, given the complexity

⁵² Within the family of general equilibrium models, input-output models represent an initial static approach to the transactions between sectors to produce the different types of goods and services (constant proportions between the input and outputs are assumed).

⁵³ These sectors are: 01 agriculture, livestock, hunting, and forestry; 02 fishing; 03 mines and quarries; 04 manufacturing; 05 electric power, gas, and water; 06 construction; 07 wholesale and retail trade; repair of automotive vehicles and motorcycles; personal items, and household items; 08 hotels and restaurants; 09 transport, warehousing, and communications; 10 financial intermediation; 11 real estate, business, and rental activities; 12 private education; 13 social services and private health care activities; and 14 other community, social, and personal services.

⁵⁴ Ministry of Economy and Finance.

of the actions required for the reforms, which may necessitate making adjustments to future trigger mechanisms based on the new knowledge acquired.

B. Environmental and social risks

- 2.2 In accordance with the Environment and Safeguards Compliance Policy (document GN-2208-20 and Operational Policy OP-703), the provisions of Directive B.13 apply to this loan, so the program does not require classification. The policy changes and 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 the Land Use Plan, 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 and modernization of the new Ministry of Environment as well as designing regulations for the strategic environmental evaluation and improvement of formalities. 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 Operational 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 project risks

- 2.4 The principal identified risks are: (i) problems in the operation and sustainability of the Logistics Cabinet; and (ii) the possibility that the private sector's expectations will not be met when the reform is implemented. These risks will be mitigated with the formulation of a five-year work plan with support from Georgia Tech in the execution of the works (with resources from other sources, such as the Ministry of the Presidency for the LCO and Georgia Tech, the ACP for the Plan for the Transoceanic Zone, the logistics strategy with resources from the IDB, and other sources from multilateral institutions such as the CAF), and with the creation of a private-sector consultative body under the Logistics Cabinet. The Bank will continue providing technical support to strengthen the LCO, via a technical-cooperation project that has already been approved.
- 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. Moreover, the Panamanian government's commitment to the reforms has been confirmed through the fulfillment of its commitments in the first operation of the programmatic series, and in the design of this operation without relevant changes in the sequence of the reforms (paragraph 1.44).

III. IMPLEMENTATION AND MANAGEMENT PLAN

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 Ministry of Economy and Finance, 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 institutions responsible for the fulfillment of the defined policies and the executing agency are members of the Logistics Cabinet, and meet regularly to discuss the progress made with respect to logistics policies and the PBL.

B. Summary of arrangements for monitoring results

- 3.2 **Special contractual conditions.** The single disbursement will be contingent upon the borrower's fulfillment of the policy reform conditions as stipulated in the Policy Matrix ([Annex II](#)) and the other conditions set out in the loan contract.
- 3.3 The borrower and the Bank have agreed to monitor program execution through annual monitoring meetings as described in the monitoring and evaluation plan ([optional electronic link 19](#)). The Ministry of Economy and Finance will coordinate fulfillment of the commitments stipulated for the second operation, as well as the other commitments, and will be responsible for providing information on the progress made with respect to the Policy Matrix ([Annex II](#)) and Results Matrix ([required electronic link 3](#)), and will also send evidence of the means of verification to the Bank. The indicators in the Results Matrix will guide the monitoring of the program's progress and enable its evaluation after the last operation has been completed. Information will be collected on a quarterly basis and monitored biannually, with the pertinent explanation provided in the event of deviations.
- 3.4 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 planned objectives, and must be submitted within 90 days following the final disbursement. The borrower and the Bank have agreed upon the indicators, the baseline, and the targets for the final evaluation.

IV. POLICY LETTER

- 4.1 **Policy Letter.** The Policy Letter ([required electronic link 1](#)) presented by the Ministry of Economy and Finance is aligned with the operation's Policy Matrix, reflecting the agreement between the Bank and the Panamanian government regarding the macroeconomic and sector policies to be supported through this program. The letter describes the main components of the Panamanian government's strategy for this program and confirms its commitment to implement the agreed upon activities.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Development Challenges & Cross-cutting Themes	-Economic Integration		
Regional Context Indicators	-Growth rate of the value of total exports of goods and services (%)		
Country Development Results Indicators	-Public agencies' processing times of international trade of goods and services *		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2838	Deepen the logistics services, efficiency, and connectivity of the productive infrastructure.	
Country Program Results Matrix	Not available	Document under discussion.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.2		10
3. Evidence-based Assessment & Solution	9.6	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	3.6		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	9.5	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	2.5		
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	8.6	33.33%	10
5.1 Monitoring Mechanisms	1.5		
5.2 Evaluation Plan	7.1		
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)	Yes	Financial Management: External control.	
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	The Bank has provided support for the sector through the following technical cooperations: RG-T1660, PN-T1108, PN-T1140, RG-T2275.	
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	Yes	One of the objectives of the impact assessment is to generate knowledge regarding the effectiveness of implementing policy measures aimed at transport and logistics sector in the context of Panama.	

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

The transport and logistics sector in Panama had an average annual growth of 8.9% over the past five years and has contributed with 18% of the GDP (2015). Despite the sector's growth and importance, the lack of a long-term logistic policy; a legal, regulatory and institutional framework; and incentives for incorporating local production to regional and international markets, have limited the supply of value-added logistic services and the response to the need of connectivity among domestic markets in the country. The PBP aims to contribute to the resolution of these limitations. The specific objectives are: (i) strengthening the legal and regulatory framework; (ii) strengthening the institutional framework for logistics and transport; and (iii) strengthening the system of multi-sectorial planning and trade facilitation. The purpose is to achieve better investment planning in the field of logistics and transportation; the expansion of the logistics area used; reducing the clearance time of goods; and the provision of human resources.

The document presents a good diagnosis and explains the logic of the intervention through three main components: the first aimed at ensuring macroeconomic stability; the second to strengthen the regulatory and institutional framework for logistics and transport sectors; and the third focuses on improving processes in integrated planning and trade facilitation.

The economic analysis was developed based on the input-output model for Panama, which was subject to an impact analysis of changes in the final demand because of the incremental values attributable to reforms and public investments on specific sectors of the economy. The impact in benefits to the economy is positive and is estimated between 0.29% and 1.04% points of GDP in 2018.

The project presents an evaluation plan which will generate knowledge about the effectiveness of measures implemented through two assessments: the first is a synthetic control evaluation to demonstrate the impact of policy actions implemented on the ratio of goods and services exported vis-à-vis the GDP; the second is a before and after analysis of the outcome indicators.

The overall assessed risk of the operation is low. The risks identified as medium correspond to possible problems in the operation, sustainability of the logistic Cabinet and uncertainties in expectations of the private sector in the implementation of reforms. All the risks classified as medium present mitigation measures.

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; (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, which will help to increase investment in the transport and logistics sector (ports, airport, and roads), expand the surface area devoted to logistics in use, reduce clearance time for goods, and provide human resources for the logistics area.

OBJECTIVE AND SCOPE	RESPONSIBLE AGENCY	POLICY REFORMS – PROGRAM I	POLICY REFORMS – PROGRAM II	POLICY REFORMS – PROGRAM III
Component I. Macroeconomic stability				
Contribute to the improvement of macroeconomic stability.		1.1. The borrower's macroeconomic framework is stable and consistent with the objectives of the program and the sector policy letter.	1.1. The borrower's macroeconomic framework is stable and consistent with the objectives of the program and the sector policy letter.	1.1. The borrower's macroeconomic framework is stable and consistent with the objectives of the program and the sector policy letter.
Component II. Reform and consolidation of the regulatory and institutional framework for logistics				
Subcomponent II.1 Reform of the regulatory framework for logistics				
Consolidation of a regulatory framework for logistics that introduces a long-term vision and establishes guidelines for the sector, including: <ul style="list-style-type: none"> • Objectives, programs, projects; • Long-term vision, approach strategy, and monitoring system; and • Policy guidelines, fundamental elements of the logistics sector, and institutional capabilities. 	Ministry of the Presidency (Logistics Cabinet)	2.1. Implementation of the mandate to formulate the Logistics Master Plan, the National Logistics Strategy, and the National Logistics Law in the Government Strategic Plan.	2.1. Logistics Cabinet's approval of the National Logistics Plan, including objectives, programs, and projects. 2.2. Logistics Cabinet's approval of the National Logistics Strategy, including the vision of the sector, approach strategy, and monitoring system.	2.1. Logistics Cabinet's approval and submission to the Cabinet Council of the draft National Logistics Law, including the policy guidelines, fundamental elements of the sector, and institutional capabilities.
Reform of the legal framework for customs in order to comply with the protocol for Panama's economic integration with the Central American Integration System, and to harmonize it with the Central American regional Uniform Customs Code (CAUCA) and Uniform Customs Code Regulations (RECAUCA).	National Customs Authority (ANA) (preparation) Ministry of Commerce and Industry (MICI) (preparation) Cabinet Council (approval)	3.1. Preparation of the draft Customs Law that will ensure harmonization with Central America's regional customs code, including the simplification of customs formalities, the facilitation of processes, and the creation of the Customs Criminal Court and the Public Defender's Office.	3.1. Approval of the new legal framework for customs that will ensure harmonization with Central America's regional customs code. The new legal framework for customs will include: (i) the simplification of customs formalities, (ii) the facilitation of processes; and (iii) the creation of new areas of customs-related responsibility for the Customs Criminal Court and the Public Defender's Office.	3.1. Approval of the regulations of the new legal framework for customs that will ensure harmonization with Central America's regional customs code, including the simplification of customs formalities, the facilitation of processes, and the creation of the Customs Criminal Court and the Public Defender's Office.

<p>Modification of the legal framework for maritime services in order to stimulate foreign direct investment (FDI) in the ancillary maritime services subsector.</p>	<p>Panama Maritime Authority (AMP)</p>	<p>4.1. Modification of the legal framework for maritime services in order to stimulate FDI, eliminating the provision requiring bunkering companies to have 75% Panamanian capital.</p>	<p>4.1. AMP's approval of an FDI development plan for ancillary maritime services.</p>	<p>4.1. Evaluation of the actions and outcomes of the FDI development plan.</p>
<p>Subcomponent II.2. Consolidation of the institutional framework for logistics and transport</p>				
<p>Strengthening of the organizational framework and institutional context for the purpose of consolidating an interagency entity at the highest level of government that will facilitate coordination and decision-making in the logistics area, integrating the private sector.</p>	<p>Ministry of the Presidency Logistics Coordination Office (LCO) Ministry of the Presidency LCO</p>	<p>5.1. Creation of the Competitiveness and Logistics Department by modifying the mandate of the Economic Affairs and Competitiveness Department. 5.2. Creation of the LCO in order to strengthen the technical work of the Logistics Cabinet. 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 institutions of the public, private, and academic sectors; • Work plan to organize working groups of the public and private sectors; and • Calendar of activities to raise awareness about the National Logistics Plan. 	<p>5.1. Strengthening of the actions of the LCO via creation of a permanent, private-sector consultative committee and the LCO's approval of the 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.</p>	<p>5.1. Evaluation of the actions and outcomes of the LCO's work by implementing and analyzing monitoring indicators and monitoring and evaluation arrangements.</p>
<p>Strengthening of an interagency body at the highest level of government to facilitate coordination and decision-making for all key institutions of the logistics sector, and also integrating the private sector.</p>	<p>Ministry of the Presidency (LCO)</p>	<p>6.1. Confirmation of the Logistics Cabinet as the 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>6.1. 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>6.1. 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				
<p>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.</p>	<p>Ministry of the Presidency Logistics Cabinet, Ministry of Environment Panama Canal Authority (ACP)</p>	<p>7.1. Formation of an interagency committee that will begin the process of formulating the PTLZI by defining its scope.</p>	<p>7.1. Formulation of the PTLZI, including the following:</p> <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; and • Strategic environmental evaluation. 	<p>7.1. Logistics Cabinet's approval of the PTLZI, which should include the items identified in the second reform program</p> <p>7.2. Formulation of strategic environmental evaluation regulations for the infrastructure plans (PTLZI, PMTL, etc.).</p>
<p>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.</p>	<p>Ministry of the Presidency LCO</p>	<p>8.1. Formulation and approval of the Strategic Air Cargo Plan for the Tocumén International Airport, as input for the PMTL.</p>	<p>8.1. Formulation of the PMTL, with monitoring of the plan added to the activities of the working groups. The PMTL should include:</p> <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 initiative in the area of infrastructure and services; • Proposal of the relevant transport and logistics infrastructure projects; and • Prioritization of investments and proposed models for managing private investments in infrastructure. 	<p>8.1. Logistics Cabinet's approval of the PMTL, which should include the areas identified in the second reform program.</p>

<p>Develop national land use planning instruments to ensure the appropriate use of the country's production and logistics potential.</p>	<p>Ministry of Housing and Land Use Planning (MIVIOT)</p> <p>MIVIOT</p>	<p>9.1. Implementation of the mandate to formulate the National Land Use Policy 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.</p> <p>9.2. Call for public consultation of the Urban Development Plan for metropolitan areas along the Pacific and Atlantic, in order to identify priority areas for strengthening national logistics development.</p>	<p>9.1. Approval of the MIVIOT Strategic Plan with the guidelines of the National Land Use Policy, focused on the country's production and logistics potential, and the approval of land use regulations for urban development.</p> <p>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.</p>	<p>9.1. Submission to the Assembly of the Land Development, Use, and Integration Law, focused on the country's production and logistics potential.</p> <p>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.</p>
<p>Subcomponent III.2. Modernization of trade facilitation processes</p>				
<p>Implement the commitments assumed by Panama with respect to the trade facilitation agreements established with international organizations to modernize trade facilitation:</p> <ul style="list-style-type: none"> • The commitments in the FAL 65 convention on Facilitation of International Maritime Traffic established in the International Maritime Organization (IMO); and • The commitments in the World Trade Organization's Agreement on Trade Facilitation – Bali Package. 	<p>AMP (approval)</p> <p>ACP</p> <p>MICI</p>	<p>10.1. Interagency agreement between the AMP and the ACP to design a ports one-stop window in connection with the meetings of the National Trade Facilitation Committee and the FAL 65 convention.</p>	<p>10.1. Approval of processes harmonized between the ship reception systems of the ACP and the AMP in the canal's area of influence under the terms of the FAL 65 convention.</p> <p>10.2. Approval and publication of the law for approval of the WTO's Agreement on Trade Facilitation – Bali Package.</p>	<p>10.1. Integration of the ACP and AMP systems in a single IT platform.</p> <p>10.2. Submission of the bill to the Assembly for approval of the WTO's Agreement on Trade Facilitation – Bali Package.</p>
<p>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).</p>	<p>ANA</p>	<p>11.1. Approval of the institutional framework for coordinating the work of directors of one-stop window systems in Costa Rica and Panama, to streamline imports and export formalities and the sharing of the required documentation.</p>	<p>11.1. Identification of trade facilitation measures agreed upon in the framework of COMIECO for implementation in the short term in the Republic of Panama. These measures should include the allocation of a budget or financial resources for their implementation.</p>	<p>11.1. Implementation of at least three short-term measures agreed upon by COMIECO.</p>

<p>Promote the systematization of foreign trade control operations, including:</p> <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); and • Development of the foreign trade one-stop window (VUCE). 	<p>ANA MICI</p>	<p>12.1. Creation of a unit responsible for receiving complaints and requests from users, as input for modernizing the SIGA.</p> <p>12.2. Incorporation of the VUCE in the SIGA IT platform.</p>	<p>12.1. 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).</p>	<p>12.1. 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.</p>
<p>Promote the complete traceability of merchandise flows through the complete digitization of the activities that support the oversight of foreign trade operations.</p>	<p>Government Intelligence Agency (AIG)</p>	<p>13.1. 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:</p> <ul style="list-style-type: none"> (i) regulation of data transfers and security; and (ii) standardization of the databases of government agencies. 	<p>13.1. The AIG's approval of the master plan for complete digitization of the National Logistics System, including:</p> <ul style="list-style-type: none"> (i) regulation of data transfers and security; and (ii) standardization of the databases of government agencies. 	<p>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.</p>
<p>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.</p>	<p>AMP ANA (approval)</p>	<p>14.1. Regulation of measures to facilitate the sharing of statistical information between the AMP and the ANA.</p>	<p>14.1. Approval of arrangements for sharing statistical information between the AMP and the ANA in order to obtain information from individual companies.</p>	<p>14.1. 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.</p>
<p>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.</p>	<p>Ministry of the Presidency LCO</p>	<p>15.1. Formulation of a strategy to expand the supply of technical human resource in the area of logistics in Panama, including guidelines for a pilot plan for training.</p>	<p>15.1. Submission of the pilot logistics training plan to the Logistics Cabinet.</p>	<p>15.1. Implementation of the pilot logistics training plan and incorporation of this plan in the activities carried out at the working groups.</p>