

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

**GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE
PRODUCTIVE FABRIC AND EMPLOYMENT**

(PN-L1164)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Christian Schneider Talavera (IFD/CMF), Project Team Leader; Daniel Fonseca (IFD/CMF), Alternate Project Team Leader; Pau Puig, Sebastián Vargas, María Carmen Fernández, Isabelle Braly-Cartillier, Claudia Márquez, and Cynthia Martínez (IFD/CMF); Ana de Obaldia, Carlos Garcimartin, and Anabelle Wever (CID/CPN); Ezequiel Cambiasso and David Ochoa (VPC/FMP); Jan Petter Eskildsen (INO/FLI); Shirley Cañete (INE/TSP); Marion Le Pommellec and Olga Gómez (CSD/RND); Margarita Libby (INT/TIN); and Esteban de Dobrzynski (LEG/SGO).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING.....	1
	A. Background, problems to be addressed, and rationale	1
	B. Objectives, components, and cost	9
	C. Key results indicators	10
II.	FINANCING STRUCTURE AND MAIN RISKS.....	11
	A. Financing instruments	11
	B. Environmental and social risks	12
	C. Fiduciary risks	12
	D. Other key issues and risks.....	12
III.	IMPLEMENTATION AND MANAGEMENT PLAN	13
	A. Implementation arrangements	13
	B. Arrangements for monitoring results.....	16

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements (simplified format)

REQUIRED LINKS	
1.	Simplified monitoring and evaluation plan
2.	Environmental and social management report (ESMR)

OPTIONAL LINKS	
1.	Economic viability rationale
2.	Diagnostic assessment of problem with micro, small, and medium-sized enterprises (MSMEs)
3.	Bibliography
4.	Summary of the main economic, monetary, and financial measures adopted in response to the COVID-19 global pandemic emergency
5.	Panama: Vulnerability of productive sectors to the spread of COVID-19
6.	Credit Regulations
7.	Safeguards Policy Filter

ABBREVIATIONS

AMPYME	Micro, Small, and Medium-sized Enterprise Authority
CABEI	Central American Bank of Economic Integration
CCIYAP	Chamber of Commerce, Industry, and Agriculture of Panama
ECLAC	Economic Commission for Latin America and the Caribbean
ESMR	Environmental and social management report
FAP	Fondo de Ahorro de Panamá [Panamanian Savings Fund]
FIDEMICRO	Fideicomiso para el Microcrédito en Panamá [Microcredit Trust Fund]
GDP	Gross domestic product
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	Intermediary financial institution
IMF	International Monetary Fund
INEC	Instituto Nacional de Estadística y Censo [National Institute for Statistics and Census]
IRR	Internal rate of return
LAC	Latin America and the Caribbean
MEF	Ministry of Economy and Finance
MSMEs	Micro, small, and medium-sized enterprises
PROFIPYME	Programa de Financiamiento para las Micro y Pequeñas Empresas [Financing Program for Microenterprises and Small Businesses]
SBP	Superintendency of Banks of Panama
SDL	Special development loan
SMEs	Small and medium-sized enterprises
WHO	World Health Organization

PROJECT SUMMARY

PANAMA

GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE FABRIC AND EMPLOYMENT (PN-L1164)

Financial Terms and Conditions						
Borrower:			Flexible Financing Facility^(a)			
Republic of Panama			Amortization period:	25 years		
Executing agency:			Disbursement period:	2 years		
Banco Nacional de Panamá (BNP)			Grace period:	5.5 years ^(b)		
Source	Amount (US\$ million)	%	Interest rate:		LIBOR-based	
IDB (Ordinary Capital):	150	100	Credit fee:		^(c)	
			Inspection and supervision fee:		^(c)	
Total:	150	100	Weighted average life:		15.25 years	
			Currency of approval:		U.S. dollars	
Project at a Glance						
Project objective/description: The general objective of this project is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Panama amid the COVID-19 crisis. The specific objectives are to: (i) to support the short-term financial sustainability of MSMEs; and (ii) to promote the economic recovery of MSMEs through access to production-oriented finance.						
Special contractual conditions precedent to the first disbursement of the loan proceeds: The following will be special contractual conditions precedent to the first disbursement of the loan proceeds: (i) the entry into force of a subsidiary agreement between the Ministry of Economy and Finance (MEF), on behalf of the borrower, and BNP, as the executing agency, for the transfer of the loan proceeds and related obligations, under terms previously agreed upon with the Bank; and (ii) the approval and entry into force of the Credit Regulations , under terms previously agreed upon with the Bank (paragraph 3.8).						
Exceptions to Bank policies: None						
Strategic Alignment						
Challenges:^(d)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input 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, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

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

^(c) The credit fee and 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.

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems to be addressed, and rationale

- 1.1 **Background.** On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic. COVID-19 is a respiratory disease caused by the 2019 novel coronavirus, or nCoV-2019. As of 28 April 2020, the WHO has reported more than 2,900,000 confirmed cases in 213 countries, resulting in more than 202,000 deaths. Almost 181,000 cases of COVID-19 and 9,000 deaths have been reported in Latin America and the Caribbean, affecting every country in the region, while in Panama over 5,000 cases and 165 deaths have been reported.¹ According to the WHO, Panama is at level three of five in terms of its preparedness and capacity to manage public health events.² Numbers of cases, deaths, and affected countries are expected to continue to grow.
- 1.2 **Macroeconomic and/or social context.** In mid-2019, the Panamanian government approved a budget adjustment to decrease spending by US\$1.484 billion or 2.2% of gross domestic product (GDP). The new deficit limits were set at 3.5% of GDP for 2019, 2.75% for 2020, 2.5% for 2021, and 2.0% from 2022 on.³ The 2019 fiscal deficit closed at 3.1% of GDP, 0.4 points below the new regulatory ceiling. Under current conditions, there is considerable uncertainty and pressure on the country's economy and fiscal accounts resulting from the direct and indirect effects of COVID-19. Moreover, due to the COVID-19 crisis, the International Monetary Fund (IMF) projects that the deficit will reach 6.25% of GDP in 2020, instead of its initial 2.75% estimate prior to the pandemic. Panama's National Assembly approved a government proposal authorizing the Ministry of Economy and Finance (MEF) to present initiatives that exceed previously approved deficit ceilings set for the budget.
- 1.3 The economic impacts of COVID-19 will be felt through different channels at different times. The first, associated with the priority of saving lives in the very short term, is the direct costs of the health sector response. The second is the costs associated with the necessary changes in people's behavior to "flatten the curve" of the spread of COVID-19, which will contribute to saving lives. These behaviors may be the result of government mandates (suspend activities that lead to crowds, prevent cruise passengers from boarding and disembarking, limit contact in port with commercial vessel crews traveling internationally, establish and monitor in-home quarantines,⁴ temporary closings of commercial establishments and companies, etc.),⁵ decisions made by companies and other institutions (teleworking, production cuts, etc.), and decisions made by consumers (as a result of limiting social contact).
- 1.4 The changes in behavior will lead to a very significant economic downturn with immediate manifestations and lingering effects, even once the health emergency is

¹ See WHO COVID-19 Situation Dashboard at [Covid2020.who.int](https://covid2020.who.int), accessed 28 April 2020.

² See: [WHO COVID-19 Country Preparedness and Response Status for COVID-19](#) (28 April 2020).

³ See: [Law 102 - Deficit increase according to Ministry of Economy and Finance estimates](#) (31 October 2019).

⁴ See: [Cabinet Resolution 11 - Declaration of national state of emergency and other provisions](#) (13 March 2020).

⁵ See: [Executive Decree 500, approving additional health measures to reduce, mitigate, and control the spread of the COVID-19 pandemic in the country](#) (19 March 2020).

over. From a macroeconomic perspective, in addition to shrinking domestic demand, the Economic Commission for Latin America and the Caribbean (ECLAC) sees at least five channels through which the impacts of the crisis will be passed on to the region's economy⁶: (i) slowing economic activity of key trading partners that will impact the demand for exports; (ii) less demand for tourism services; (iii) interruption of global value chains; (iv) falling commodity prices; and (v) worsening financial terms. For general aspects of the intervention, see [optional link 2](#).

- 1.5 **Current constraints on access to finance for micro, small, and medium-sized enterprises (MSMEs) in Panama.**⁷ Estimates show that there are 200,000 MSMEs⁸ in Panama, which account for 96.3% of all companies and 49% of the country's total formal jobs. The average number of employees in Panama for microenterprises is 3; for small enterprises, 11; and for medium-sized enterprises, 26. With respect to revenue, formal MSMEs as a whole generated US\$6.5 billion in 2016, of which 17.5% was from microenterprises, 41.6% from small enterprises; and 40.9% from medium-sized enterprises.⁹
- 1.6 Unlike other Latin American and Caribbean countries, Panama has a relatively well developed financial market,¹⁰ ranked by the World Economic Forum as 33rd of 141 countries in terms of credit to the private sector as a percentage of GDP and as 44th for financing to small and medium-sized enterprises (SMEs) ([1] in [optional link 3](#)). While MSMEs receive good tenor conditions when they do obtain access to finance, there is a clear difference between their overall access and that of large companies. According to a 2017 analysis by the World Bank's International Finance Corporation, in Panama the finance gap for the MSME sector was US\$21 billion (only US\$6 billion of the US\$27 billion demand for finance was met). This gap is equivalent to 41% of GDP¹¹ and only accounts for 26% of the system's portfolio. The analysis also places Panama among the four countries in the region where MSMEs face the tightest credit constraints: obstacles with respect to providing collateral are higher for Panamanian MSMEs than for the average MSME in Latin America and the Caribbean. Information asymmetries, transaction costs, and high-risk perceptions for this sector have historically been factors that restricted access to finance. MSME financing disparities are based on: (i) the inability of these companies to provide the substantial, high-quality credit information required by financial institutions; (ii) the influence of the institutional and regulatory environment, particularly adequate specification of property rights, enforcement of financial contracts, and management of macrofinancial risks; (iii) the overall uncertainty and information asymmetry that may lead to a suboptimal allocation of credit; and (iv) the scaling-up costs of offering access to finance to more fragmented segments.¹² While in Panama these factors

⁶ See: [Press release by the Economic Commission for Latin America and the Caribbean](#) (19 March 2020).

⁷ See bibliography ([optional link 3](#)).

⁸ According to Law 8 creating the Micro, Small, and Medium Enterprise Authority (AMPYME) in 2000, MSMEs are defined as economic units generating gross income or annual billing of up to US\$2.5 million (microenterprises up to US\$150,000, small enterprises between US\$150,000 and US\$1 million, and medium-sized enterprises between US\$1 million and US\$2.5 million).

⁹ 2016 data from the National Institute of Statistics and Census.

¹⁰ The financial market is regulated and overseen by the Superintendency of Banks of Panama (SBP).

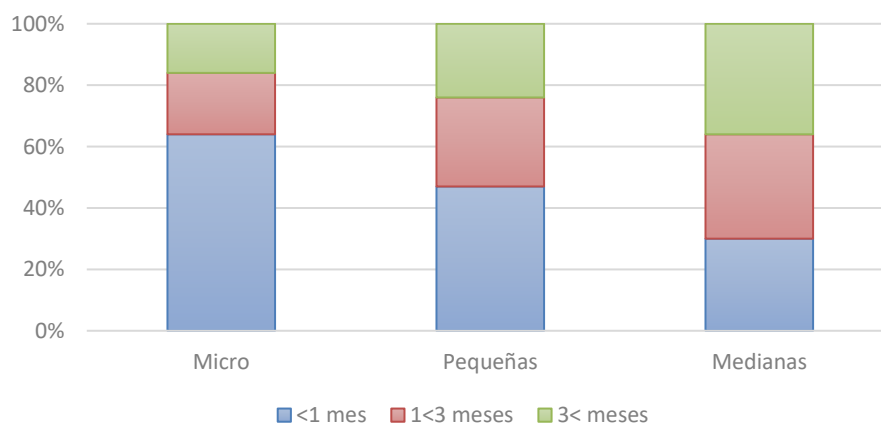
¹¹ *MSME Finance Gap*. [IFC](#).

¹² Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7). IDB, July 2017.

explain the historical gap, the financial system has overcome these barriers and gradually focused on the need to go beyond economies of scale to allocate a larger proportion of available capital for MSME loans. The existing gap could expand due to the current crisis conditions, as financial institutions need to increase loss provisions for their MSME loan portfolio to address the companies' higher risk profiles. Although the system still has relatively high levels of liquidity, funding largely depends on external sources that are already beginning to dry up, so the situation could deteriorate.¹³

1.7 Due to the pandemic's effects, the economic situation is expected to worsen the viability challenges that MSMEs face and their access to sources of finance, eroding their financial situation and thus their ability to meet their obligations. According to an April 2020 survey by the National Competitiveness Center ([2] in [optional link 3](#)), during the pandemic, MSMEs will be able to remain solvent based on their own resources as follows: (i) for up to one month, 64% of microenterprises, 47% of small enterprises, and 30% of medium-sized enterprises; and (ii) for more than three months, 16% of microenterprises, 24% of small enterprises, and 36% of medium-sized enterprises (see Figure 1). In addition, 27% of the MSMEs surveyed identified working capital as the key support they need from the government to weather the crisis. A survey by the Chamber of Commerce, Industry, and Agriculture of Panama (CCIYAP) showed similar results: 31% of companies would need to reduce staffing and operations if the emergency period is extended by three or four additional weeks. This is probably because, due to the COVID-19 emergency, 84% experienced a significant sales or revenue decrease. (For 37%, sales/revenue has dropped by more than half. For the agriculture, livestock, and poultry sectors, the average decrease in sales or revenue was 40%.)¹⁴ In addition, the situation has had a considerable impact on the cash flow of a large percentage of businesses (30%).¹⁵

Figure 1. Maximum solvency periods for MSMEs with own resources during the pandemic.



Source: National Competitiveness Center, 2020 data.

¹³ Panama: Request for Purchase under the Rapid Financing Instrument. IMF, April 2020.

¹⁴ [Results – Second coronavirus impact survey in Panama](#). Economic Study Center of the Chamber of Commerce, Industry, and Agriculture of Panama, April 2020.

¹⁵ [Final results – Coronavirus impact survey in Panama](#). Economic Study Center of the Chamber of Commerce, Industry, and Agriculture of Panama, March 2020.

- 1.8 As mentioned, the country's financial sector has limited capacity to offer sufficient financing to MSMEs. Some will need temporary support for a few months in the form of short-term financing to ensure their survival. Others will need more structural support in the form of medium-term financing to regain their productive capacity and foster an orderly economic recovery for Panama. That might be the case for agriculture-sector businesses, for which missing the essential planting cycle could impact them for extended periods due to the seasonal nature of their crops. The proposed intervention focuses on supporting financial mechanisms to stimulate the supply of short-and medium-term financing for MSMEs through a global credit program. The program seeks to channel resources to alleviate the constraints on access to credit faced by MSMEs affected by the COVID-19 crisis whose risk level has been increasing, thus supporting their survival and preserving employment in these enterprises. This, in turn, will minimize the burden on social protection systems and maximize the speed of economic recovery, once the health emergency has passed.
- 1.9 **Challenges and progress.** Panama has implemented important initiatives to support MSME development, aimed at maximizing the number of these businesses that are commercially viable. This was reinforced once the law to promote the creation and development of micro, small, and medium-sized enterprises was approved on 29 May 2000, establishing the Micro, Small, and Medium-sized Enterprise Authority (AMPYME) within the Ministry of Commerce and Industry. AMPYME promotes conditions to develop the MSME sector based on its importance for the economy and capacity to create jobs. As part of its responsibilities, this entity created a microenterprise and small business lending program (PROFIPYME)¹⁶ and a microcredit trust (FIDEMICRO).¹⁷ These programs were initially capitalized with public resources and contributions from Banco Nacional de Panamá (BNP) (US\$2 million and US\$4 million, respectively) and have helped foster the MSME sector despite budget constraints. BNP has played an essential role, working in coordination with AMPYME and providing knowledge transfer about technical, financial, and market conditions to enhance the value proposition for MSME sector financing. Additionally, Banco de Desarrollo Agropecuario, a first-tier State-owned bank founded in 1973 to promote and finance agricultural activity, has throughout its history developed financial products for agricultural MSMEs, though with a limited scope due to its structure.¹⁸ BNP is also leading finance and support initiatives for agricultural sector MSMEs, such as the AGROCOMPITA product, which provides farm loans to producers in strategic segments; the Agricultural Competitiveness Program, which finances projects to export priority products and basic goods in the shopping basket; and the Guarantee Fund Program, which backs agricultural loans.¹⁹

¹⁶ AMPYME's [PROFIPYME financing program](#) is a guarantee fund that offers partial credit guarantees to microenterprises and small businesses.

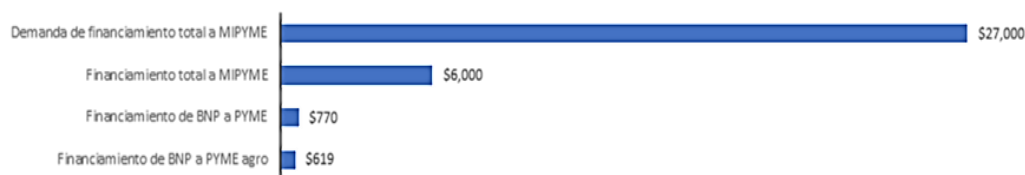
¹⁷ [FIDEMICRO Panamá](#) is aimed at supporting financial institutions focused on SMEs through financing lines.

¹⁸ Banco de Desarrollo Agropecuario has nine branches and had a US\$177 million portfolio for year-end 2019. SBP.

¹⁹ [BNP](#). April 2020.

- 1.10 BNP, besides playing a very relevant role in agriculture sector finance (which accounts for 37% of its total portfolio as of March 2020), also plays this role in overall SME finance (16% of its portfolio as of March 2020).²⁰ In this regard, as of 31 March 2020, the balance of the agricultural SME portfolio was US\$619 million. The total balance of the SME portfolio, including other sectors, was US\$770 million (see Figure 2). Compared with the previous year, both portfolios show growth (6.5% and 4.9%, respectively). According to Bank Superintendency (SBP) data, these portfolio balances account for 27.2% and 31% of systemwide participation, and BNP is the main institution in the country's banking system for these sectors.

Figure 2. BNP's impact on financing MSME needs (US\$ millions)



Source: IFC, 2017; BNP, 2020.

- 1.11 Under the current conditions, pre-crisis government efforts to foster MSME finance may be inadequate. In safeguarding the productive fabric of Panama from the economic hardships associated with the COVID-19 crisis, the challenge will be to keep open as many as possible of the MSMEs that were commercially viable before the crisis, while also supporting the value chains to which many of these enterprises belong, so that they can in turn continue operating normally. In response to the COVID-19 crisis, the country has been supporting MSME access to finance by: (i) establishing a 120-day fiscal moratorium for all economic sectors; (ii) temporarily modifying the terms and conditions for loans in arrears of up to 90 days, known as modified loans; (iii) implementing an electricity rate reduction plan of 50% for customers (individuals and businesses) consuming up to 300 kilowatt-hours and of 30% for those consuming 301 kilowatt-hours or more; and (iv) enabling the use of resources from Panama's Savings Fund (FAP) to provide liquidity focused on economic recovery for the financing of production-related activities.²¹
- 1.12 To support the country in these efforts, the proposed program will focus on vulnerable sectors such as agriculture, which employs 14.2% of the active population with 256,946 direct jobs (with a larger impact on more than 1.5 million people, equivalent to 35.7% of the country's total population). Of these, 80% are small producers (on average, agricultural microenterprises have 3 to 7 employees and small businesses have up to 30 employees)²² that contribute 2.3% of the activity level and whose degree of vulnerability is tied to risk perceptions of demand. This sector is especially critical for Panamanian society, since most activities are carried out in rural areas where the income gap is as high as 40.9%. Limitations in terms of

²⁰ The SME agriculture sector accounts for 77% of the total SME portfolio, with the remainder being commerce and services. Beyond the SME sector, others that are relevant to the portfolio are mortgage loans (30%) and consumer (25%). For more information, see: [2019 Annual Report - BNP](#).

²¹ The FAP is a public trust created with revenue from the sale of State-owned enterprises and a percentage of the fees from the Panama Canal. On 2 April 2020, the Legislative Assembly approved Law 139, authorizing the use of FAP resources to finance activities related to the emergency.

²² CNC calculations based on 2016 data from the National Institute of Statistics and Census.

physical access and the geographic dispersion of potential clients are major disincentives for the financial sector, and especially private banks, to deliver services targeted to this population,²³ which points up the importance of public policy coordinated through BNP. Financing for this sector is particularly complex, and its participation in the system stood at 18% in 2019 (with BNP driving 90% of the financing provided to MSMEs in the agriculture sector), below the mortgage, construction, and services portfolios.²⁴ And from the perspective of private lenders, financing generally takes the form of subsistence loans that are barely sufficient to plant and maintain a plot of land and that require repayment immediately at harvest due to the perception of risk in the financial system.

- 1.13 For this reason, the Government of Panama regards agriculture as a sector of strategic importance for the country, especially since conditions could worsen as a result of the effects of the current crisis. The agriculture sector is the country's backbone in terms of food security, broadly encompassing food production and the food industry, as well as inputs and services including transportation, warehousing, processing, preservation, and marketing of food products as part of the value chain.²⁵ Food scarcity could worsen as a result of the crisis if there are disruptions to crucial planting, tending, harvesting, and related activities, an increase in the price of inputs (seeds, fertilizer, and labor), logistical problems associated with limited availability of shipping options to distribute food, or insufficient resources to finance the supply chain. If these risks were to materialize, generating high production costs and limited access to agricultural products, a period of relative food scarcity could ensue, lasting at least until the next agricultural cycle.²⁶ Likewise, the impact on the services sector due to social distancing has taken a heavy toll on tourism and restaurants, two market segments that are large buyers of farm products, which has led to a temporary suspension of contracts with MSMEs in the agriculture sector.²⁷
- 1.14 The Bank has conducted an analysis of vulnerabilities in order to better understand the sectors that could be affected by the crisis. Although some sectors have been identified as being more vulnerable—tourism, transportation, and the textile industry, for example—the government has sought to prioritize the agriculture sector and activities related to its value chain in this intervention, inasmuch as these rely heavily on public policy support for financing. For more information, see [optional link 5](#).
- 1.15 This diagnostic assessment of vulnerabilities focuses on the sectors where jobs are most likely to be lost if the following risks associated with the COVID-19 crisis materialize: (i) supply contraction factors (such as constraints on the use of labor, insufficient quantity and quality of variable inputs, higher cost of production factors, and value chain disruptions); (ii) demand contraction factors (such as changes in consumer behavior and preferences, liquidity constraints on customers, and lower export demand); (iii) financial factors (such as delays and interruptions in payment

²³ A full 74% of financial transactions in 2019 were conducted in Panama City and surrounding areas.

²⁴ According to information obtained from the SBP.

²⁵ Socioeconomic report, Ministry of Economy and Finance, 2018.

²⁶ According to a survey conducted in Panama by the Bank in April 2020, 72% of farmers reported cash flow problems and expressed major concerns about having enough funds for the upcoming harvest.

²⁷ Inter-American Institute for Cooperation on Agriculture, May 2020.

- cycles, reductions or interruptions in financing, and higher financing costs) and asset factors (lower asset values and accumulation of liabilities); and (iv) other risks of a systemic nature or in the regulatory environment (institutional and legal uncertainty and political and social instability).²⁸
- 1.16 **Program focus.** The proposed program will prioritize MSMEs in the agriculture sector and its value chain, in alignment primarily with the strategic priority that the Panamanian government has placed on food security. The program will also support other affected sectors as identified in the vulnerability analysis (see [optional link 5](#)), including tourism and industry, sectors with which BNP also has extensive lending experience.
- 1.17 **Bank experience and lessons learned.** The Bank has extensive experience in designing sovereign guaranteed loan programs aimed at improving MSME access to finance through intermediary financial institutions (IFIs) ([3] of [optional link 3](#)). These programs have been implemented in times of economic expansion, when support focuses on access to long-term finance for production-oriented investments, and in times of economic recession, when support focuses on ensuring that MSMEs do not lose access to liquidity to continue their economic activity. In the last financial crisis confronted by the region in 2007, the Bank played a countercyclical role by expanding the amount of financing and facilities used to address the lack of access to credit faced by the region's MSMEs. For example, liquidity programs for growth sustainability were approved in 2008 and 2009 with the aim of reestablishing access to finance for working capital and foreign trade in the productive sectors. This helped to temporarily offset part of the deficit in financing flows to MSMEs resulting from the international financial crisis.²⁹ With the same objective of stimulating the supply of credit to the productive sectors, the period following the crisis (2009-2013) saw the approval of contingent credit lines³⁰ for providing liquidity to the financial sector, as well as global multisector credit programs and—by far the majority—specific productive financing programs for MSMEs ([4] of [optional link 3](#)).
- 1.18 In Panama, the Bank has supported recent interventions to promote access to finance for the productive sector under the “Indigenous Entrepreneurship and Financial Inclusion Program” ([4785/OC-PN](#)), aimed at helping boost the incomes of indigenous entrepreneurs through access to finance, the provision of productive infrastructure, and ongoing technical assistance for indigenous businesses and value chains. In addition, technical cooperation operation “Strengthening of Financial Institutions and Infrastructure in Panama” ([ATN/OC-16709-PN](#)) has objectives such as creating a payment system that increases financial transactions by facilitating cash injections for sectors underserved by the financial system. Meanwhile, IDB Invest has focused on the SME sector through operations intended to provide funds to the financial sector to reduce the access-to-finance gap, with projects that include: (i) a social bond with a gender focus issued by Banistmo

²⁸ The methodology used for the sector analysis of vulnerabilities vis-à-vis the spread of COVID-19 identifies sector that are particularly vulnerable such as the agriculture sector and others such as transportation and tourism.

²⁹ In 2008, the IDB created the Liquidity Program for Growth Sustainability under the category of emergency lending (document GN-2492-3).

³⁰ Contingent Credit Line for Development Sustainability under the Proposal to Establish a Set of Contingent Lending Instruments of the IDB (document GN-2667-2).

Panama to finance projects with high positive social impact in the country, focused on women-led SMEs ([12174-02](#)); (ii) a senior loan to Global Bank with an SME focus ([11881-02](#)); (iii) a senior loan to BAC International Bank Inc. aimed at the internationalization of SMEs ([3098A/OC-PN](#)); and (iv) a revolving line of credit to Multibank Inc. in Panama targeting SMEs ([PN-3757A-02](#)).

- 1.19 **Lessons learned.** The Bank has extensive experience and has generated substantial knowledge regarding the design and implementation of policies to support MSME finance with a special focus on certain sectors or value chains ([3 of [optional link 3](#)]). For these public policy solutions to be effective, it is crucial to: (i) identify the market failure to be addressed; (ii) strengthen cooperation among public actors with expertise in the relevant area; (iii) strengthen cooperation between the public and private sectors, since the latter can help find solutions to problems; (iv) focus actions on overcoming the obstacles found; (v) identify the financial instrument or set of instruments that can be implemented in each situation; and (vi) utilize the most cost-effective combination of instruments for each situation. This operation has been designed to address the growing need for financing for MSMEs in coordination with the public institutions in charge of this sector and validating the proposal with the private sector.³¹ Likewise, the proposed financing instrument, as well as the execution mechanism, address the pressing need to deal with the problems that the country is experiencing in terms of access to financing.
- 1.20 The Bank also has relevant experience in designing solutions to mitigate the problems of access to financing that MSMEs and value chains face. The following lessons have been learned from these actions as a whole: (i) leverage the countercyclical role of this type of operations in times of tightening credit; (ii) target resources toward segments where lending will have greatest impact on the functioning of the economy (logistics chains) and the well-being of society (the most vulnerable productive sectors); (iii) supervise the financial terms on which the resources are allocated to end-users, to avoid market distortions and ensure that there is no dilution of additionality; (iv) guarantee that the executing agency's institutional capacity is sufficient to operationalize the intervention, and evaluate and monitor the subloans and guarantees issued; and (v) systematically compile, manage, and maintain program data so that the results can be analyzed and continue to be used in future interventions.³²
- 1.21 **Coordination with other multilaterals and/or donor agencies.** Since Panama's micro, small, and medium-sized enterprises have significant financing requirements due to the pandemic's effects, it is essential to align efforts with other multilateral organizations to optimize the availability of resources. In this regard, from the start of the pandemic the Bank has been coordinating with the Central American Bank for Economic Integration (CABEI), which intends to support the IDB's efforts to serve

³¹ The executing agency has held informational meetings on the possible scope of the project with the leading MSME associations and private financial institutions.

³² Section IV of the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) discusses a more extensive and detailed set of lessons learned from the Bank's experience in the sector, as well as the experience of other multilaterals, academic researchers, and other major stakeholders in public policy design of to support MSMEs.

MSMEs.³³ There has also been coordination with the IMF, which approved a US\$515 million emergency financing package to support urgent balance-of-payment needs arising from the COVID-19 outbreak.

1.22 **Strategic Alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the challenges of: (i) social inclusion and equality, through an approach that pairs support for MSMEs and the most vulnerable sectors; and (ii) productivity and innovation, through its support for productive financing for MSMEs and strategic value chains. In addition, the operation is consistent with the strategic focus area of resource mobilization, through the proposed mechanisms to stimulate the mobilization of private financial sector resources for MSME finance, as well as the company shareholders' own funds. The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicators of the number of MSMEs financed and jobs supported. The program is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), as part of the support for safeguarding the productive fabric and employment and is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), which emphasizes the importance of promoting access to finance by the productive sector.

1.23 **Coordination with other Bank projects.** The program will coordinate efforts with other projects currently in execution in Panama, including, notably, the Integrated Health Service Networks Strengthening Program ([3615/OC-PN](#)), which is allocating funds to purchase personal protective equipment and equipment for intensive care units. Likewise, coordination is being arranged with other initiatives in preparation involving activities aimed at meeting needs created by the pandemic. In this context, the country has asked the Bank to prepare a special development loan (SDL) that is expected to support the country's recently approved program with the IMF. Collectively, this coordination of initiatives seeks to leverage synergies to increase the impact of the Bank actions, consistent with fiscal sustainability, through: (i) temporary application of the measures so that their short-term impact on the public finances is controlled; and (ii) support in financial terms for MSMEs, to ease the cost of financing and preserve jobs, thus contributing to a recovery in tax revenue.

B. Objectives, components, and cost

1.24 **Objectives.** The general objective of this project is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Panama amid the COVID-19 crisis. The specific objectives are to: (i) to support the short-term financial sustainability of MSMEs; and (ii) to promote the economic recovery of MSMEs through access to production-oriented finance.

³³ The Central American Bank for Economic Integration has a US\$100 million general-purpose line of credit with BNP, which is being used in full. In addition to allocating these resources, an expansion is being considered exclusively to provide credit to MSMEs.

- 1.25 **Sole component. Support for MSME financing (US\$150 million).** This intervention is structured as a loan that will be channeled entirely through a trust to be administered by BNP and consists of the following components.
- a. **Subcomponent 1. Support for improvement of short-term financial capacity (US\$90 million).** Resources under this subcomponent will be used to help MSMEs affected by the crisis to overcome temporary liquidity problems and continue operating. This subcomponent includes mechanisms for providing liquidity to MSMEs, targeting the agriculture sector, as well as trade and services and other sectors, and/or their overarching value chains. These mechanisms may include: line of credit advances and rediscount lines to secure financing for working capital; and facilities to support debt restructuring or refinancing to head off bankruptcies of viable businesses. Component resources may be channeled through eligible IFIs to MSMEs³⁴ and directly through the trust administered by BNP to SMEs and anchor companies (paragraph 3.4).
 - b. **Subcomponent 2. Support for access to production-oriented finance for economic recovery (US\$60 million).** Resources under this subcomponent will be used to support economic recovery by providing production-oriented finance to MSMEs affected by the COVID-19 health crisis, targeting the agriculture sector, as well as trade and services and other sectors, and/or their overarching value chains. The subcomponent calls for medium-term production-oriented financing for creating or supporting lines of credit and credit guarantees to ensure that MSMEs have ongoing access to the finance they need to continue operating their businesses, meet increased demand as a consequence of COVID 19, and support access and continuity in finance at the level of strategic value chains, so that anchor companies receiving financing can contribute to the recovery of their suppliers in the supply chain. Component resources may be channeled through eligible IFIs to MSMEs and directly through the trust administered by BNP to SMEs and anchor companies (paragraph 3.4).
- 1.26 **Beneficiaries.** Resources under this intervention will be directed both to MSMEs affected by the COVID-19 crisis and to their overarching strategic chains, giving priority to the agriculture sector and trade and services due to their vulnerability to the COVID-19 crisis. The idea is that the program will be available for MSMEs operating in the country, and it is expected to benefit 5,737 of these businesses.

C. Key results indicators

- 1.27 **Expected results.** The program's expected impact is to support the sustainability of MSMEs amid the COVID-19 crisis, as measured by: (i) sales revenue at MSMEs in the sectors supported by the program; and (ii) employment in the sectors supported by the program as a percentage of total MSME employment in the country. The outcome indicators for the program will be as follows:

³⁴ BNP uses financial intermediaries, microfinance institutions, and cooperatives to meet the financial needs of microenterprises, tapping the capillarity and presence of these entities in smaller sectors throughout the country.

- Under specific objective 1: (i) rate of arrears in the relevant portfolio of working capital financing placed through IFIs at 6 and 12 months after program start, compared with the rate of arrears corresponding to microenterprise loans in the national banking system. and (ii) rate of arrears in the relevant portfolio of working capital financing placed through BNP at 6 and 12 months after program start, compared with the rate of arrears corresponding to small business loans in the national banking system.
- Under specific objective 2: (i) rate of arrears in the relevant portfolio supported with program resources, compared with the rate of arrears corresponding to SME loans in the national banking system; (ii) proportion of medium-term credit (over 18 months) in the relevant portfolio; (iii) total leveraging of medium-term financing resources achieved as a result of program support; and (iv) total amount of the relevant portfolio of production-oriented finance achieved as a result of program support.

1.28 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits consist of the economic value of the reduction in sales revenue losses, the benefits derived from a higher rate of business survival, and the benefits of jobs preserved as a result of the program. Calculations of the aforementioned flows (discounted at a rate of 12%) yield benefits of US\$37.9 million and an internal rate of return of 16%. In addition, the sensitivity analysis shows that the program is robust to variations in the key parameters ([optional link 1](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The total program amount proposed here will be US\$150 million in resources from the Ordinary Capital. The operation will be structured as a global credit loan, since it involves financial intermediation to the beneficiary MSMEs. The disbursement period will be two years.

Table 1. Estimated program costs (US\$ millions)

Component	IDB (Total)	%
Sole component. Support for MSME financing	150	100
Subcomponent 1. Support for improvement of short-term financial capacity	90	60
Subcomponent 2. Support for access to production-oriented finance for economic recovery	60	40
Total	150	100

Table 2. Disbursement schedule (US\$ millions)

Source	Year 1	Year 2	Total
IDB	100	50	150
Total	100	50	150
%	67%	33%	100%

B. Environmental and social risks

- 2.2 In accordance with directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation cannot be classified ex ante, since it involves financial intermediation. The environmental and social due diligence was performed in compliance with Directive B.13, analyzing the program's potential socioenvironmental risks and the executing agency's ability to manage them. Based on the due diligence findings, and given the low risk profile of the eligible loans with program resources, this operation is regarded as low financial intermediation risk (FI-3). Given their size and nature, the loans will be classified as category "C". Loans in categories "A" and "B" will be ineligible for financing.
- 2.3 Resources from the subloans will not be used to finance any activity listed in the IDB's exclusion list (Annex C of the [environmental and social management report](#)), such as: (i) activities/sectors that involve high social/environmental risk (category "A"); or (ii) activities that entail (a) involuntary physical or economic resettlement, (b) negative impact on indigenous groups, (c) damage to cultural sites or critical cultural sites, (d) negative impact on protected areas or RAMSAR sites, or (e) the use of invasive species.
- 2.4 The requirements for managing and mitigating potential environmental and social impacts will constitute an Environmental and Social Risk Administration System that will be included in the Credit Regulations, which will be approved as a condition precedent to the first disbursement (see [environmental and social management report](#)).

C. Fiduciary risks

- 2.5 The institutional capacity assessment of the executing agency shows that it satisfies the necessary conditions to perform fiduciary management activities for the loan operation. Although BNP has not executed programs with multilateral banks, the fiduciary risk has been determined as low, since, according to the institutional capacity assessment, no weaknesses were identified in BNP financial management.

D. Other key issues and risks

- 2.6 **Development risk.** Two development risks were identified: (i) a high risk that the resources will be insufficient to meet the demand among MSMEs for financing; to mitigate this risk, the Bank has designed the intervention to yield the maximum possible impact and has sought to coordinate with all relevant stakeholders, to ensure that the response is commensurate with the financing needs of MSMEs and considering the strong placement capacity in the system (paragraphs 1.6 and 1.8); it will also work with the authorities to identify ways to meet medium-term demand with other sector stakeholders; and (ii) a high risk that the businesses supported with lines of credit will not end up surviving if the crisis lasts longer than expected, that commercially viable businesses will not be identified, or that businesses will not repay the loans; to mitigate this risk, the IFIs and BNP have experience in identifying and selecting businesses that may be sufficiently economically viable to weather the crisis, have the ability to aggressively recover potential losses via administrative and

judicial channels, and have adequate capitalization and solvency levels to absorb potential losses; and taking into account the prioritization of the agriculture sector, consideration may be given to the possibility of channeling resources through the country's strategic value chains, improving the likelihood of repayment by the participating MSMEs.

- 2.7 **Public management and governance risks.** There is a medium risk that the liquidity measures for MSMEs will not reach the sectors hardest hit by the health emergency on a priority basis, and the impact will be less than expected. The Bank has designed a program that targets the sectors most affected by the current circumstances, placing an emphasis on the agriculture sector and coordinating closely with the country on a diagnostic assessment of vulnerabilities for this prioritization of sectors, and will monitor the program on an ongoing basis to ensure effective targeting (paragraphs 1.12-1.16).
- 2.8 **Macroeconomic and fiscal sustainability risk.** There is a medium risk that the combination of the health and economic crisis and external factors, such as the falling price of oil, will significantly affect the country's fiscal and debt position, jeopardizing fiscal sustainability. To mitigate this risk, the Bank, together with other international organizations, is providing technical assistance to the country to prepare and monitor the implementation of post-pandemic economic and fiscal recovery plans that will help put the public finances back on a sustainable trajectory.
- 2.9 **Sustainability.** The program is expected to contribute to easing the temporary difficulties faced by MSMEs as a consequence of the COVID-19 pandemic. Nonetheless, it offers the country the opportunity to leave support mechanisms in place for future emergencies. The demonstration effect of the interventions is expected to enable preventive programs to be developed that reduce MSME vulnerability. As the executing agency for the program, BNP will gain experience in the design of specific programs for responding to emergencies such as the present one. In so doing, it will continue the government's efforts to support the economic recovery by focusing on MSMEs, which are the most important sector for the economy.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower for this operation will be the Republic of Panama, and the executing agency will be BNP, through a trust fund.³⁵ The executing agency will be responsible for the administration, execution, control, and monitoring of resources under the operation. The borrower, acting through the MEF, will sign a subsidiary agreement for transfer of the loan proceeds to a trust fund set up at BNP, which, directly or through the IFIs, will onlend to eligible MSMEs.

³⁵ The executing agency has already begun the process of setting up a trust fund for execution of this program; the trust will take effect once the operation has been approved.

- 3.2 **Execution and administration.** Founded in 1904,³⁶ the Banco Nacional de Panamá (BNP) is an autonomous State agency with independent legal status, its own assets, and administrative, functional, budgetary, and financial autonomy. It is subject to the oversight of Panama's Executive Branch and supervisory bodies. BNP is the State's financial organization and its objective is to conduct banking business by securing the financing necessary to develop the country's economy. In addition, BNP has operational capacity to offer first- and second-tier financial products, given that it is one of the main bodies that provide services to local financial intermediaries such as banks, financial institutions, and microlenders incorporated in Panama and duly licensed by the Superintendency of Banks of Panama (SBP), as well as to savings and loan cooperatives duly regulated by the Autonomous Institute for Cooperatives of Panama. With a network of 42 branches, the organization covers every department in Panama, mainly serving the agriculture, services, and commercial sectors. As of 31 March 2020, the agriculture sector accounted for 76.6% of its loan portfolio by segment. Along with this sectoral concentration, it is also noteworthy that the mortgage loan portfolio accounts for 29.3%; the SME portfolio, 16.6%; and the financial institution portfolio, 8.6%. Since its foundation, BNP has fostered development in the agriculture and SME sectors in Panama. The organization's solid experience in the design, promotion, risk management, and monitoring of credit facilities for these sectors positions BNP as the best-prepared entity to execute the proposed program given the current situation (paragraph 2.5).
- 3.3 The executing agency will have fiduciary responsibility for the program resources and perform the following functions: (i) making disbursements to eligible IFIs for onlending of the resources to eligible MSMEs to meet the program objectives under the stipulations of the [Credit Regulations](#); (ii) making disbursements to eligible SMEs for lending of the resources to meet the program objectives under the stipulations of the Credit Regulations; (iii) preparing execution and physical/financial progress reports for the IDB; (iv) monitoring compliance with environmental and social safeguards; and (v) conducting program monitoring and evaluation. Drawing on resources from a regional technical cooperation operation that will accompany the Bank's response to the COVID-19 crisis (in preparation), the plan is to finance institutional strengthening and training activities for the executing agency, in order to help streamline implementation of this program.
- 3.4 **Implementation considerations.** Through the program, the Republic of Panama will channel the resources to a trust fund set up at BNP, for the vehicle to then issue loans to eligible SMEs and IFIs for channelling of the loan proceeds to eligible MSMEs. Financing for microenterprises will be channeled through eligible IFIs that are better positioned and more geared than the executing agency to serve this segment of the market. BNP, through its fiduciary management team, will be responsible for managing the financial, accounting, and monitoring and evaluation aspects of the program. The trustor will be the Ministry of the Economy and Finance (MEF). To be eligible, financial intermediaries must: (i) be one of the financial institutions authorized and supervised by the country's compliance and oversight body for the financial sector; (ii) comply with the country's regulatory requirements for capital, portfolio quality and provisioning, liquidity, and governance; and (iii) pledge to comply with the specific requirements of BNP, including the

³⁶ Established by Law 74 of 1904, Law 27 of 1906, Law 6 of 1911, and Law 11 of 1956; restructured by Law 20 of 1975; and substituted by Decree Law 4 of 2006 as amended by Law 24 of 2017.

requirements of the program. BNP will determine whether all financial intermediaries satisfy the above requirements, to remain eligible to receive program funds.

- 3.5 To be eligible, MSMEs must: (i) be incorporated under the laws of the Republic of Panama; (ii) possess the licenses and permits required to operate under the laws of Panama or be in the process of renewing them provided they are authorized to operate at the time of signature of the subloan contract; (iii) meet the requirements to qualify as an MSME in Panama; (iv) be solvent and creditworthy and satisfy the credit requirements of the financial intermediaries and BNP, with the exception of any factor that has deteriorated as a result of the COVID-19 crisis; and (v) preferably operate in one of the priority sectors of agriculture, trade, or services identified as part of this program. No loans made to MSMEs may exceed US\$1 million,³⁷ and any loan for more than US\$150,000 must have the no objection of the Bank.
- 3.6 **Credit Regulations.** The [Credit Regulations](#) describe responsibilities in the areas of administration, risk management, and coordination between the executing agency and the Bank, as well as the eligibility criteria for MSMEs, subprojects, and any financial intermediaries. The document also includes agreements for management and monitoring, as well as other arrangements. The program will prioritize support in the agriculture sector and in other sectors such as trade and services.
- 3.7 **Interagency coordination.** The executing agency will coordinate with the AMPYME so that IFIs that are qualified to receive funds under programs administered by the AMPYME (PROFIPYME and FIDEMICRO) can benefit under the proposed program provided that they meet the eligibility criteria.³⁸
- 3.8 **Special contractual conditions precedent to the first disbursement of the loan proceeds.** The following will be special contractual conditions precedent to the first disbursement of the loan proceeds: (i) the entry into force of a subsidiary agreement between the Ministry of Economy and Finance (MEF), on behalf of the borrower, and BNP, as the executing agency, for the transfer of the loan proceeds and related obligations, under terms previously agreed upon with the Bank; and (ii) the approval and entry into force of the [Credit Regulations](#), under terms previously agreed upon with the Bank. These conditions are necessary to establish the structure, guidelines, and procedures to be followed by the executing agency for successful execution of the program.
- 3.9 **Retroactive financing.** The Bank may retroactively finance eligible expenditures made by the borrower prior to the loan approval date for expenditures of up to US\$30 million (20% of loan amount), provided that requirements substantially similar to those established in the loan contract were met. Such expenditures must have been incurred on or after 11 March 2020, when the World Health Organization (WHO) declared the COVID-19 disease a pandemic. Even though this predates the project officially entering the pipeline (document GN-2259-1),

³⁷ In exceptional cases, subloans may reach this amount, but in that case the Bank's no objection will be required.

³⁸ BNP already finances the funds administered by the AMPYME and through the program, it will expand financing to the IFI beneficiaries of these funds under administration. Coordination with the AMPYME does not entail a channeling of funds through PROFIPYME or FIDEMICRO. The beneficiaries of those funds may also be beneficiaries of the proposed program.

authorization of the retroactive financing on an exceptional basis is justified as from that date, given the exceptional circumstances that the crisis is expected to have in terms of deterioration of the MSME portfolio and taking into account the urgent need that may arise to refinance some of the loans and inject resources into sectors such as the agriculture sector, as it enters the annual harvest season (paragraphs 1.13 and 1.25).

- 3.10 **Procurement.** As a demand-driven financial intermediation program, no procurement of goods, works, nonconsulting services, or consulting services is likely to be required as part of execution. No project execution plan or procurement plan is therefore included in this proposal. Any procurement of nonconsulting or consulting services required as part of program administration and/or evaluation will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-15), or as subsequently updated. For additional details, see the Fiduciary Agreements and Requirements (Annex III).
- 3.11 **Disbursements.** Resources for the program will be disbursed by the IDB to the trust established in Panama via the modality of advance of funds and/or reimbursements, as established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) or current IDB policies. Disbursements will be made as advances or reimbursements to the trust for transfers made to IFIs or SMEs that have submitted contracts for subloans in compliance with the eligibility criteria established in the program Credit Regulations. Disbursement verification will be on an ex post basis, subject to on-site review of the subloans.
- 3.12 **Financial statements and audit.** Throughout the original loan disbursement period and any extension thereof, the executing agency, within 120 days after the end of the fiscal year and within 120 days of the last disbursement of the loan, will submit to the Bank the program's annual financial statements, which will be audited by an independent audit firm acceptable to the Bank.

B. Arrangements for monitoring results

- 3.13 **Monitoring.** Program execution will be monitored via six-monthly progress reports prepared by the executing agency and delivered within 60 days after the close of each six-month period. The reports will be based on the reporting commitments included in the results matrix for each operation, as well as compliance with the eligibility criteria set out in the Credit Regulations (see [monitoring and evaluation plan](#)). These reports will be reflected in the progress monitoring reports (PMR).
- 3.14 **Evaluation.** The following approaches will be used as part of the strategy for evaluating program results: (i) a reflexive evaluation, before and after the program, to determine the extent of outcomes and impacts; and (ii) a qualitative analysis discussing the lessons learned during program execution. The evaluation strategy is described in the [monitoring and evaluation plan](#). The executing agency will bear the costs of evaluation and monitoring.
- 3.15 **Information for program monitoring and evaluation.** The executing agency will be responsible for maintaining data gathering and monitoring systems (see

[monitoring and evaluation plan](#)). The executing agency will commit to maintain a system for monitoring and evaluation of all subcomponents, which it will use to prepare the reports and data delivered to the Bank. For the purposes of the evaluation, the executing agency will compile, store, and safeguard all of the information, indicators, and parameters necessary to prepare the project completion report, including annual plans and the final evaluation. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports of relevant organizations.

Development Effectiveness Matrix		
Summary		PN-L1164
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Jobs supported (#) -Micro / small / medium enterprises financed (#)	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		The intervention is not included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		See paragraphs 1.9-1.12 of the loan document
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.6
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		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		1.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		7.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		4.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		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:		
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		

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

The operation PN-L1164, in the amount of US\$150 million, is part of the Bank's operational response to the COVID-19 Pandemic, Global Credit Programs for the Protection of the Productive Sector and Employment. The general objective of the program is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Panama amid the COVID-19 crisis. The specific objectives are: (i) to support the short-term financial sustainability of MSMEs; and (ii) to promote the economic recovery of MSMEs through access to production-oriented financing.

The loan proposal presents a solid diagnosis of the problem, as well as a review of international evidence. The proposed solutions are an appropriate response to the problems identified in the proposal and their contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of outcomes and impacts. The outcome indicators are appropriately defined to measure the achievements of the project's specific objectives. The impact indicators – (i) sales revenue at MSMEs in the sectors supported by the program, and (ii) employment in the sectors supported by the program as a percentage of total MSME employment in the country - reflect the contribution to the final objectives of the operation.

The economic evaluation shows that the operation is efficient, with an internal rate of return of 16% and an NPV of US\$37.9 million. In a context of high uncertainty, the analysis considers the benefits which are derived from the reduction in sales revenue losses and a higher survival rate of firms that are beneficiaries of the program, as well as of jobs preserved in firms which survive as a result of the program.

The monitoring and evaluation plan proposes a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by a qualitative study of the main challenges in the execution of the program and the proposed solutions. The monitoring and evaluation activities will be carried out by Banconal as the executing agency, in coordination with the Bank.

RESULTS MATRIX

Project objective:	The general objective of the program is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Panama amid the COVID-19 crisis. The specific objectives are: (i) to support the short-term financial sustainability of MSMEs; and (ii) to promote the economic recovery of MSMEs through access to production-oriented finance.
---------------------------	---

EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Final target	Means of verification	Comments
GENERAL OBJECTIVE: SUPPORT THE SUSTAINABILITY OF MSMES AMID THE COVID-19 CRISIS					
Indicator 1: Sales revenue at MSMEs in the sectors supported by the program.	US\$ thousands	127.6	127.6	Monitoring and supervision information processed by BNP and data from the INEC.	The baseline is equal to the average weighted income of MSMEs in Panama, calculated on the basis of the most recent information (2016) from the Statistical Directory of Businesses and Locales published by the INEC. Given that support is planned not just for the agriculture sector but also for various other sectors of the economy, the baseline is calculated on the multisector average. Consistent with the economic analysis, sales are expected to return to pre-crisis levels by program completion.
Indicator 2: Employment in the sectors supported by the program as a percentage of total MSME employment in the country.	%	49	49	Monitoring and supervision information processed by BNP and labor market data compiled by the INEC.	The baseline, based on 2016 data, corresponds to the percentage of employment in the country generated by MSMEs across all sectors. Given that support is planned not just for the agriculture sector but also for various other sectors of the economy, the baseline is calculated on the multisector average. This percentage is expected to return to its pre-crisis level by program completion.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline 2020	Final target (2023)	Means of verification	Comments
Specific objective 1: Support the short-term financial sustainability of MSMEs					
Indicator 1: Rate of arrears in the relevant portfolio of working capital financing or guarantees placed through IFIs at 6 months after program start, compared with the rate of arrears corresponding to microenterprise loans in the national banking system.	%	1.09	1.09	Program monitoring and supervision information collected by BNP.	<p>The baseline was calculated as follows: The numerator corresponds to the rate of arrears for loans to microenterprises in the Panamanian Microfinance Network (REDPAMIF) as of December 2019. The denominator corresponds to the average rate of arrears for loans to microenterprises¹ in the national banking system as of February 2020.</p> <p>The final target will be calculated as the average rate of arrears for loans in the numerator and the denominator, at 6 months after receiving program funds.</p> <p>This proportion is expected to be maintained for the life of the operation (monitoring and evaluation plan).</p>
Indicator 2: Rate of arrears in the relevant portfolio of working capital financing placed through BNP at 6 months after program start, compared with the rate of arrears corresponding to small business loans in the national banking system.	%	0.81	0.81	Program monitoring and supervision information collected by BNP.	<p>The baseline was calculated as follows: The numerator corresponds to the rate of arrears for loans issued to small businesses by Banco Nacional de Panamá (BNP). The denominator corresponds to the average rate of arrears for loans to small businesses in the national banking system. Both figures are as of February 2020.</p> <p>The final target will be calculated as the average rate of arrears for loans in the numerator and the denominator, at 6 months after receiving program funds.</p> <p>This proportion is expected to be maintained for the life of the operation (monitoring and evaluation plan).</p>
Indicator 3: Rate of arrears in the relevant portfolio of working capital financing or guarantees placed through IFIs at 12 months after program start, compared with the rate of arrears corresponding to microenterprise loans in the national banking system.	%	1.09	1.09	Program monitoring and supervision information collected by BNP.	<p>The baseline was calculated as follows: The numerator corresponds to the rate of arrears for loans to microenterprises in the Panamanian Microfinance Network (REDPAMIF) as of December 2019. The denominator corresponds to the average rate of arrears for loans to microenterprises in the national banking system as of February 2020.</p> <p>The final target will be calculated as the average rate of arrears for loans in the numerator and the denominator, at 12 months after receiving program funds.</p> <p>This proportion is expected to be maintained for the life of the operation (monitoring and evaluation plan).</p>

¹ The definition of micro, small, and medium-sized enterprise (MSME) is provided in the monitoring and evaluation plan.

Indicators	Unit of measure	Baseline 2020	Final target (2023)	Means of verification	Comments
Indicator 4: Rate of arrears in the relevant portfolio of working capital financing or guarantees placed through BNP at 12 months after program start, compared with the rate of arrears corresponding to small business loans in the national banking system.	%	0.81	0.81	Program monitoring and supervision information collected by BNP.	<p>The baseline was calculated as follows: The numerator corresponds to the rate of arrears for loans issued to small businesses by BNP. The denominator corresponds to the average rate of arrears for loans to small businesses in the national banking system. Both figures are as of February 2020.</p> <p>The final target will be calculated as the average rate of arrears for loans in the numerator and the denominator, at 12 months after receiving program funds.</p> <p>This proportion is expected to be maintained for the life of the operation (monitoring and evaluation plan).</p>
Specific objective 2: Promote the economic recovery of MSMEs through access to production-oriented finance					
Indicator 1: Rate of arrears of the relevant portfolio supported with program resources, compared with the rate of arrears corresponding to SME loans in the national banking system.	%	0.71	0.71	Program monitoring and supervision information collected by BNP.	<p>The baseline was calculated as follows: The numerator corresponds to the rate of arrears for first-tier loans issued to SMEs by BNP. The denominator corresponds to the average rate of arrears for SME loans in the national banking system. The figures were calculated using data from February 2020.</p> <p>This proportion is expected to be maintained for the life of the operation (monitoring and evaluation plan).</p>
Indicator 2: Proportion of medium-term credit (more than 18 months) in the relevant portfolio.	%	30	30	Program monitoring and supervision information collected by BNP.	This indicator is calculated as the proportion of BNP's total SME loan portfolio that consists of medium-term credit, defined as longer than 18 months and shorter than 36 months. This proportion is expected to be maintained at its pre-crisis levels at least. The figures were calculated using February 2020 data.
Indicator 3: Total leveraging of medium-term financing resources achieved as a result of program support.	US\$ millions	0	187.5	Program monitoring and supervision information collected by BNP.	The target is calculated on the basis of 20% of the cofinancing required by BNP for this type of financing. This requirement is expected to be maintained for the life of the program.
Indicator 4: Total amount of the relevant portfolio of production-oriented finance achieved as a result of program support.	US\$ millions	770.7	830	Program monitoring and supervision information collected by BNP.	<p>Baseline equal to BNP's SME loan portfolio.</p> <p>The target corresponds to the expected value of this portfolio at program completion, considering a lower rate of growth below the pre-crisis trend. For more detailed information, see the monitoring and evaluation plan. The figures were calculated using March 2020 data.</p>

OUTPUTS

Outputs	Unit of measure	Baseline 2020	Year 1	Year 2	Final target	Means of verification	Comments
Subcomponent 1: Support for improvement of short-term financial capacity (Total cost = US\$90 million)							
Output 1: Amount of working capital loans made to MSMEs in sectors and chains identified as vulnerable by the program.	US\$ millions	0	45	45	90	Monitoring and supervision information processed by BNP.	The value of the final target corresponds to the cumulative total for all years of program execution.
Subcomponent 2: Support for access to production-oriented finance for economic recovery (TOTAL COST = US\$60 MILLION)							
Output 2: Amount of production-oriented loans made to MSMEs in sectors identified as vulnerable by the program.	US\$ millions	0	30	30	60	Monitoring and supervision information processed by BNP.	The value of the final target corresponds to the cumulative total for all years of program execution.

Country: Panama **Sector:** CMF **Project number:** PN-L1164 **Year:** 2020
Cofinancing: Not applicable **Co-execution:** Not applicable

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Banco Nacional de Panamá (BNP)

Name: Global Credit Program for Safeguarding the Productive Fabric and Employment

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in program¹

Budget	<input type="checkbox"/>	Reports	<input type="checkbox"/>	Information system	<input checked="" type="checkbox"/>	NCB	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	Internal audit	<input type="checkbox"/>	Shopping	<input checked="" type="checkbox"/>	Advanced NCB	<input type="checkbox"/>
Accounting	<input type="checkbox"/>	External control	<input type="checkbox"/>	Individual consultants	<input type="checkbox"/>	Consulting firm	<input type="checkbox"/>

Applicable laws/regulations: Budget Law of the Republic of Panama. Procurement Law 22.

2. Fiduciary capacity of the executing agency

The Institutional Capacity Assessment Platform was used to assess the fiduciary capacity of the executing agency. It concluded that program coordination and financial management are sufficient for the administration of the operation. As a global credit program, no procurement is envisaged. Therefore, no analysis of procurement capacity was carried out. BNP has not executed any loan programs with multilateral organizations.

3. Fiduciary risks and mitigation measures

Fiduciary risk: High ; Medium ; Low

Risk	Level of risk (medium/high)	Mitigation plan
No fiduciary risks were identified.		

¹ Any system or subsystem subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation thereof.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

<p>Conditions precedent to the first disbursement: There are no conditions of a fiduciary nature.</p>
<p>Exchange rate: Legal tender in Panama is the balboa, which is equivalent to and freely interchangeable with the U.S. dollar.</p>
<p>Throughout the original loan disbursement period and any extension thereof, the executing agency, within 120 days after the end of its fiscal year and within 120 days of the last disbursement of the loan, will submit to the Bank the program's annual financial statements, duly audited by an independent audit firm acceptable to the Bank.</p>

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

Exceptions to policies and guidelines:

<ul style="list-style-type: none"> No exceptions anticipated.
--

<p>Retroactive financing and/or advance procurement</p>	<ul style="list-style-type: none"> The Bank may retroactively finance eligible expenditures made by the borrower prior to the loan approval date for up to US\$30 million (20% of the loan amount), provided that requirements substantially similar to those established in the loan contract were met. Such expenditures must have been incurred on or after 11 March 2020, when the World Health Organization (WHO) declared the COVID-19 disease a pandemic. Even though this predates the project officially entering the pipeline (document GN-2259-1), authorization of the retroactive financing on an exceptional basis is justified as from that date, given the exceptional circumstances that the crisis is expected to have in terms of deterioration of the MSME portfolio and taking into account the urgent need that may arise to refinance some of the loans and inject resources into sectors such as the agriculture sector, as it enters the annual harvest season (see paragraphs 1.13 and 1.25 of the loan proposal).
<p>Additional procurement support</p>	<ul style="list-style-type: none"> Not applicable.
<p>Alternative procurement arrangements</p>	<ul style="list-style-type: none"> Not applicable.
<p>Projects with financial intermediaries</p>	<ul style="list-style-type: none"> As this loan is for global credit programs and other operations in which resources are provided to financial intermediaries that will in turn issue subloans or resources via other onlending modalities, it will be stipulated that the Bank's prohibited practices clauses are to be included in the agreements between the borrower and its financial intermediaries, and those between the latter and the MSMEs. Alternatively, if the effective inclusion of these clauses in the aforementioned contracts is not possible or practical in view of the program's

	circumstances, the project team may examine other mechanisms to adopt acceptable controls and duly bind the relevant third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity, with support from the Legal Department, and described in the Credit Regulations.
Procurement agents	<ul style="list-style-type: none"> • Not applicable.
Direct contracting	<ul style="list-style-type: none"> • Not applicable.

Operating expenses will be financed: <input type="checkbox"/> Not applicable.	Domestic Preference: <input type="checkbox"/> Not applicable.
General project procurement supervision method: Not applicable.	
Supervision method: Not applicable.	For: Not applicable.

Country thresholds: www.iadb.org/procurement

IV. FINANCIAL MANAGEMENT AGREEMENT AND REQUIREMENTS

Programming and budget	<ul style="list-style-type: none"> • BNP is an autonomous, independent entity that generates its own income. It presents an annual budget to the Budget Committee in the National Assembly.
Treasury and disbursement management	<ul style="list-style-type: none"> • Disbursements will be made in the form of advances of funds and reimbursements. • The disbursement mechanism will be through the presentation of physical disbursement requests. During the COVID-19 health emergency, disbursement requests may be signed, scanned, and submitted by email from an institutional address, with each signatory authorizing the request via email. • Bank account: BNP will keep the advance funds in a trust set up exclusively for the program. • Financial plan: Advances will be made for a period of up to 6 months, depending on the demand for loans. • Percentage for accountability: 80% of advances pending justification. • Program resource flow: The fund will be disbursed to BNP by deposit into the trust fund account opened for the program, with the prior approval of the MEF.
Accounting, information systems, and reporting	<ul style="list-style-type: none"> • Specific accounting standards: Financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), including IFRS 9, 15, 16, and others. • Accountability reports: Statement of Cash Balances and Disbursements and Statement of Cumulative Investments, prepared on the basis of information in the e-IBS Banking Core.

	<ul style="list-style-type: none"> Accounting method and currency: A combination of accounting methods is used depending on the account category. The currency of record is the balboa, which is equivalent to and freely interchangeable with the U.S. dollar.
External control	<ul style="list-style-type: none"> With the agreement of the Bank, the executing agency will select and contract the services of an eligible auditor, in accordance with the terms of reference agreed beforehand. At present, the entity uses KPMG as its audit firm.
Project financial supervision	<ul style="list-style-type: none"> Financial supervision will be conducted by means of visits to BNP, working meetings, and reviews of reports including the audited financial reports.

V. RELEVANT INFORMATION FOR THE OPERATION

Policies and guidelines applicable to the operation

Financial management	Procurement
<ul style="list-style-type: none"> <u>Document GN-2811 [OP-273-12]</u> 	<ul style="list-style-type: none"> Document <u>GN-2349-15</u> Document <u>GN-2350-15</u>

Records and files

BNP has digital and physical files, as well as procedures and instructions allowing appropriate records and files to be kept.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Panama. Loan ____/OC-PN to the Republic of Panama
Global Credit Program for Safeguarding the Productive
Fabric and Employment

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 “Global Credit Program for Safeguarding the Productive Fabric and Employment”. 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 __ _____ 2020)