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Report No: PAD5529

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$40 MILLION

TO THE

REPUBLIC OF PANAMA

FOR A

CONSOLIDATION OF THE PANAMA PUBLIC FINANCIAL MANAGEMENT INFORMATION SYSTEM PROJECT

OCTOBER 24, 2023

Governance Global Practice  
Latin America And Caribbean Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective {October 1, 2023})

Currency Unit = Panamanian Balboa  
(PAB)

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PAB 1 = US\$1

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US\$1 = PAB 1

### FISCAL YEAR

January 1 - December 31

Regional Vice President: Carlos Felipe Jaramillo

Regional Director: Oscar Calvo-Gonzalez

Country Director: Michel Kerf

Practice Manager: Alberto Leyton

Task Team Leader(s): Henry Forero Ramirez

## ABBREVIATIONS AND ACRONYMS

ANA	National Customs Authority ( <i>Autoridad Nacional de Aduanas</i> )
AIG	National Authority for Government Innovation ( <i>Autoridad de Innovación Gubernamental</i> )
CBA	Cost-Benefit Analysis
CGR	Comptrollers General Office ( <i>Contraloría General de la República</i> )
CPF	Country Partnership Framework
CSIRT	Computer Security Incident Response Team
DAP	Directorate of Project Administration ( <i>Dirección de Administración de Proyectos</i> )
E&S	Environmental and Social Standard
FM	Financial Management
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoP	Government of Panama
GRM	Grievance Redress Mechanism
IDB	Interamerican Development Bank
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPF	Investment Project Financing
IRR	Internal Rate of Return
ISTMO	<i>Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa</i>
IT	Information Technology
LAC	Latin America and the Caribbean
M&E	Monitoring and Evaluation
MEF	Ministry of Economy and Finance
NPV	Net Present Value
PAU	Project Administration Unit
PDO	Project Development Objective
PFM	Public Financial Management
PIM	Public Investment Management
POM	Project Operations Manual
PPSD	Project Procurement Strategy for Development
SFRL	Social and Fiscal Responsibility Law
SOC	Security Operations Center
WB	World Bank



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**DATASHEET**

**BASIC INFORMATION**

Project Beneficiary(ies) Panama	Operation Name Consolidation of the Panama Public Financial Management Information System		
Operation ID P180872	Financing Instrument Investment Project Financing (IPF)	Environmental and Social Risk Classification Moderate	

**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternative Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)

Expected Approval Date 16-Nov-2023	Expected Closing Date 15-Dec-2028
Bank/IFC Collaboration No	

**Proposed Development Objective(s)**

To improve the operational efficiency and quality of information of public financial management in the Republic of Panama

**Components**

Component Name	Cost (US\$)
Consolidating Core Public Financial Management Functions	8,000,000.00



Administrative and Resource Management Functions	24,000,000.00
Cybersecurity and IT Management	6,000,000.00
Fiscal Transparency, Reform Sustainability and Project Management	2,000,000.00

**Organizations**

Borrower: Republic of Panama  
Implementing Agency: Ministry of Economy and Finance

**PROJECT FINANCING DATA (US\$, Millions)**

**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)? No  
Is this project Private Capital Enabling (PCE)? No

**SUMMARY**

<b>Total Operation Cost</b>	<b>40.10</b>
<b>Total Financing</b>	<b>40.10</b>
<b>of which IBRD/IDA</b>	<b>40.00</b>
<b>Financing Gap</b>	<b>0.00</b>

**DETAILS**

**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	40.00
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**Non-World Bank Group Financing**

Counterpart Funding	0.10
National Government	0.10

**Expected Disbursements (US\$, Millions)**



WB Fiscal Year	2024	2025	2026	2027	2028	2029
Annual	6.00	12.00	13.00	6.00	3.00	0.00
Cumulative	6.00	18.00	31.00	37.00	40.00	40.00

**PRACTICE AREA(S)**

**Practice Area (Lead)**

Governance

**Contributing Practice Areas**

**CLIMATE**

**Climate Change and Disaster Screening**

Yes, it has been screened and the results are discussed in the Operation Document

**SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)**

**Risk Category**

**Rating**

1. Political and Governance

● Moderate

2. Macroeconomic

● Low

3. Sector Strategies and Policies

● Low

4. Technical Design of Project or Program

● Substantial

5. Institutional Capacity for Implementation and Sustainability

● Substantial

6. Fiduciary

● Moderate

7. Environment and Social

● Moderate

8. Stakeholders

● Low

9. Other

10. Overall

● Moderate



**POLICY COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any waivers of Bank policies?

Yes  No

**ENVIRONMENTAL AND SOCIAL**

**Environmental and Social Standards Relevance Given its Context at the Time of Appraisal**

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
ESS 8: Cultural Heritage	Not Currently Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

**LEGAL**

**Legal Covenants**

**Sections and Description**





Section I.A.2 of Schedule 2 to the Loan Agreement. No later than (3) months after the Effective Date, the Borrower, through MEF, shall, and shall cause ANA and CGR to, establish, operate and maintain, throughout Project implementation, a committee (the “Interagency Steering Committee”), chaired by MEF and comprised of representatives of MEF, CGR and ANA, with functions and responsibilities acceptable to the Bank and defined in the Operational Manual, including, inter alia, the provision of strategic guidance for Project implementation and inter-institutional alignment among MEF, CGR and ANA.

**Conditions**

Type	Citation	Description	Financing Source
Effectiveness	Article V, Section 5.01	That the Operational Manual, in form and substance satisfactory to the Bank, has been adopted by the Borrower, through MEF.	IBRD/IDA
Disbursement	Section III. B.1(b) of Schedule 2	Under Category (2), until the Borrower, through MEF, has entered into an Inter-institutional Agreement with CGR pursuant to Section I.B of Schedule 2 to the Loan Agreement.	IBRD/IDA
Disbursement	Section III. B.1(c) of Schedule 2	Under Category (3), until the Borrower, through MEF, has entered into an Inter-institutional Agreement with ANA pursuant to Section I.B of Schedule 2 to the Loan Agreement.	IBRD/IDA



## I. STRATEGIC CONTEXT

### A. Country Context

1. **Despite Panama's high economic growth, social inclusion and equity have lagged.** Strong growth over the past two decades, fueled by large investment projects and trade, turned Panama into one of the fastest growing economies in the world. Panama's growth during 2001-2019, averaging 6.1 percent, was the highest in Latin America and the Caribbean (LAC) and was more than double the region's average growth. Between 2015 and 2019, economic growth was mainly driven by large investment projects such as the Canal and Tocumen airport expansions. Poverty (using US\$6.85 per person per day, 2017 Purchasing Power Parity, PPP) fell from 50.2 percent to 12.1 percent of the population between 1989 and 2019, but large inequities persist. In 2019, extreme poverty (US\$3.65 2017 PPP) for non-Indigenous peoples and non-Afro-descendants was 1.3 percent, compared to 18 percent for Indigenous peoples, while poverty (US\$6.85 2017 PPP) amongst Indigenous peoples was 6.8 times greater than for non-indigenous. Education and health outcomes also significantly lag peer countries. Panama scores 0.50 on the Human Capital Index (HCI), which measures how productive a child born today can expect to be by age 18 compared with a scenario where they would enjoy complete education and full health. This places Panama far below middle-income neighboring countries such as Costa Rica (0.63) and El Salvador (0.55).

2. **The 2021 and 2022 rebound from Coronavirus Disease 2019 (COVID-19) pandemic was strong, led by the service sector and Canal activities, allowing the fiscal consolidation process to start as mandated by the Social and Fiscal Responsibility Law (SFRL).** Real GDP growth in 2022 reached 10.5 percent driven primarily by private investment and consumption on the demand-side; and services on the supply-side. Due to the COVID-19 pandemic, overall fiscal deficit and the public-debt-to GDP ratio reached 10.2 and 68.5 percent of GDP, respectively. Stronger than expected growth improved nontax (i.e., Canal-related) revenue, which combined with a decrease in COVID-19 related transfers, wage bill containment measures, and prudent public debt management helped Panama reduce the fiscal deficit to 6.7 percent of GDP in 2021 and brought the primary deficit to 4.2 percent in 2021 (down from 7.6 percent in 2020). Public finances improved further in 2022, with the primary and overall deficits declining to 2.2 and 3.9 percent of GDP, respectively. The government's debt-to-GDP ratio is estimated to have declined to 61.7 percent in 2022.

3. **The ongoing fiscal consolidation, and the country's development needs, demand increased spending efficiency.** In 2022, current primary spending (driven by wages, transfers, and subsidies), accounted for 64.5 percent of total expenditure, up 10 percentage points from 2015, as the share of capital spending went down to 35.5 from 46 percent. Looking ahead, spending will need to be rebalanced to maintain or expand key capital and social spending, and efficiency gains need to be realized to eventually make a dent on social indicators. Increased domestic revenue mobilization will also be essential over the medium-term: Panama's central government tax-to-GDP ratio is low (7.8 percent in 2022) and was declining even before the pandemic.

4. **The centrality of fiscal policy for Panama's macroeconomic management also calls for further improving expenditure management.** As a fully dollarized economy with no central bank, fiscal policy is the only macroeconomic stabilization tool available to the authorities. The SFRL is anchored at an indicative target of net debt to GDP ratio of 40 percent, which allows the authorities to run countercyclical fiscal policies and fully rely on automatic stabilizers, but the quality and reliability of fiscal information is a constraint.

5. **Panama's economy is exposed to natural hazards that exacerbate its development challenges.** Panama's geographic location along the tropical belt of the Western Hemisphere exposes it to the increasing frequency and intensity of multi-hazard and climate-induced events, including El Niño-Southern Oscillation (ENSO) (both *El Niño* and *La Niña* phase) episodes, that affects the Caribbean and the Central American regions. The ENSO event during the 2015-2016 dry season caused major economic losses, estimated at US\$72 million in the agriculture sector and US\$40 million



in Panama Canal revenues. In the first half of 2019, the impacts from an El Niño-triggered drought led to economic losses estimated at US\$15 million in Canal revenues, as well as a significant loss of crops and an alarming decline in fresh water. In 2020 – despite Hurricane Eta not making a landfall in Panama – the country suffered from the effects of the storm, with heavy rains, floods and landslides resulting in 17 deaths, 62 missing people, 3,332 people affected by losses or displacements, 999 homes affected in the country due to floods, landslides, and US\$11 million in losses in the agriculture sector.

## B. Sectoral and Institutional Context

6. **Fiscal sustainability and public expenditure efficiency should be underpinned by sound, transparent and accountable public financial management (PFM) practices and systems.** PFM systems provide the orderly means by which governments raise and spend money, fostering credibility and reliability. PFM systems promote prudent decision-making and sustain fiscal health so that deficits are not too high, debt is manageable, tax collection is fair and efficient, spending is properly prioritized, and services reach the citizens and are delivered efficiently. PFM systems also enable the proper preparation and calibration of medium-term fiscal frameworks and annual budgets. International experience has shown that a key element of successful PFM reform has been the strengthening of the integrated financial management information systems (IFMIS).

7. **Over forty years of IFMIS reform has left some countries with a fragmented and assorted PFM information ecosystem.** Practically all countries in the world have gone through at least one IFMIS reform project and many have gone through two or more. However, information technology (IT) has changed significantly, bringing with it both challenges and opportunities. While it has become more complex to implement IT reforms potentially resulting in a wide array of information tools and technologies with varying degrees of effectiveness and the creation of information silos which erode the quality and usefulness of PFM information, it is also true that new technologies offer opportunities for further aggregation and integration of large amounts of data that can better support decision making.

8. **In Panama, the Ministry of Economy and Finance (*Ministerio de Economía y Finanzas – MEF*) leads and coordinates the operation of the PFM system, however several other agencies also play key roles.** The MEF is responsible for managing the current and capital budgets for the Non-Financial Public Sector (NFPS), operating the treasury single account, and preparing financial statements for the Central Government based on specifications and methods from the Comptroller's Office (*Contraloría General de la República – CGR*). To increase efficiency, the MEF has deconcentrated key functions in line with international best practices, such as customs management to the National Customs Authority (*Autoridad Nacional de Aduanas – ANA*) and public procurement to the General Directorate of Public Procurement (*Dirección General de Compras Públicas – DGCP*).

9. **Over the past decade, Panama has taken important steps to strengthen and modernize its PFM system.** Since 2010 the Government of Panama (GoP) has implemented an ambitious PFM reform agenda with support from the World Bank through the Public Sector Efficiency Technical Assistance Project (P121492). Reforms focused on enhancing efficiency, transparency, and accountability in public expenditure management. The MEF introduced a program classification which has been piloted in several ministries. A revised public procurement law, adopted in 2018 has increased competition, curbed corruption, and introduced environmental and energy efficiency as evaluation criteria. The MEF has rolled out major information systems for procurement, *Panamá Compras*, and financial management, *Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa* (ISTMO).

10. **ISTMO has significantly strengthened the PFM core functions of budgeting, accounting, and treasury management across the public administration.** ISTMO facilitated the adoption of the Governmental Financial Administration Model (*Modelo de Administración Financiera Gubernamental, MAFG*) across all central government entities and multiple other entities. Currently, 69 public sector entities (28 central government entities, 32 decentralized entities, 5 State Owned Enterprises (SOEs) and 4 Financial Intermediaries) use ISTMO as their primary tool to manage



their finances. The system has strengthened budgetary controls; facilitated the operation of the treasury single account; automated integration of tax revenue and debt management systems; increased the availability of real time budget execution information; improved monitoring and evaluation; and facilitated timely preparation of statistical and financial reports.

11. **Notwithstanding, an independent diagnostic conducted in 2021 (Box 1) highlighted weaknesses and opportunities for further improvement that need to be addressed to enhance the sustainability of these reforms.** Chief among them was establishing an effective governance structure and promoting a unified vision of the PFM systems among all stakeholders. The report also recommended expanding the coverage and improving the timeliness of the budgetary transactions captured by the IFMIS, with regards to *inter alia*, non-tax revenue assessed and collected by line ministries; custom duties and import taxes; providing mechanisms to better manage historical data; improving performance monitoring and data informed decision making; and improving the integration with the rest of the PFM ecosystem.<sup>1</sup>

**Box 1. ISTMO Diagnostic**

**A diagnostic of the ISTMO information system was undertaken during a 6-month period between 2021 and 2022.** The diagnostic was commissioned by the MEF and conducted by a group of independent consultants. The methodology used to conduct the diagnostic analyzed ISTMO from six perspectives: (i) functional coverage, (ii) institutional and transactional coverage, (iii) IT infrastructure, (iv) user experience, (v) system governance, and (vi) system sustainability.

**The main conclusion of the diagnostic was that ISTMO’s implementation strengthen Panama’s PFM information system; however, there were key weaknesses that needed to be addressed to ensure sustainability.** The report highlighted ISTMO’s institutional coverage and establishing a common PFM conceptual model as its main achievements. The report also highlighted several weaknesses and needs that threaten the sustainability of the system, including: (i) a weak governance model; (ii) setting a unified vision of PFM for all stakeholders, (iii) strengthening the IT infrastructure, (iv) expanding the transaction coverage, (v) strengthening the link between budget and planning, (vi) strengthening public investment, among others.

**The MEF is working to address several of the weaknesses highlighted by the diagnostic.** With the support of other development partners, the MEF is addressing issues such as improving tax administration, strengthening its budget system, and strengthening its IT hardware infrastructure. Several other areas highlighted by the report including consolidating the core PFM functions, improving administrative and resource management systems, strengthening protection of information resource, will be addressed through this operation.

**Consolidating core PFM functions**

12. **Governance needs to be strengthened to secure the sustainability of the PFM reform.** Implementation of ISTMO demanded coordination among several directorates within MEF and external entities. The current governance structure is inadequate: instead of addressing strategic PFM issues, it focuses primarily on IT operational issues, and does not provide efficient mechanisms to resolve disagreements between the system governing entities. This is causing delays and information quality issues such as the timely and consistent generation of consolidated financial statements. The MEF wants to implement a governance model that considers the needs of all stakeholders, guarantees sustainability, and facilitates expansion and integration of the PFM ecosystem.

13. **The transactional coverage in ISTMO is incomplete which holds back the generation of comprehensive and accurate financial statements.** Although all central government entities are using the system, not all financial transactions are recorded in a timely manner. For example, non-tax revenues which accounted for over 35 percent of Central Government revenues in 2022 are currently not recorded in ISTMO; custom duties and import taxes are not

<sup>1</sup> The PFM ecosystem is a group of independent but highly interconnected information systems and subsystems that are used to support the mobilization, allocation, and expenditure of public funds.



recorded in a timely manner. Complete and timely recording of transactions is necessary to generate comprehensive reports.

14. **The financial reporting capabilities are hampered by quality of information issues and lack of appropriate reporting tools.** The MEF intends to deploy tools that facilitate the aggregation of information and provide visualization and analytical capabilities to support decision making. To achieve this, historical data records need to be completed, and information compiled and arranged so that multi-year reports and useful analytics can be produced. Reporting methodologies will need to be updated to capture information related to policy areas such as gender, climate change and social inclusion.

15. **Data exchange within the PFM ecosystem is limited.** The PFM ecosystem comprises a set of independently developed and operated information systems used to mobilize, allocate and use public resources. The ecosystem is dispersed across many public sector entities. ISTMO currently has interfaces with the tax collection system (e-Tax) and the debt management system (SIGADE). Other relevant information systems including public asset management, payroll management, customs administration, and public investment management are not fully interoperable with ISTMO. Better integration within the ecosystem would reduce fragmentation, strengthen expenditure controls, expand coverage, and facilitate access to comprehensive, relevant, and timely information to support decision making.

#### **Challenges related to non-core PFM functions.**

16. **The MEF lacks tools and methodologies to improve public asset management and harness its potential to generate revenue, operational savings and support the transition to greener, more resilient technologies.** Existing PFM benchmarks point to the need for better public asset management. GoP owns a substantial non-financial asset portfolio that includes valuable commercial and residential real estate and vehicles. Information on the portfolio composition, value and operational status is fragmented and not easily accessible to decision makers. With more effective management, these public assets could generate increased revenues. For example, income from the reverted assets real estate portfolio<sup>2</sup> in 2022 amounted to US\$10.7 million<sup>3</sup> and savings from seized assets alone topped US\$37 million.<sup>4</sup> Better management could also generate operational savings: just in 2022 the government spent over US\$62 million in rent for buildings and lots. Moreover, better public asset management would enhance public services, and facilitate the progressive adoption of greener, more resilient technologies such as the progressive transition of the government's vehicle fleet from fossil fuel powered to electric as envisioned in Law No. 295 from April 25, 2022.

17. **In terms of Public Investment Management (PIM), a recent evaluation by the Interamerican Development Bank (IDB) highlighted weaknesses across the different stages and components of the investment cycle.** A recent assessment of the National Public Investment System (*Sistema Nacional de Inversion Publica*, SINIP), which is managed by the Directorate of Public Investment Programming (*Direccion de Programacion de Inversiones*, DPI), found that the existing PIM framework has limited capacity to adequately prioritize projects; lacks tools to assess the resilience of infrastructure; has deficient ex ante evaluation procedures<sup>5</sup> and is not integrated with the financial system. The PIM information system does not cover the complete project cycle and is based on outdated technologies. Project identification, selection, budgeting and monitoring and evaluation procedures do not collect information to adequately address social, gender, environmental, and climate policies and impacts. These weaknesses undermine the quality of public investment and hinder GoP fiscal consolidation efforts.

18. **Effective expenditure controls are hampered by an outdated payroll management platform and limited integration with ISTMO.** Panama's payroll management system is administered by the CGR. The system is accessed by over one thousand users and processes payroll for over 240,000 public sector employees, including all permanent and

<sup>2</sup> Reverted assets comprise a land and real estate returned to Panama as a result of the Torrijos-Carter Treaties

<sup>3</sup> <https://www.mef.gob.pa/2023/02/bienes-revertidos-aporto-al-estado-b-10-7-millones/>

<sup>4</sup> <https://www.mef.gob.pa/2023/04/direccion-de-bienes-aprehendidos-ahorra-b-37-millones-al-estado/>



temporary employees from the Central Government and several decentralized entities. Panama is one of the few countries that has successfully consolidated payroll processing for public entities across multiple sectors, including education, health, and the police force. However, the current platform is approaching the end of its useful life posing a risk for sustainability. In addition, the use of information has been limited and does not offer analytical reports to support more targeted human resource management policies including gender differentiated employment and compensation aspects. The MEF and the CGR are looking to support the modernization of the payroll system while strengthening its integration with ISTMO and enhancing its analytical capabilities.

19. **The National Customs Authority (*Agencia Nacional de Aduanas, ANA*) needs updated tools to strengthen operational efficiency and revenue collection.** Customs duties and other import taxes are an important source of revenue for the GoP. In 2022, ANA collected over US\$1,300 million in revenue, an 11 percent increase compared to 2021, amounting to 14 percent of total revenues. The customs administration information system is nevertheless outdated and was initially deployed over 12 years ago, is expensive to operate and maintain, and has limited integration with other key management systems, including the revenue and financial management systems operated by the MEF. ANA also needs to develop modern management tools, including an updated IT platform to perform controls with a more targeted and risk-based approach, and simplify processes to strengthen efficiency in revenue collection.

#### IT management challenges

20. **The MEF needs to strengthen its capacity to protect information resources and react to cyberattacks.** Estimated costs from cyberattacks worldwide have increased more than tenfold over last five years. This trend is expected to accelerate as innovations in artificial intelligence usher in a new generation of more sophisticated cyberthreats. Governments have been one of the primary sectors targeted by hackers, as recent high-profile cases in the Latin America region have shown. Panama must prepare to build a resilient and secure government platform. These efforts are led by the National Authority for Government Innovation (*Autoridad Nacional para la Innovación Gubernamental, AIG*) whose mission is to develop and promote technology solutions for the modernization of the State. AIG is the Government's designated computer security incident response team (CSIRT) charged with prevention, identification, treatment and resolution of attacks and security incidents on critical information systems in the country. AIG resources need to cover the whole of government. Good practices call for a specialized cell of the government's CSIRT to be implemented in key sectors. The economic and financial sector, led by MEF has traditionally been one of the sectors most targeted for cyberattacks.

21. **Improvements in the performance and sustainability of the IT management are also needed.** The information systems operated by the MEF through the Information Technology Directorate (*Dirección de Tecnologías e Informática, DTI*) provide services to all entities in the public sector. Over the last few years, DTI has embarked in several initiatives to strengthen its information and communication technologies, including the renovation of hardware infrastructure that supports ISTMO and other information systems. To improve performance and guarantee sustainability it is critical to align the IT infrastructure to the MEF's business goals and objectives through the enterprise architecture, which applies the principles and practices to guide organizations through the business, information, process, and technology changes necessary to better execute their strategies.

#### Capacity building challenges

22. **The MEF intends to build capacity across the public sector to advance its PFM reforms.** Currently, there is limited technical capacity to manage and utilize information, manage risks, optimize use of resources, or assure sustainability. The private sector wage premium limits the public sector's capacity to recruit top talent and creates incentives for home grown talent to prematurely leave the service. There is no credible performance or career management framework in place. The MEF needs to build capacity to strengthen its role as the policy process coordinator of the PFM system, and to develop a culture for data analytics and evidence-based decision making. Government agencies will benefit from improvements in PFM practices, greater predictability in funding and information systems for decision-making.





23. **The proposed project intends to support key aspects of the PFM reform agenda in the country.** By complementing efforts to be deployed by MEF and in collaboration with other development partners, the operation would focus the support on aspects related to the broader governance framework for the PFM ecosystem, the upgrading and integration of non-core PFM functions, the strengthening of IT management functions in MEF and the efforts to develop PFM capacity across the public sector.

### C. Relevance to Higher Level Objectives

24. **The Project is consistent with the World Bank Group’s Country Partnership Framework (CPF) for Panama (FY15-21) discussed by the World Bank’s Board of Executive Directors on March 2, 2015, and the Performance and Learning Review (PLR) of the CPF for the same period, considered on June 29, 2018.**<sup>5</sup> The Project directly supports Pillar 1: “Supporting Continued High Growth” under Objective 3 which seeks to improve budget management transparency and highlights the critical need to improve the efficiency of public expenditure and public investment management. Objective 3 also highlights the need to enhance efficiency and effectiveness of public programs, as well as greater transparency and accountability in the use of public resources through the provision of good quality reports and more comprehensive financial statements. The project is also aligned with the proposed 2024 – 2028 CPF, which is currently under preparation.

25. **The project is also aligned with the Government of Panama’s National Strategic Vision 2030 Plan (*Plan Estratégico Nacional con Vision de Estado*, PEN).** The Vision 2030 seeks to enhance economic growth through five objective goals, one of which is the strengthening of good governance, and the promotion of a policy of transparency and accountability within public institutions, while improving the quality and effectiveness of public policies. Strengthening governance and institutions is also part of the current administration’s 2019-2024 Strategic Plan (*Plan Estratégico de Gobierno*, PEG). Good governance is one of the five pillars of the PEG where key initiatives include strengthening public finance, fiscal responsibility, and transparency.

26. **The project is consistent with the country’s climate Nationally Determined Contribution (NDC).** Panama’s Updated NDC of December 2020, advocates a policy approach that integrates adaptation and mitigation with its efforts to reduce poverty and inequality. Panama commits to the integration of climate change considerations in the National System for Public Investment (SNIP) through the implementation of the "Technical Guide on Climate Change for Public Investment Infrastructure Projects", applying the Technical Guide to all new projects from 2025. The project contributes to the NDC by supporting the development of information systems that will enable systematic implementation of the Technical Guide through integration of climate resilience and impacts in the screening, appraisal, and selection of public investment projects. The project will also (i) increase resilience and improve capacity to respond to climate-induced shocks and natural disasters by ensuring interoperability, and (ii) contribute to reduce emissions by supporting the development of methodological tools to screen public investment projects for climate change risk and mitigation and promote the use of energy-efficient technologies in new projects as well as in any equipment purchased.

## II. PROJECT DESCRIPTION

### A. Project Development Objective

#### PDO Statement

To improve the operational efficiency and quality of information of public financial management in the Republic of Panama.

#### PDO Level Indicators

- a) Time needed for customs duties and import taxes information to be available in the IFMIS (days)

<sup>5</sup> CPF Report No. 93425-PA and PLR Report No. 123665-PA. The CPF period was extended from FY21 to FY22.



- b) Resource management systems that interoperate and exchange information with the IFMIS (number)
- c) Critical information security processes at MEF certified based on international standards (percentage)

## B. Project Components

27. **The proposed operation is an investment project financing (IPF) comprising four components and has an expected duration of five years.**

### Component 1. Consolidating Core Public Financial Management Functions (US\$8 million)

28. **This component seeks to consolidate and advance PFM reforms on the core functions of budgeting, treasury management and accounting and to address weaknesses identified on the core IFMIS.** The component will support improvements in institutional arrangements, processes, methodologies, and information technologies, and strengthen functional and technical capacities within the MEF.

29. **Subcomponent 1.1: Strengthening PFM governance framework.** This subcomponent will support the implementation of an integrated, inclusive, and scalable PFM system governance model that addresses the needs of all system governing bodies at the MEF and provides a space for engagement and technical dialogue with the CGR and other entities involved in public resource management. The subcomponent includes the following activities: (i) establishment of a PFM governance model; (ii) design and implementation of a data governance framework; and (iii) establishment and initial operation of the PFM information system management unit at the MEF.

30. **Subcomponent 1.2: Strengthening core PFM processes, methodologies, capabilities, and information systems.** This subcomponent seeks to consolidate the core PFM information systems. Activities include: (i) definition and implementation of a strategy to capture non-tax revenues assessment and collection in ISTMO; (ii) design and implementation of process reforms and methodological tools to improve the quality and coverage of the central government's financial statements; (iii) definition of a policy and implementation of tools to manage historical financial data; and (iv) design and delivery of a capacity building program for system administrators and end users of the IFMIS.

31. **Subcomponent 1.3: Improving integration within the PFM ecosystem.** This subcomponent seeks to improve integration between the core IFMIS and the rest of the PFM ecosystem. Activities include: (i) updating and expansion of the PFM conceptual model to include functions beyond budgeting, accounting, and treasury management, including those supported under Component 2; (ii) design and implementation of the PFM integration framework; and (iii) acquisition and implementation of an integration platform.

### Component 2. Administrative and Resource Management Functions (US\$24 million)

32. **This component seeks to improve four key functions to manage public financial, human, and material resources.** All four of them exchange information with the core PFM functions in one or multiple stages of the budget cycle, which makes them critical for fiscal sustainability and expenditure efficiency. This component seeks to improve processes, methodologies and develop or upgrade a set of public sector resource management systems.

33. **Subcomponent 2.1: Strengthening public asset management.** This subcomponent seeks to improve the efficiency and sustainability of public non-financial assets. Activities include: (i) design and implementation of process reengineering and methodological tools for improved public asset management, including support for the government's commitment to the progressive transition of the vehicle fleet from fossil fuels to electric<sup>6</sup>; (ii) implementation of information tools to support public asset management including real property; and (iii) strengthening capacity of the MEF for public asset management.

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<sup>6</sup> In accordance with Law No. 295 from April 25, 2022





34. **Subcomponent 2.2: Modernizing government payroll management.** This subcomponent seeks to modernize payroll management system administered by CGR for public sector employees and improve the availability of information on the central government's public employment and compensation practices. Activities include: (i) migration of the payroll management system to a Software as a Service Platform; (ii) support for the provision, operation, and maintenance of the payroll service; (iii) integration of the payroll system to the core PFM systems at the MEF; and (iv) development of data analytics tools and reports, including gender reporting on employment and compensation practices in the public sector.

35. **Subcomponent 2.3: Modernizing customs administration.** This subcomponent seeks to support ANA's digital transformation process through the implementation of a modern customs management platform and improving the MEF's access to reliable and timely customs duties and import tax information. Activities include: (i) process reengineering and analytical tools for customs management; (ii) upgrade of the customs system to an integrated customs management platform; and (iii) improve interoperation between ANA's and the MEF's information systems.

36. **Subcomponent 2.4: Strengthening public investment management.** This subcomponent supports the design and implementation of processes, methodologies, and tools to strengthen public investment management that include integration of climate change, gender, and citizen engagement into the public investment management cycle. Activities include: (i) strengthening of the PIM regulatory framework; (ii) upgrading procedures, methodologies and guidelines, including those related to the implementation of budget tagging for public policies such as climate change mitigation and adaptation, gender, and social inclusion; (iii) design and implementation of a capacity building program on PIM; and (iv) design and implementation of a public investment information management system to support the entire project cycle.

### **Component 3. Cybersecurity and IT Management (US\$6 million)**

37. **This component seeks to strengthen the MEF's capabilities to securely and efficiently manage its IT infrastructure and services.** This entails investments to strengthen protection of information resources, improve performance and resilience of information systems, and support the MEF's digital transformation agenda.

38. **Subcomponent 3.1: Strengthening the MEF's capabilities to protect information resources.** This subcomponent seeks to make information resources more resilient. It will strengthen the MEF's capacity to detect and respond to cyberthreats and to coordinate with the AIG at the government wide level. Activities include: (i) support for the creation and mobilization of a Security Operations Center (SOC) at the MEF, including the provision of office equipment and minor refurbishment works within existing government buildings; (ii) support the creation and mobilization of a cell (subsidiary) CSIRT at the MEF that adheres to the policies and procedures set by the government wide CSIRT at AIG; and (iii) implementation of cybersecurity certification and external audit program.

39. **Subcomponent 3.2: Strengthening the MEF's IT Management capabilities.** This subcomponent includes the following activities: (i) design and implementation of a strategy to improve performance and sustainability of data management; and (ii) development of the MEF's enterprise architecture and support for the implementation of the digital transformation roadmap.

### **Component 4. Fiscal Transparency, Reform Sustainability and Project Management (US\$2 million)**

40. **This component seeks to promote awareness and use of fiscal transparency tools.** It aims to promote reform adoption through change management and building PFM knowledge and capacity. The component will also support project management and administration activities.

41. **Subcomponent 4.1: Reform sustainability.** This subcomponent will support: (i) design and implementation of a change management strategy; (ii) design and implementation of a knowledge management tools and building general PFM internal capacity.



42. **Subcomponent 4.2: Fiscal transparency.** This subcomponent will support: (i) development and implementation of a communication campaign engaging external stakeholders; and (ii) enhancing public access to fiscal information and development of capacity to leverage open data.

43. **Subcomponent 4.3: Project management.** This subcomponent provides operational support including the day-to-day operation of a project administration unit (PAU), which will carry out the project administration, procurement, financial management, monitoring and evaluation (M&E) functions for the project.

### C. Project Beneficiaries

44. **The project has four categories of direct beneficiaries.** First, the staff of the MEF, CGR, and ANA, will benefit from more efficient and effective systems for managing public finances; high quality and timely information; and enhanced technical capacity to manage and utilize PFM information for decision-making. Second, government agencies will benefit from improvements in PFM practices and from greater predictability in funding and information systems for decision-making. This will help agencies manage resources more efficiently and effectively. Third, private sector businesses (importers and exporters) will benefit from improvements in the efficiency of customs administration; reduced transactions costs; and a stronger client orientation of related services. Fourth, public sector employees will benefit from modern and efficient payroll services, including gender-oriented analytics on public employment and compensation which will provide critical information on pay equity. Indirect beneficiaries are firms and households in Panama who will benefit from improved fiscal policy decisions based on more complete, accurate and timely financial information and improved policy analysis.

### D. Results Chain

45. **The project seeks to improve the quality of public financial management information for decision-making and thereby improve the operational efficiency of the PFM ecosystem, enabling improvements in fiscal and financial management outcomes.** The project will support the creation of a governance structure for PFM to coordinate reforms across the broader PFM ecosystem, encompassing departments within the MEF and external stakeholders such as the CGR. This will result in a shared vision of the PFM ecosystem and improved integration. The project will finance interventions strengthening operational efficiency by supporting the development and upgrade of key administrative and resource management systems, including public asset management, customs administration, public investment management and payroll. The project will help address critical IT management issues, including the development of a data strategy, enterprise architecture and critical interventions aimed at enhancing capabilities in terms of cybersecurity and systems resilience to enhance operational efficiency and ensure business continuity. A capacity building strategy will build PFM, data management and analytical skills, and a change management strategy will build ownership and promote coordination across the PFM ecosystem.

46. **Achievement of the expected outcomes rests on a set of assumptions about the success of initiatives to mitigate stakeholder, change management and fiduciary capacity risks.** The project will require effective coordination between the MEF, CGR, and ANA, overcoming organizational silos and resistance to change. Establishment of a Steering Committee should help address and resolve bottlenecks at the operational level and promote a shared vision for PFM reform across participating institutions. Internal and external communications, stakeholder engagement and consultations should strengthen ownership and promote adoption of PFM reforms. The MEF will need to strengthen its fiduciary capacity to ensure the completion of key procurement processes on time and coordinate the advisory services supporting implementation of the reforms.



Figure 1. Project Results Chain

	PROJECT INTERVENTIONS	INTERMEDIATE OUTPUTS	PDO/OUTCOMES	LONG TERM OUTCOMES
Core PFM Functions	Establish PFM Governance Model	Improved governance of PFM	Increased PFM operational efficiency	Fiscal Sustainability
	Activate PFM System Administrator			
	Create PFM Data Governance Model			
	Implement historical data repository	Consolidated Core IFMIS		
	Expand the coverage and timeliness of transactions			
	Improve quality and coverage of financial statements			
	Expand PFM Conceptual Model	Shared vision and improved integration within the PFM ecosystem		
	Design PFM integration framework			
Implement integration platform				
Public Administration and Resource Management Functions	Support the design and implementation of process reforms and methodological tools for public asset	Public Asset Management System Designed and Implemented	Improved quality of PFM information	Public Expenditure Efficiency
	Implementation of information tools to support public asset management			
	Migration of the Payroll Management System to a Software as a Service Platform	Payroll Management System Upgraded and rolled out		
	Strengthen integration between Payroll and IFMI			
	Support the operation and maintenance of the Payroll Software as a Service			
	Support process reforms and methodological tools for customs administrations	Custom Management System upgraded and roled out		
	Upgrade Customs Management Platform			
	Improve process integration and data exchange between ANA and MEF			
	Strengthen the regulatory framework	Investment Management System designed and implemented		
	Develop and upgrade methodological guidelines and			
Design, development and implementation of a public investment management system				
Cybersecurity and IT Management	Develop MEF's enterprise architecture	Improved IT Management		
	Design and implementation of a strategy to improve performance and sustainability of data management infrastructure			
	Support the creation and mobilization of a Security Operations Center (SOC) and a Computer Security Incident Response Team (CSIRT)	Strengthened capabilities to protect IT resources		
	Define policy and implement a program to improve cybersecurity within MEF			
Project Management & Change Management	Define and implement change management program	Strengthened capacity to absorb PFM reform		
	Training on core PFM			
	Strengthening fiscal transparency tools	Raised awareness and increased capacity of key external stakeholders		
	Development of capacity to leverage fiscal transparency tools			
	Conduct project management and monitoring			

E. Rationale for Bank Involvement and Role of Partners

47. **The World Bank (WB) has a comparative advantage to support Panama, leveraging its global knowledge and expertise in the implementation of complex public financial management reforms.** Since 1984, the WB has supported the development and implementation of IFMIS in over 84 countries totaling 152 projects (128 completed and 24 active)<sup>7</sup>. The WB financed the recently completed Public Sector Efficiency Technical Assistance Project (P121492), which supported rollout of ISTMO and *Panamá Compras*. Consequently, the WB has a unique vantage point to provide technical advice drawing upon the lessons learned from the implementation of similar projects, and the experience in Panama.

48. **The proposed operation also complements ongoing efforts from other development partners.** The Inter-American Development Bank (IADB) is supporting the MEF through financing focused on improving public expenditure quality, including the establishment of an Expenditure Quality Unit, process reengineering related to the budget, and the development of budget data analytic tools. The WB project will enhance coordination between the different PFM

<sup>7</sup> World Bank IFMIS statistics as of January 2023



governing bodies through its support for a Steering Committee that will bring together key stakeholders around a shared vision for PFM reforms.

## F. Lessons Learned and Reflected in the Project Design

49. **The scope and complexity of reforms should be aligned with institutional capability.** Projects should carefully assess the regulatory and institutional frameworks to recalibrate the ambitiousness of the reform and better assess risks and mitigation measures. Complex initiatives should be carefully planned, sequenced, and implemented in a progressive manner. Reforms will need to be accompanied by capacity building for proficiency in economics, public administration, accounting, project management, IT, among others. Projects should put in place a capacity building program that supports the reform. Change management should be integrated at the design stage and constantly updated during project implementation. The project design builds incrementally on PFM reforms and information systems developed under the Public Sector Efficiency Technical Assistance Project (P121492). The project will support a capacity assessment and a broad capacity building program to build the technical, analytical, and managerial skills needed to effectively use the new information systems. Change management activities will promote an organizational culture that values data and evidence-based decision-making.

50. **PFM projects should put in place coordination mechanisms to support reforms and project implementation.** Projects should have clear leadership arrangements at a sufficiently senior level to resolve any potential conflicts between stakeholders that may emerge and ensure that all relevant stakeholders participate actively. Senior leadership should communicate explicitly their commitment to the reforms and be ready to support reform champions at critical stages. A shared government vision should be developed and communicated broadly, with clear goals and expected achievements from all relevant stakeholders. The project will support the implementation of a governance model that considers the needs of all stakeholders, guarantees sustainability, and facilitates expansion and integration of the PFM ecosystem.

51. **PFM projects should focus on reforms rather than information technology.** IT is a facilitator and a catalyst for improvements in PFM performance and not an end. Performance is influenced by process reform, institutional arrangements, and capacity considerations. To this effect, the project will include process reform in key resource management systems such as public asset management, customs administration, and public investment management; will put in place a PFM governance model that considers the needs of all PFM governing entities; and includes a comprehensive capacity building program. Project teams should also manage expectations regarding IT system functionality and its impact on overall PFM system performance, as unrealistic expectations undermine the confidence of key stakeholders and can lead to delays and hinder effective implementation.

52. **Adequate implementation arrangements are key to successful project implementation.** The Project Administration Unit (PAU) should be staffed with the technical, coordination and fiduciary skills needed to support a complex implementation. To the extent possible, fragmentation of the implementation arrangements should be avoided favouring centralization of procurement, financial management and M&E functions while promoting the involvement of all stakeholders at governance, technical design, and coordination level.

## III. IMPLEMENTATION ARRANGEMENTS

### A. Institutional and Implementation Arrangements

53. **The (PAU) will be responsible for project implementation.** The MEF's Directorate of Project Administration (*Dirección de Administración de Proyecto - DAP*) will host the PAU. The DAP has experience in implementing IPF operations, having led the Public Sector Efficiency Technical Assistance Loan (P121492) and other multilateral engagements. The WB will provide additional training to ensure sufficient capacities to manage and implement the project. The PAU will be led by a Project Director, who will be responsible for the day-to-day management of the project.



The PAU will conduct financial management, procurement, and M&E functions. It will also be responsible for change management and observing the environmental and social framework. The PAU will employ a Technical Lead who will serve as the overall solution architect and provide technical guidance to the task teams that will be directly responsible for implementing the work program (see Annex 1 for more details).

54. **The MEF will enter into institutional agreements with ANA and the CGR to support the delivery of the project.** The activities for which the CGR and ANA are responsible are clearly identified under subcomponents 2.2 and 2.3 respectively. The MEF will establish agreements with both entities, facilitating the seamless coordination of subcomponent delivery. Detailed information about this collaborative effort will be described in the Project Operations Manual (POM). The enactment of the institutional arrangements will be a prerequisite for project disbursements for subcomponents 2.2 and 2.3.

55. **An Interagency Steering Committee with participation from the MEF, CGR, and ANA will ensure strategic alignment among the key project stakeholders.** The Committee will be chaired by the Minister of Economy and Finance and will include the deputy minister of economy, the deputy minister of finance, and high-ranking representatives from both CGR and ANA. The Project Director will report to the Steering Committee and will act as the secretary during the committee meetings.

## B. Results Monitoring and Evaluation Arrangements

56. **The project results framework will be used as the basis for project monitoring and evaluation.** The PAU will put in place a project monitoring system to keep data and records on implementation and generate periodic project progress reports. The monitoring system will draw on data generated by implementing entities and task teams. The PAU will include a M&E specialist that will report to the Project Director. The M&E specialist will assist the implementing entities to compile information to produce reports on implementation progress. The PAU will submit periodic monitoring reports to the Interagency Steering Committee for approval and submission to the World Bank.

57. **The WB will conduct semi-annual implementation support missions to evaluate the achievement of results and agree on adjustment or corrective measures when necessary.** Implementation progress will be documented in Aide Memoires and Implementation Status and Results (ISR) reports. The results framework will be monitored to ensure the continued relevance of indicators and targets. The project will be subject to a midterm review that will recommend adjustments as necessary to the project's interventions, economic analysis, results framework, or implementation arrangements.

## C. Sustainability

58. **The sustainability of the project depends on broad involvement of all relevant stakeholders and support for the PFM reform agenda over the medium to long-term.** The MEF's decision to focus on strengthening the overall PFM ecosystem is expected to help mobilize stakeholder support of the reform agenda and continuity across administrations and electoral cycles. Development of the updated PFM conceptual model and the definition of the PFM integrated action plan through a broad consultative process will help mobilize stakeholder support. The data governance and integration frameworks will provide the technical instruments for interagency coordination, process integration and data sharing.

59. **A comprehensive training program and development of technical in-house capacity in the implementing entities will help sustain new management practices, technical requirements, and changes in organizational culture.** A capacity development and knowledge management program for staff will provide continuous learning and skills enhancement for staff covering technical, managerial, and functional skills. Change management activities and communications will accompany project implementation to ensure that the public and key stakeholder groups are aware of the purpose and impact of reforms.





#### IV. PROJECT APPRAISAL SUMMARY

##### A. Technical, Economic and Financial Analysis (if applicable)

60. **Targeted, informed improvements for the core PFM function.** The activities selected to strengthen the core PFM functions have been informed by a comprehensive diagnostic. The diagnostic conducted by independent consultants in 2021 (Box 1) highlighted strengths and weaknesses in the core PFM functions and supporting IT infrastructure that are being addressed through various project activities, primarily in components 1 and 3. The MEF is working with other development partners to address some of the other issues – notably those related to tax management, budgeting, and IT hardware infrastructures. The initiatives included in project have been selected to avoid duplication of efforts.

61. **Reforms to the wider PFM ecosystem.** The project addresses the broad PFM ecosystem which covers a wide range of processes, methodologies and institutional arrangements used to mobilize, allocate and use public resources. This includes key administrative and resource management systems such as public asset management, payroll, customs administration, and investment management that are critical to the effective operation of the core PFM functions of budgeting, treasury, and accounting. Establishment of an effective governance structure and agreement on the PFM conceptual model will promote a shared vision of the PFM system across all stakeholders. Definition of an integration framework and the implementation of an integration platform will facilitate information sharing.

62. **Information Technology.** The project will finance the acquisition of software and IT services. Procurement of hardware is not expected to be a significant project cost, as the MEF has already acquired the necessary IT infrastructure for the next three to five years. Hardware purchases will be limited to supporting the upgrade of the infrastructure of the customs management systems at ANA and provisioning the operations of the SOC and CSIRT at the MEF. The project will include the acquisition of application and system software, as well as funding for the development of bespoke software and the provision of cloud services. The project will not support a single centralized software solution. Instead, the project will follow a modular approach using multiple, best available software solutions that will share information through a common integration framework. Development of an Enterprise Architecture will support better alignment of the IT resources with the business needs of the MEF.

63. **Securing information resources.** The information systems operated by the MEF through the DTI provide services to a wide range of public sector entities, regional offices, and citizens. Governments have been one of the primary sectors targeted by hackers including recent high-profile cases in Costa Rica and elsewhere in the region. The MEF will strengthen its capabilities to prevent, monitor, detect, and react to cyberattacks in close coordination with AIG. The MEF data protection strategy includes management of historical data, updating and improving the SOC at the MEF, creation of a cell of the AIG CSIRT at the MEF, building internal capacity and implementing an external auditing program.

64. **Capacity and Change Management.** The proposed project supports reforms across the PFM ecosystem. The MEF has reform experience with the recently completed Public Sector Efficiency Technical Assistance Loan (P121492) which supported a PFM reform agenda focused on enhancing efficiency, transparency, and accountability in public expenditure management. The proposed project provides for significant technical assistance, including capacity building, communications, and change management activities. Change management will focus on promotion of organizational culture for the use of data and analytics to support evidence-based decision-making and a client orientation in customs administration services.

65. **Economic and Financial Analysis.** The directly quantifiable economic benefits from the project arise from addressing inefficiencies in the business environment owing to high transaction costs for importers and exporters and time-consuming procedures for customs tax compliance as well as from operational savings in government transactions. The financial/fiscal benefits arise from: increases in custom duties and import taxes from improved customs administration; savings from improved administration of non-financial assets and their incorporation into the government's balance sheet; and savings from the reduction of the operational costs of the PFM information systems.



The cost benefit analysis indicates that the project is economically feasible with an economic Internal Rate of Return (IRR) of 78 percent, and a real economic Net Present Value (NPV) of US\$105 million at 10 percent discount rate in real terms. Results of the financial/fiscal analysis show that the project is financially feasible at an IRR of 91 percent, and NPV of 95.2 million at 10 percent discount rate (see Annex 2 for more details).

66. **Unquantified benefits.** The project will indirectly benefit all economic actors, as more effective PFM expenditure and revenue systems can be expected to lead to improved fiscal outcomes and more efficient and effective public spending, ultimately leading to improvements in public infrastructure and service delivery. While not directly quantifiable, higher-level economic benefits are likely to arise in terms of more significant economic growth because of a more stable macroeconomic outlook and reduced risk from fiscal management and management of the medium-term debt sustainability. Other benefits that are not quantified include training received and capacity generated primarily at the MEF, ANA and CGR staff. Staff from line ministries will also benefit from training in areas such as public asset, investment, and payroll management.

67. **Gender.** The project includes actions to integrate a gender lens in the country's PIM system, as well as to better inform the state of gender equality in employment and compensation policies in the public sector. Subcomponent 2.4 will develop guidelines and methodological tools to embed gender in the identification, allocation of resources, and monitoring of public investment projects, to help ensure that adequate resources are provided to implement critical gender and social policies. To this end, the project will monitor, among others, the implementation of the methodology of budget tagging of gender-related expenditures/investments. Similarly, Subcomponent 2.2 will help to identify opportunities to align resources with the Government's gender policies by supporting the integration of the payroll management system with the core public financial management systems at the MEF. This will allow authorities to analyze information on gender disparities in employment and compensation policies in the public sector and help identify corrective measures. Collectively, these activities will contribute to integrating a gender perspective into payroll management through the collection and analysis of gender-disaggregated data to enable monitoring and mitigation of barriers faced by women and vulnerable groups in the public sector.

68. **Citizen engagement.** The project incorporates a grievance and redress mechanisms (GRM). Throughout project implementation, the GRMs will be reviewed and revised to ensure they are adequate and user-friendly. The project will monitor the percentage of enquiries and complaints that are received and responded by the project implementation according to the established protocols and time periods. Feedback from stakeholders will be incorporated into the project as appropriate during project implementation, and outreach events will take place to inform stakeholder of how their feedback was used.

69. **Climate change.** The NDC commits to the integration of climate change considerations in the National System for Public Investment (SNIP) through the implementation of the "Technical Guide on Climate Change for Public Investment Infrastructure Projects", applying the Technical Guide to all new projects from 2025 onwards. The project will support the development of information systems that will enable systematic implementation of the Technical Guide by integrating climate resilience and impacts in the screening, appraisal, and selection of public investment projects. The project will also increase resilience and improve capacity to respond to climate-induced shocks and natural disasters by ensuring interoperability and business continuity of information systems. The project will contribute to reduce emissions by supporting the development of methodological tools to screen public investment projects for climate change risk and mitigation and will promote the use of energy-efficient technologies in new projects. Finally, the project will apply environmental management standards to ensure that new equipment purchased uses energy-efficient technologies.

70. **The operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation.**

71. **Assessment and reduction of mitigation risks.** Project activities will have a negligible impact on Greenhouse Gas (GHG) emissions and are not expected to have an adverse effect on Panama's low-GHG-emissions development pathways. Activities such as digital infrastructure and digitization of services are considered "universally aligned" per



Paris Alignment methodologies. Minor risks associated with the procurement of computer hardware are considered, however the project will incorporate life cycle requirements and energy efficiency standards in the procurement of services, equipment, and supplies.

72. **Assessment and reduction of adaptation risks.** Main climate risks identified for the project are increased heat waves and more frequent and intense extreme weather events, such as hurricanes and storms, that might lead to floods and impact the capacity of systems to continue operating under such circumstances. To respond to these risks, the project will include resilience measures within the proposed information technologies that will be deployed including business continuity planning and disaster recovery protocols to minimize service disruptions and allow improved access to services to beneficiaries.

## B. Fiduciary

### (i) Financial Management

73. **The overall FM residual risk after mitigating measures is assessed as Moderate.** The main conclusions of the FM Assessment are: (i) the FM arrangements for the proposed project are considered adequate; (ii) the funds flow, disbursements, monitoring, auditing, and supervision arrangements have been designed in a way such as to respond to the project's implementation arrangements; and (iii) the overall FM residual risk after mitigating measures is assessed as Moderate. The project's risk rating will be reviewed regularly during implementation support missions (see Annex 1 for more details).

### (ii) Procurement

74. **Procurement for the project will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers dated September 2023.** The project will also be subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006 (revised July 2016). WB Standard Procurement Documents will be used in World Bank-financed Open International Competitive Procurement. For procurement involving National Open Competitive Procurement, the Borrower will use standard procurement documents acceptable to the WB that will be included in the POM.

75. **The WB carried out a procurement capacity assessment of the DAP in the Ministry of Finance on May and June 2023.** The assessment primarily reviewed the organizational structure for implementing the project, and the experience of the existing staff. The assessment concluded that the DAP has experience implementing projects financed by multilateral sources, including both the World Bank and other donors. The DAP has staff with knowledge and experience carrying out procurement under World Bank Regulations. The key issues and risks concerning procurement for project implementation include: (i) timely definition of Terms of Reference and Technical Specifications from the technical team and coordination with the procurement team; (ii) timely consultations with the AIG; and (iii) adequate assignment of budget for project execution. The corrective measures which have been agreed are: (i) strengthening of the PAU and the procurement unit with appropriate staff in terms of qualifications and quantity dedicated to the project; (ii) early communication and involvement of the AIG on the technical specifications; and (iii) inclusion in the POM of detailed roles and responsibilities of the technical and procurement units; and (iv) timely programming of activities to ensure adequate budget allocation.

76. **Advanced Contracting and Retroactive Financing.** The implementing agency has expressed interest in retroactive financing for some activities that are directly related to the PDO. The project would provide retroactive financing up to 20 percent of the Loan amount for payments made by the Borrower under contracts made within 12 months of the signing date of the Legal Agreement, but not before April 5, 2023. For the eventual contracts to be eligible, the selection procedures, including advertising, must be consistent with Sections I, II and III of the World Bank Procurement Regulations. The WB has indicated that the DAP should use the World Bank's Standard Procurement Documents. Should the implementing agency not utilize the Standard Procurement Documents, contracts must incorporate the appropriate fraud and corruption clauses, as well as the clauses pertaining to the World Bank's audit rights in accordance with the





World Bank Guidelines on Preventing and Combating Fraud and Corruption in projects financed by IBRD, and the IPF Directive. The Borrower will undertake such advance procurement at its own risk, and any concurrence by the WB on the procedures, documentation, or proposal for award of contract, does not commit the WB to finance the contract in question.

C. Legal Operational Policies

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

D. Environmental and Social

77. **The Environmental and Social Risk is Moderate.** The project is expected to generate overall positive social and environmental impacts by improving the quality of public financial management information in Panama. The following environment and social standards (ESS) are relevant for the project: ESS1. Assessment and Management of Environmental and Social Risks and Impacts; ESS2. Labor and Working Conditions; ESS3. Resource Efficiency and Pollution Prevention and Management; ESS7. Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities; and ESS10. Stakeholder Engagement and Information Disclosure. The Environmental and Social Commitment Plan (ESCP) and the Stakeholder Engagement Plan (SEP) were disclosed on the Bank’s website on September 21, 2023.

78. **The environmental risk of the project is Moderate.** The project is not expected to have negative environmental impacts. The project will finance consulting and advisory services, capacity building and software programming to support the consolidation and enhancement of core PFM systems and minor refurbishments works within the existing government building. Potential environmental risks and impacts are related to the eventual generation of e-wastes from the replacement or procurement of a small amount of electronics and to the minor refurbishments works within the existing government building required to install IT equipment. Related e-waste and energy efficiency aspects will be addressed in the POM.

79. **The project’s social risk is assessed as Low.** The project is not expected to have negative social impacts. The project will finance consulting and advisory services, capacity building and training to help improve and consolidate Panama’s technological platform for PFM systems, and minor refurbishments works within the existing government building. No planned activities will lead to physical displacement or have negative impacts on communities’ health and safety. There is a risk that some stakeholders might be excluded from the stakeholder engagement process, particularly civil society representatives who might not receive timely information of the design and outputs of the project. To address this risk, the project will include participatory mechanisms and consultation with stakeholders to ensure the inclusion of all affected stakeholders, particularly within the MEF and related government agencies, but also civil society organizations promoting citizen participation initiatives related to the implementation of a more open and transparent information portal.

V. GRIEVANCE REDRESS SERVICES

80. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank’s



Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, visit <https://accountability.worldbank.org>.

## VI. KEY RISKS

81. **The overall residual risk rating is Moderate.** The risks assessed as substantial are technical design and institutional capacity for implementation and sustainability.

82. **Technical design risk is substantial.** PFM projects entail whole-of-government reforms that are technically challenging, particularly so when these involve the implementation of information systems. Many of the efficiency gains expected from the project arise from process interoperability and information system integration, which are challenging due to the multiple stakeholders involved. The project will mitigate this risk by establishing a well-defined and updated PFM conceptual model and supporting a governance framework that is expected to generate a shared vision and protocols that will support stakeholder cooperation. Country experience, including the implementation of the Public Sector Efficiency Technical Assistance Project (P121492) in Panama have shown that the absence of formal dispute resolution mechanism among the system governing bodies causes delays and quality issues throughout implementation.

83. **Institutional capacity for implementation and sustainability risk is substantial.** The project will be implemented by several government agencies which poses a risk for coordination. This risk will be mitigated by the establishment of a Steering Committee that has representation from the project's main stakeholders, the MEF, CGR and ANA, which will facilitate coordination. The Steering Committee will be supported by the establishment of a formal PFM governance model which is expected to support coordination of the Panama PFM ecosystem beyond the project. The project also faces risks of delays due to the change of administration that will take place in the second half of 2024. This risk will be mitigated by implementing key project interventions early, such as public investment management, public asset management and payrolls, which are expected to create momentum and reduce implementation delays.



VII. RESULTS FRAMEWORK AND MONITORING

PDO Indicators by PDO Outcomes

Baseline	Closing Period
<b>Improved comprehensiveness of PFM information</b>	
<b>Resource management systems that exchange information with the IFMIS (Number)</b>	
Jul/2023	Dec/2028
3	7.00
<b>Improved operational efficiency and timeliness of revenue information</b>	
<b>Time needed for customs duties and import taxes information to be available in the IFMIS (Days)</b>	
Jul/2023	Dec/2028
30.00	7
<b>Improved resilience of PFM information</b>	
<b>Critical information security processes at MEF certified based on international standards (Percentage)</b>	
Jul/2023	Dec/2028
0	100

Intermediate Indicators by Components

Baseline	Period 1	Period 2	Closing Period
<b>Consolidating Core Public Financial Management Functions</b>			
<b>Adoption of PFM Governance model (Text)</b>			
Jul/2023	Dec/2024		Dec/2025
Not Available	Governance Model Defined		Adopted by main PFM governing bodies
<b>Central Government Entities that record non tax revenues in the IFMIS (Percentage)</b>			
Jul/2023			Dec/2028
0.00			75
<b>Implementation of the Conceptual Model (Text)</b>			
Jul/2023	Dec/2024		Jun/2025



Not available	PFM Conceptual Model Developed		PFM Conceptual Model Approved
<b>Administrative and Resource Management Functions</b>			
<b>Central Government Entities using the new Public Asset Management Information System (Percentage)</b>			
Jul/2023			Dec/2028
0.00			50.00
<b>Asset Management Units staff trained on new Public Asset Management System (Number)</b>			
Jul/2023			Dec/2028
0.00			100.00
<b>Central Government Entities using the payroll management system as a service (Percentage)</b>			
Jul/2023			Dec/2025
0.00			100.00
<b>Public employment and compensation analytical reports (Text)</b>			
Jun/2023			Dec/2028
Not available			Analytical reports on public employment and compensation produced by MEF
<b>Revenues collected by ANA that are recorded in the new customs management platform (Percentage)</b>			
Jul/2023			Dec/2028
0.00			100.00
<b>Staff trained on customs administration platform (Number)</b>			
Jul/2023			Dec/2028
0.00			200
<b>&gt; Of which are women (Percentage)</b>			
0.00			50.00
<b>Central Government entities using the new Investment Management System (Percentage)</b>			
Jul/2023			Dec/2028
0.00			100
<b>Implementation of budget tagging to support climate and social inclusion policies (Text)</b>			
Jun/2023	Jun/2024		Jun/2026
Not Available	Conceptual model to support planning, allocation and monitoring of tagging for climate and social inclusion policies		Public Investment Management Information System implemented, including functionality for planning, allocation and monitoring of budget tags
<b>Implementation of budget tagging to support planning, allocation and implementation of gender policies (Text)</b>			
Jun/2023	Jun/2024		Jun/2026



Not available	Conceptual Model for Gender Budget Tagging adopted		Public Investment Management Information System implemented, including functionality for planning, allocation and monitoring of budget tags
<b>Cybersecurity and IT Management</b>			
<b>Implementation of a Security Operations Center at MEF (Text)</b>			
Jul/2023	Dec/2024	Dec/2025	Dec/2026
Not available	SOC designed	SOC implemented	SOC operational
<b>MEF staff trained and certified in cybersecurity (Number)</b>			
Jul/2023			Dec/2028
0.00			5
<b>Development of MEF's Enterprise Architecture (Text)</b>			
Jul/2023	Jan/2025		Dec/2026
Not Available	Enterprise Architecture Developed		Enterprise architecture developed and approved by MEF
<b>Fiscal Transparency, Reform Sustainability and Project Management</b>			
<b>MEF staff trained in Public Financial Management (Number)</b>			
Jul/2023			Dec/2028
0			20
<b>&gt;Of which are women (Percentage)</b>			
0			50
<b>Number of interactive/outreach activities to inform stakeholders of actions taken based on their feedback (Number)</b>			
Jul/2023			Dec/2028
0			4
<b>Number of persons – civil society, citizens, think tanks, NGOs- trained in the use of fiscal transparency tools and data (Number)</b>			
Jul/2023			Dec/2028
0.00			120



**Monitoring & Evaluation Plan: PDO Indicators by PDO Outcomes**

<b>Improved comprehensiveness of PFM information</b>	
<b>Resource management systems that exchange information with the IFMIS (Number)</b>	
Description	The indicator measures the number of resource management systems that exchange information with the IFMIS. It is expected to increase in at least four new resource management systems (Public Asset Management, Payrolls, Public Investment Management and Customs)
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Days passed from the time of actual revenue collection to the time the revenue is recorded in the IFMIS general ledger
Responsibility for Data Collection	Autoridad Nacional de Aduanas (ANA)
<b>Improved operational efficiency and timeliness of revenue information</b>	
<b>Time needed for customs duties and import taxes information to be available in the IFMIS (Days)</b>	
Description	This indicator measures the average time, in number of days, for customs duties and import taxes information to be available in the IFMIS.
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Number of distinct computer systems that exchange information on a regular basis (at least once every 3 months) with ISTMO
Responsibility for Data Collection	Ministerio de Economía Y Finanzas (MEF)
<b>Improved resilience of PFM information</b>	
<b>Critical information security processes at MEF certified based on international standards (Percentage)</b>	
Description	Progress on this indicator will be measured as follows: 1. Identification Processes established (20%) 2. Processes to protect information assets established (40%) 3. Detection processes established (60%) 4. Response processes established (80%) 5. Recovery processes established (100%)
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Progress will be measured as processes for each category are identified and adopted by MEF
Responsibility for Data Collection	Ministerio de Economía Y Finanzas (MEF)

**Monitoring & Evaluation Plan: Intermediate Results Indicators by Components**

<b>Consolidating Core Public Financial Management Functions</b>	
<b>Adoption of PFM Governance model (Text)</b>	
Description	The indicator measures the stage of progression of the PFM governance model implementation. To measure progress, two stages are defined: Governance Model defined, Governance Model Adopted by main PFM system governing bodies.
Frequency	Semi- Annual
Data source	MEF Report
Methodology for Data Collection	Progress will be measured when MEF notifies that key milestones are reached.
Responsibility for Data	MEF



Collection	
<b>Central Government Entities that record non tax revenues in the IFMIS (Percentage)</b>	
Description	The indicator measures the number of entities that record non-tax revenues in the IFMIS. This indicator is particularly focused on Central Government Entities.
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Progress will be measured as Central Government entities non tax revenues are available in ISTMO
Responsibility for Data Collection	MEF
<b>Implementation of the Conceptual Model (Text)</b>	
Description	The indicator measures the of progression of the Conceptual Model implementation.
Frequency	Semi- Annual
Data source	MEF Report
Methodology for Data Collection	Conceptual model needs to be developed and then approved by MEF
Responsibility for Data Collection	MEF
<b>Administrative and Resource Management Functions</b>	
<b>Central Government Entities using the new Public Asset Management Information System (Percentage)</b>	
Description	The indicator measures the percentage of entities that implemented the Public Assets Management System. This indicator is particularly focused on Central Government Entities
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	According to the progress observed in each annual report.
Responsibility for Data Collection	MEF
<b>Asset Management Units staff trained on new Public Asset Management System (Number)</b>	
Description	Personnel of the Asset Management Units trained in the operation and functioning of the Public Assets Management System. It is measured as the number of staff trained in all the Asset Management Units.
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Training program attendance intake (including information about work unit and gender).
Responsibility for Data Collection	MEF
<b>Central Government Entities using the payroll management system as a service (Percentage)</b>	
Description	The indicator measures the number of entities that use the payroll management system. This indicator is particularly focused on Central Government Entities
Frequency	Annual
Data source	CGR Report
Methodology for Data Collection	According to the progress observed in each annual report.
Responsibility for Data Collection	CGR
<b>Public employment and compensation analytical reports (Text)</b>	
Description	The indicator will measure the creation of analytical reports on gender employment and compensation statistics in the Non Financial Public Sector.
Frequency	Annual



Data source	MEF Report
Methodology for Data Collection	Number of gender analytical reports available.
Responsibility for Data Collection	MEF
<b>Revenues collected by ANA that are recorded in the new customs management platform (Percentage)</b>	
Description	The indicator measures the stage of progression of the integrated customs management platform implementation by measuring the percentage of revenues collected by ANA that are recorded in the new system.
Frequency	Annual
Data source	ANA Report
Methodology for Data Collection	According to the progress observed in the ANA report.
Responsibility for Data Collection	ANA
<b>Staff trained on customs administration platform (Number)</b>	
Description	Personnel trained in the operation and functioning of the customs administration platforms. It is measured as the number of staff trained.
Frequency	Annual
Data source	ANA Report
Methodology for Data Collection	Training program attendance intake (including information about work unit and gender)
Responsibility for Data Collection	ANA
<b>Of which are women (Percentage)</b>	
Description	Percentage of women of the personnel trained in the operation and functioning of the customs administration platforms. Calculated as follows: (number of women trained/ total number of staff trained)*100
Frequency	Annual
Data source	ANA Report
Methodology for Data Collection	Training program attendance intake (including information about work unit and gender)
Responsibility for Data Collection	ANA
<b>Central Government entities using the new Investment Management System (Percentage)</b>	
Description	The indicator measures the percentage of entities that use the public investment system. This indicator is particularly focused on Central Government Entities.
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	According to the progress observed in each annual report.
Responsibility for Data Collection	MEF
<b>Implementation of budget tagging to support planning, allocation and implementation of gender, climate and social inclusion policies (Text)</b>	
Description	Implementation of budget tagging to help collect, analyze and use information on government policies, including gender, climate and social inclusion.
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Implementation meas inclusion of planning, allocation and monitoring methodology in the revised conceptual model and feature availability in the information system.
Responsibility for Data Collection	MEF





<b>Cybersecurity and IT Management</b>	
<b>Implementation of a Security Operations Center at MEF (Text)</b>	
Description	The indicator measures the stage of progression in the implementation of the SOC.
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	To measure progress in defined weights. (20%) Maturity Level Defined (40%) SOC organizational structure defined, (60%) Strengthen capabilities to collect event data, (80%) Strengthen capabilities to analyze events and detect threats, (100%) SOC with continuous improvement model established
Responsibility for Data Collection	MEF
<b>MEF staff trained and certified in cybersecurity (Number)</b>	
Description	Personnel trained and certified in cybersecurity within the MEF.
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Measured as the number of staff trained and certified within the MEF
Responsibility for Data Collection	MEF
<b>Development of MEF's Enterprise Architecture (Text)</b>	
Description	The indicator measures the stage of progression in the development of the MEF enterprise architecture
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	1. Enterprise Architecture Developed 2. Approval of MEF digital transformation plan
Responsibility for Data Collection	MEF
<b>Fiscal Transparency, Reform Sustainability and Project Management</b>	
<b>MEF staff trained in Public Financial Management (Number)</b>	
Description	Personnel trained in the operation and functioning of PFM functions. It is measured as the number of staff trained.
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Training program attendance intake (including information about work unit and gender)
Responsibility for Data Collection	MEF
<b>Of which are women (Percentage)</b>	
Description	Percentage of women of the personnel trained in the operation and functioning of the customs administration platforms. Calculated as follows: (number of women trained/ total number of staff trained)*100
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Training program attendance intake (including information about work unit and gender)
Responsibility for Data Collection	MEF
<b>Number of interactive/outreach activities to inform stakeholders of actions taken based on their feedback (Number)</b>	
Description	Activities and events to inform stakeholders of actions taken. Stakeholders include MEF staff, civil society, citizens, think tanks, NGOs.
Frequency	Annual
Data source	MEF report
Methodology for Data	Meetings of minutes and attendance records



Collection	
Responsibility for Data Collection	MEF
<b>Number of persons – civil society, citizens, think tanks, NGOs- trained in the use of fiscal transparency tools and data (Number)</b>	
Description	The indicator measures the number of people trained in the use of fiscal transparency information tools. This indicator is particularly focused on the general public.
Frequency	Annual
Data source	MEF Report
Methodology for Data Collection	Training program attendance intake (including information about work unit and gender)
Responsibility for Data Collection	MEF



ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Republic of Panama

Consolidation of the Panama Public Financial Management Information System

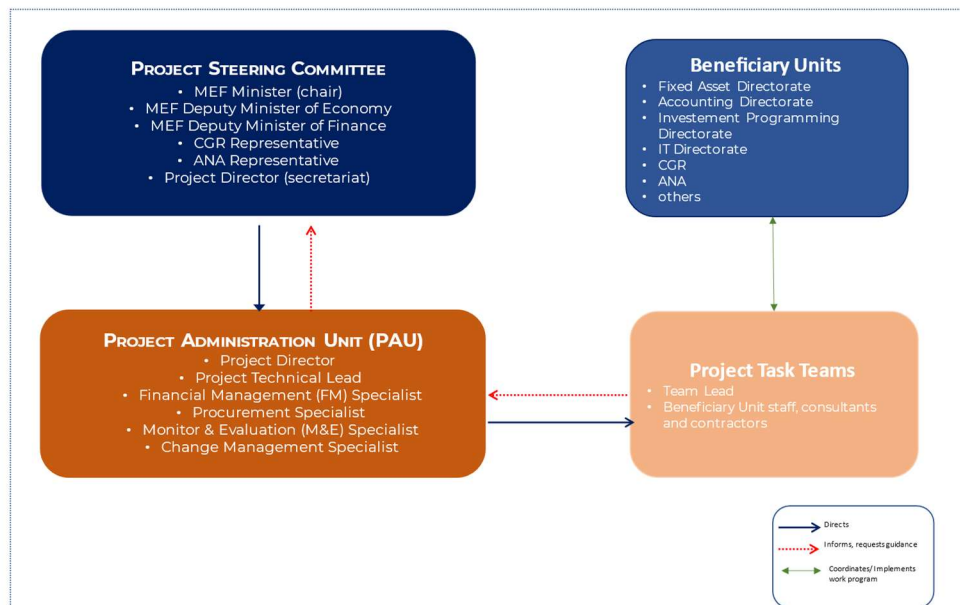
A. Implementation Arrangements

1. An Interagency Steering Committee with participation from the MEF, CGR, and ANA will ensure strategic alignment among the key project stakeholders. The Committee will be chaired by the Minister of Economy and Finance and will include the deputy minister of economy, the deputy minister of finance, and high-ranking representatives from both CGR and ANA. The Project Director will report to the Steering Committee and will act as the secretary during the committee meetings.

2. The PAU will be responsible for project implementation. The MEF’s Directorate of Project Administration (Direccion de Administracion de Proyecto - DAP) will host the PAU. The DAP has experience in implementing IPF operations, having led the Public Sector Efficiency Technical Assistance Loan (P121492) and other multilateral engagements. The WB will provide additional training to ensure sufficient capacities to manage and implement the project. The PAU will be led by a Project Director, who will be responsible for the day-to-day management of the project. The PAU will conduct financial management, procurement, and monitor and evaluation functions. It will also be responsible for change management and observing the environmental and social framework. The PAU will coordinate the task teams directly responsible for implementing the work program.

3. Task teams will be responsible for implementing the project interventions. Task teams will comprise of government staff as well consultants and contractors hired by the Project Administration Unit (PAU). Participating MEF directorates, as well as CGR and ANA departments will designate technical staff to support project implementation, conduct quality assurance and operational acceptance. Task teams will coordinate technical design and implementation with the project’s technical lead specialist who will be part of the PAU staff.

Figure A1.1 Project Implementation Arrangements





4. **A Project Operations Manual (POM) will describe the functioning of the steering committee, task teams and other key implementation mechanisms.** The POM is the key operational document guiding the implementing agency in the management of project implementation. The POM provides details on institutional roles and responsibilities, governance, and operational processes, including key activities such as procurement and financial managements.

## B. Financial Management Arrangements

### Executive Summary and Conclusion

5. A FM Assessment was carried out on June 26, 2023, to assess the adequacy of FM arrangements in place at the Project Administration Unit (PAU), under the Ministry of Economy and Finance (MEF).

6. The scope of the FM Assessment included: (i) an evaluation of existing FM systems to be used for project planning and budgeting, monitoring, accounting, and reporting; (ii) a review of staffing arrangements; (iii) a review of the flow of funds arrangement and disbursement methods; (iv) a review of internal control mechanisms in place, including internal audit; (v) a discussion and agreement on project reporting requirements, including the format and content of Interim Unaudited Financial Reports (IFRs); and (vi) a review of the external audit arrangements.

7. The FM Assessment identified the following risks to the achievement of the PDO: (i) the weak coordination among (and within) public institutions including the lengthy and cumbersome procedure between PAUs and the Comptroller General Office (CGR) for processing payments of project's expenditures; and (ii) the fact that the project's financial reports generated by ISTMO are not compatible with IFR data structure and need to be manually typed in a spreadsheet to provide the necessary data points to the Bank. There is a history of delays in budget approval and excessive ex-ante controls implemented by CGR that have caused delays in project implementation in current projects.

8. The main mitigating measures include: (i) implementation of an effective interinstitutional coordination framework that outlines roles, responsibilities, and protocols, all of them aimed at taking timely action to ensure that the PDO will be achieved, (ii) implementation of rigorous controls for IFRs preparation and reconciliation in order to ensure accuracy and reliability of the financial reporting processes, (iii) PAU's staff should administer the budget approval and the ex-ante controls implemented in tandem with CGR (iv) preparation of a Project Operations Manual (POM) (including a section with FM arrangements acceptable to the WB), with a detailing of the Funds Flow accounting register and the mechanics surrounding them, (v) relevant staff will be refreshed and updated in the WB's most relevant FM procedures in order to ensure project implementation although the PAU is staffed with qualified FM professionals (vi) an annual audit of project's financial statements following auditing standards and terms of reference acceptable to the WB; and (vii) continued close WB support and supervision.

9. The overall conclusions of the FM Assessment are that: (i) the FM arrangements for the proposed project are considered adequate; (ii) the funds flow, disbursements, monitoring, auditing, and supervision arrangements have been designed in a way such as to respond to the project's implementation arrangements; and (iii) the overall FM residual risk after mitigating measures is assessed as Moderate. The project's risk rating will be reviewed regularly during project implementation support.

### Description and Assessment of Project FM arrangements

#### Implementing Agency

10. **An Interagency Steering Committee with participation from the MEF, CGR, and National Customs Authority (ANA) will ensure strategic alignment with the other key project stakeholders.** The Committee will be chaired by the Minister of Economy and Finance and will include both deputy ministers and high-ranking representatives from CGR and ANA. The Project Director will report to the Steering Committee and will act as the secretary during the committee meetings.



11. **The PAU will be housed at MEF and will oversee the overall Project implementation and responsible for the project FM activities.** This entails among others: managing the project’s designated account, coordinating supervision missions, overseeing budgeting formulation, controlling the allocation of resources, following up on budget execution, transferring funds to assure adequate and timely financing of eligible expenses, preparing the project’s accounting records and issuing financial reports required by the Bank, and coordinating the project’s external audit. PAU has had previous experience in implementing WB projects (i.e., Public Sector Efficiency Technical Assistance Project (P121492)<sup>8</sup>, and is adequately staffed; thus, no additional support is envisioned to implement FM tasks.

#### **Internal Control and Internal Audit**

12. **The internal control environment to be used for the project is anchored in Panama’s legal and institutional framework, policies and procedures issued by the CGR, and the PAU internal approval processes and systems** (i.e., approval and authorization controls are in place and properly documented), which provide for reasonable segregation of duties, supervision, quality control reviews and reconciliation. The process flows appear to be well understood by PAU personnel.

13. At the project level, the internal control procedures will be mainly focused on: (a) proper segregation of FM-related functions; (b) management and control of long-term assets, and (c) adequate control of disbursements and flow of funds, among others. These procedures should be documented in the Project Operational Manual (POM), including the FM and disbursement arrangements section that will be reviewed and provided No-Objection by the WB prior to effectiveness.

#### **Planning and Budgeting**

14. The project must be registered at the National System for Public Investments (SINIP); hence, all project funds will be allocated into the MEF institutional annual budgets and approved by the National Congress as part of the annual budgeting process. The budget execution will be subject to provisions of the General Law on Budgeting, the Budgeting Classification Manual, and to General Rules on Budgeting, among others. This set of legal and regulatory arrangements, in conjunction with the use of the institutional FM Information System ISTMO, provides for reasonably sound budget formulation, execution, and control. The PAU will develop a Project Execution Plan (PEP) for the entire life of the project, as well as timely prepare the said budget, based on the PEP, which will be used for planning and budgeting purposes, and supporting the budget requests to be submitted to MEF.

15. For the first year of implementation, the PAU will work in conjunction with the MEF to include that budget in the annual budgeting process “*anteproyecto*” or if it is required, to process the additional budget in due time. Mainly, the project budget will include consulting services, operating costs, and training. However, challenges in the timely allocation of budget for project execution have been a recurring point in Panama’s portfolio. Hence, both PAU and WB will work closely to monitor this item in order to prevent budget constraints resulting from untimely allocations.

#### **Accounting**

16. **The PAU is subject to compliance with the Governmental Accounting Manual, issued by the CGR.** Hence, the project accounting will be based on the accounting standards applicable to the public sector, including the standardized chart of accounts. In terms of the FM Information System (FMIS). Project transactions will be recorded on a cash basis using a chart of accounts that reflects disbursement categories, project components, and sources of funding. The PAU currently uses the ISTMO system, which received support from the WB through the previous project, notably to expand the coverage of ISTMO to 100 percent of the Central Government’s decentralized entities and put in place a secure interface with other GoP public administration systems. ISTMO is a modular system based on the SAP platform that allows

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<sup>8</sup> Closed in June, 2020.



for the recording of institutional budgets in accordance with budget classifications used at the national level. Project transactions will be processed at aggregate level in ISTMO, following the local budget classification and accounted for, based on the standardized government chart of accounts.

**Financial Reporting**

17. **The PAU will be responsible for the preparation of the project’s IFRs.** The IFRs will be solely used for reporting and monitoring purposes and will be part of the progress reports submitted by the project. The PAU will prepare and submit to the WB the quarterly IFRs (to be prepared in US dollars and local currency using cash basis), no later than 45 days after the end of each reporting period.

18. **The ISTMO does not have an automated process to generate the project’s IFRs in the format required by the WB.** Therefore, the data will be extracted through ISTMO, and manually formatted in a spreadsheet (e.g., Excel). This routine of "export and import" of data will require the implementation of a rigorous control for conciliation. At the end of each fiscal year, the PAU will prepare annual audited financial statements for the project. The draft format of the IFRs will be prepared by the project and reviewed by the WB by effectiveness and will be incorporated in the POM. The following table shows the financial reports schedule to be submitted to the WB.

**Table A1.1. Reports Schedule**

Report	Due date
Quarterly IFRs reflecting the sources and uses of funds for each quarter and cumulative uses by category, including beginning and ending cash balances.	Within 45 days after the end of each calendar quarter.
Annual audit report on project financial statements	Within six months after the end of each calendar year (or other period agreed with the World Bank).
Management letter identifying any internal control weaknesses and areas for improvement	

**Funds flow and disbursements arrangements**

19. **Disbursements arrangements will follow the WB’s disbursement policies and procedures as described in the Disbursement and Financial Information Letter.** Advances will be the primary disbursement method for the project in which funds will flow to a segregated Designated Account (sub-account opened in TSA (Treasury Single Account), in US dollars. According to Law 56 of September 17 of 2013, modified by Law 19 of 2014, which creates the National Treasury System and the Single National Treasury Account, where all public income will be concentrated, the PAU must open the sub-account (Designated Account - DA) of the project in the Treasury General Directorate within the framework of the TSA. The DAP will process the opening of the sub-account once the project document is signed by both parties. This sub-account in the TSA will be used exclusively for project deposits and withdrawals for eligible expenses. The Designated Account will have a fixed ceiling of US\$2,000,000. Funds deposited into the DA shall not exceed the DA ceiling. Reimbursements and Direct Payments will also be authorized as necessary. The minimum value of application for Reimbursement and Direct Payment will be US\$500,000. After project effectiveness and after the DA has been opened, the PAU will submit its first disbursement request to the World Bank for up to the established ceiling that will provide adequate financing for the next six months of forecasted expenditure. For subsequent withdrawals, the PAU will submit the disbursement request and use Statement of Expenditures (SOEs) to document eligible expenditures paid from advances to the DA, as established in the DFIL. The records and bank reconciliation will reflect the transaction activity in the designated account.

20. **Retroactive financing is allowed for eligible expenditures incurred by the Government up to an aggregate amount not exceeding twenty percent (20 percent) of the total financing amount to be made for payments up to 12 months before the signing date of the Financing Agreement, but not before April 5, 2023.**



Table A1.2. Disbursement Categories

Category Name	Amount of the Loan Allocated (Expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, Works, non-Consultant services, Consulting services Training and Operating costs for Components 1, 2.1, 2.4, 3 and 4 of the Project	US\$ 25,000,000	100%
(2) Goods, Non-consultant services, Consulting services Training and Operating costs for Component 2.2 of the Project	US\$ 5,000,000	100%
(3) Goods, Non-consultant services, Consulting services Training and Operating costs for Component 2.3 of the Project	US\$ 10,000,000	100%
<b>TOTAL AMOUNT</b>	<b>US\$40,000,000.00</b>	<b>100%</b>

External Audit Arrangements

21. **The project’s annual financial statements will be audited under Terms of Reference (ToRs) prepared according to the WB guidelines and performed by an independent auditor and following auditing standards acceptable to the WB.** TORs will be agreed with the PAU and incorporated in POM. Audited financial statements will be furnished to the WB no later than six months after the end of each fiscal year—or another period agreed upon with the WB (generally not exceeding 18 months) if due to project circumstances, it is more cost effective to join periods to be audited. For audit purposes, the fiscal year will be the calendar year. In accordance with the World Bank’s Access to Information Policy, upon receipt of the annual audited financial statements of the project, they will be made available to the public by the WB.

FM Implementation Support Plan

22. **The FM supervision plan and the resources to be allocated thereto have been determined in accordance with the risks identified.** During implementation, FM staff will assess the continuing adequacy of the FM arrangements for the project. In addition to monitoring the timeliness of receipt of the IFRs and annual audited financial statements, FM staff will review these reports. The project’s FM Specialist (FMS) will participate in at least one supervision mission every year and will provide ad hoc support as needed. The initial FM supervision plan is presented in the table below and will be adjusted by the assigned FMS according to the project’s fiduciary performance and updated risk.

Table A1.3. Financial Management Supervision Plan

Type	Timing	Mechanism	Objective
On-site Visit	General Supervision: Once a year.	Integrating supervision missions	<ol style="list-style-type: none"> <li>Review FM performance</li> <li>Follow up on External Auditors recommendations/raised issues</li> <li>Review control</li> <li>Update assigned risk</li> <li>Transactions review as needed.</li> </ol>
IFRs Review	Quarterly	Over the IFRs submitted to the Bank.	<ol style="list-style-type: none"> <li>Review IFRs information consistency.</li> <li>Raise issues disclosed in IFRs.</li> </ol>
Audit Review	Once a Year	Over the Audit Report submitted to the World Bank	<ol style="list-style-type: none"> <li>Raise issues disclosed in Audit Report</li> </ol>





Financial Management Pending Steps

23. The following steps have been identified to be completed by project effectiveness:

Table A1.4. FM Action Plan

Action	Responsible Entity	Completion Date
Preparation and review of the FM section of the POM which will include inter alia: <ul style="list-style-type: none"> <li>- Administrative procedures.</li> <li>- Chart of accounts.</li> <li>- IFR format for reporting purposes agreed with the World Bank.</li> <li>- Format of the TOR for the financial external audit.</li> </ul>	PAU	By effectiveness

Table A1.5 FM Risks

Risk type <sup>9</sup>	Risk Rating	Comments / Risk mitigating measures incorporated into project design	Residual Risk Rating
<b>Inherent risk</b>	M		M
Country level	M	The project is expected to make use of the country's systems in terms of budgeting, flow of funds, and internal and external audits.	M
Entity level	M	The project will be implemented by the PAU, having experience in Bank-financed project from both technical and FM perspectives.	M
Project level	M		M
<b>Control risk</b>			
Budgeting	M	National rules will be used budgetary procedures, including formulation, monitoring and control through the SINIP System. However, challenges in the timely allocation of budget for project execution have been a recurring point in Panama's portfolio. Hence, both PAU and World Bank will work closely to monitor this item in order to prevent budget constraints resulting from untimely allocations.	M
Accounting	M	All project transactions will be recorded in the ISTMO system, which will include records and separate accounts for the proposed operation.	M
Internal Control	M	Detailed internal controls procedures will be clearly defined in the POM	M
Funds Flow	S	There is a history of delays in excessive ex-ante controls implemented by CGR that have caused delays in project implementation in current projects. As a mitigation measure, PAU's staff should administer the budget approval and the ex-ante controls implemented, in tandem with CGR.	M
Financial Reporting	S	IFRs will be manually prepared. As a mitigation measure, PAU will implement rigorous controls for IFR preparation and reconciliation to ensure accuracy and reliability of the financial reporting processes.	M

<sup>9</sup> The **FM inherent risk** is that which arises from the environment in which the project is situated. The **FM control risk** is the risk that the project's FM system is inadequate to ensure project funds are used economically and efficiently and for the purpose intended. The **overall FM risk** is the combination of the inherent and control risks as mitigated by the client control frameworks. The **residual FM risk** is the overall FM risk as mitigated by the World Bank supervision effort.





		PAU will submit project quarterly IFRs and annual audited financial statements.	
Auditing	M	Annual audited financial statements following auditing standards acceptable to the Bank under terms of reference agreed with the Bank.	M
<b>Overall risk</b>	<b>M</b>		<b>M</b>
<b>Residual risk</b>	<b>M</b>		<b>M</b>

H-High S-Substantial M-Moderate L-Low

C. Procurement

24. Procurement Framework. Procurement for the project will be carried out in accordance with the World Bank’s Procurement Regulations for IPF Borrowers, dated September 2023. The project will also be subject to the World Bank’s Anticorruption Guidelines, dated October 15, 2006 (revised July 2016). WB Standard Procurement Documents will be used in World Bank-financed Open International Competitive Procurement. For procurement involving National Open Competitive Procurement, the Borrower will use standard procurement documents acceptable to the WB that will be included in the POM.

25. Procurement Capacity Assessment. The WB carried out a procurement capacity assessment of the DAP in the Ministry of Finance on May and June 2023. The assessment primarily reviewed the organizational structure for implementing the project, and the experience of the existing staff. The assessment concluded that the DAP has experience implementing projects financed by multilateral sources, including both the World Bank and other donors. The DAP has staff with knowledge and experience carrying out procurement under World Bank Regulations.

26. Project Procurement Strategy for Development. A Project Procurement Strategy for Development (PPSD), describing how procurement will support the PDO and deliver value for money under a risk-based approach, has been prepared. The PPSD provides adequate supporting market analysis for the selection methods detailed in the Procurement Plan. Mandatory procurement prior review thresholds detailed in Annex I of the World Bank’s Procurement Procedure are to be observed. The project will use the Systematic Tracking of Exchanges in Procurement (STEP) to plan, record, clear and track procurement transactions for the project. The initial Procurement Plan will be prepared by the implementing agency in accordance with the results from the PPSD including a timeline for implementation.

27. Procurement Risk. The key issues and risks concerning procurement for project implementation include: (i) timely definition of Terms of Reference and Technical Specifications from the technical team and coordination with the procurement team; (ii) timely consultations with the AIG; and (iii) adequate assignment of budget for project execution. The corrective measures which have been agreed are: (i) strengthening of the PAU and the procurement unit with appropriate staff in terms of qualifications and quantity dedicated to the project; (ii) early communication and involvement of the AIG on the technical specifications; and (iii) inclusion in the POM of detailed roles and responsibilities of the technical and procurement units; and (iv) timely programming of activities to ensure adequate budget allocation.

28. Advanced Contracting and Retroactive Financing. The implementing agency has expressed interest in retroactive financing for some activities that are directly related to the PDO. The project would provide retroactive financing up to 20 percent of the Loan amount for payments made by the Borrower under contracts made within 12 months of the signing date of the Legal Agreement. For the eventual contracts to be eligible, the selection procedures, including advertising, must be consistent with Sections I, II and III of the World Bank Procurement Regulations. To eliminate uncertainty, the WB has indicated that the DAP should use the World Bank’s Standard Procurement Documents. The Borrower will undertake such advance procurement at its own risk, and any concurrence by the WB on the procedures, documentation, or proposal for award of contract, does not commit the WB to finance the contract in question.



29. **Should the implementing agency not use the Standard Procurement Documents, the Task Team will request a waiver of relevant provisions of the World Bank’s Guidelines on Preventing and Combating Fraud and Corruption in IBRD and IDA financed projects and of the IPF Directive.** This waiver will (i) allow the provisions of these clauses to be introduced in the retroactively financed contracts through an amendment; and (ii) release the Borrower from the need to apply these provisions to unsuccessful bidders. If the proposed waiver is approved by the Board of Executive Directors, the Borrower will amend the contract in a manner satisfactory to the WB to address the acceptance of the Anti-Corruption Guidelines by the contractor (including the fraud and corruption provisions, and the WB’s inspection and audit rights). Should the amendments not be done, the contracts will not be suitable for retroactive financing.

**D. Strategy for Implementation Support**

30. **A core World Bank technical team, including a task team leader (TTL), will supervise Project execution by implementing and participating agencies and coordinate with development partners (Table A1.6).** The World Bank project team will carry out at least two annual implementation supervision missions, either in-person or virtually. Technical Missions will be carried out by technical team members as needed and led/supervised either in person or virtually by the TTL.

**Table A1.6. World Bank Implementation Support Team**

<b>Role</b>	<b>Estimated Staff Weeks Per Year</b>
Task Team Leader	12
Co-Task Team Leader	12
Social Development Specialist	2
Environmental Specialist	2
Procurement Specialist	5
Financial Management Specialist	5
Technical Staff/Consultants	10

31. **A Mid-term Review will be carried out, at the latest, 36 months after the project’s effectiveness.** The review will assess in detail the progress toward meeting the PDO as measured by the indicators in the results framework, as well as assess progress on any institutional and policy development areas that are supported by the project.



## ANNEX 2: Economic and Financial Analysis

COUNTRY: Republic of Panama

Consolidation of the Panama Public Financial Management Information System

### Economic Benefits

- The economic benefits from the project arise from addressing inefficiencies in the business environment owing to high transaction costs for importers and exporters and time-consuming procedures for customs tax compliance and from savings in the operation and maintenance cost of the IT infrastructure.** These problems align with two of the project's main objectives: (i) improving the timeliness of revenue information measured as a reduction in the time needed for customs duties and import taxes assessment and collection information to be available in the IFMIS, and (ii) improving the operational efficiency of PFM. While the Project costs are typically easy to define and quantify, measuring some benefits and defining causal linkages between some outcomes, including behavioral responses, is not straightforward.
- Reduced customs taxpayer compliance costs for exporters and importers.** It will be achieved mainly through simplifying customs legal and normative framework, simplifying processes and procedures, and implementing virtual services for importers and exporters. Le, Pham, and Wul (2007) estimate that economic benefits from improved customs administration could be estimated between 0.1 percent and 0.5 percent of the cargo value per day. Thus, economic benefits are estimated at 0.1% of the value of exports and imports from year three onwards.
- Improved IT operations.** The project supports the design and implementation of a data governance model and enterprise architecture. These actions will contribute to the reduction of maintenance costs of the current database license support and PFM information systems that are being used independently by key PFM institutions. Maintenance costs currently amount to US\$1.4 million annually. Migration to another provider is expected to reduce these costs to US\$0.9 million from the project's second year onwards. The initial cost of migration is between US\$100,000 and US\$300,000.
- Economic Cost-Benefit Analysis.** The cost-benefit analysis has been calculated over 10 years, with a 10 percent social discount rate and a long term (from year 2024 to 2033) growth rate of 3% for import and export volumes. The project's total cost is estimated to be US\$40 million, fully financed by the operation and recurrent cost corresponding to 20% of the initial investment for the first five years after project completion. These costs have not been modified to remove any tax component. The economic net present value of the project is positive at a 10 percent discount rate, with an IRR of 105%. Sensitivity analysis at -15 percent of benefits and +15 percent of costs does not materially affect project viability. The Bank's economic analysis covers only those reforms and activities directly supported by the project.
- Unquantified economic benefits.** The project will benefit all economic actors as a result of more effective expenditure and revenue management systems which can be expected to lead to more efficient and effective public spending, ultimately leading to improvements in public infrastructure and services. While not directly quantifiable, indirect economic benefits are likely to arise in terms of more significant economic growth because of a more stable macroeconomic outlook and reduced risk from fiscal management and management of the medium-term debt sustainability and macro perspective. Other benefits which are not quantified include those accruing to the MEF, ANA and CGR staff who are expected to benefit as a result of the training received and skills generated under the project.



Table A2.1. Economic CBA (in million USD)

Year N°	0	1	2	3	4	5	6	7	8	9	10
Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Benefits</b>											
Reduced customs compliance costs for Importers	0.00	0.00	0.00	29.06	28.84	28.62	29.48	30.36	31.27	32.21	33.17
Reduced customs compliance costs for exporters	0.00	0.00	0.00	28.99	29.21	29.43	30.31	31.22	32.16	33.12	34.12
Savings from improved IT operations	0.00	0.00	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Total benefits	0.00	0.00	0.90	58.95	58.95	58.95	60.69	62.48	64.33	66.23	68.19
<b>Costs</b>											
Project costs	8.00	8.00	8.00	8.00	8.00	0.00	0.00	0.00	0.00	0.00	0.00
Estimated recurrent costs						8.00	8.00	8.00	8.00	8.00	8.00
<b>Net economic Benefits (Undiscounted)</b>	-8.00	-8.00	-7.10	50.95	50.95	50.95	52.69	54.48	56.33	58.23	60.19
<b>Net economic Benefits (Discounted 10%)</b>	-8.00	-7.27	-5.87	38.28	34.80	31.63	29.74	27.96	26.28	24.70	23.21
<b>Net economic Benefits -15% (Undiscounted)</b>	-8.00	-8.00	-7.24	42.10	42.10	50.10	51.58	53.11	54.68	56.30	57.96
<b>Net economic Benefits -15% (Discounted 10%)</b>	-8.00	-7.27	-5.98	31.63	28.76	31.11	29.12	27.25	25.51	23.88	22.35
<b>Net economic Benefits Costs +15% (Undiscounted)</b>	-9.20	-9.20	-8.30	49.75	49.75	49.75	51.49	53.28	55.13	57.03	58.99
<b>Net economic Benefits Costs +15% (Discounted 10%)</b>	-9.20	-8.36	-6.86	37.38	33.98	30.89	29.06	27.34	25.72	24.19	22.74

Sensitivity Analysis	Baseline	Benefits -15%	Costs +15%
NPV Discount Rate of 10%	105.02	94.76	99.50
IRR Discount Rate	78%	71%	70%

## Financial/Fiscal Benefits

6. **Financial benefits summary.** The project is expected to generate financial benefits from savings and revenues from an optimal administration of non-financial assets and their incorporation into the government's balance sheet, increase in customs collection due to the implementation of the customs administration system, and savings from the operation and maintenance costs of PFM information systems.

7. **Administration of non-financial assets.** Detter and Folster (2015) argue that improvements in the management of public assets represents a promising source of new government revenue if states can figure out how to take better advantage of them. They demonstrate how governments can use public assets to increase revenue, reduce costs, and improve services. In the case of Panama, the Government can reduce the cost of renting offices by using vacant properties, selling idle properties to build schools and clinics where it is most needed, or making better use of vehicles and other energy efficient technologies. The Government of Panama has approximately 100 buildings, 2,000 in-house properties, 400 houses for rent, 100 moving properties, and 4,000 reverted areas, among others. Improved administration of these assets and accountability through the balance sheet could provide significant financial benefits to the Government. Detter and Folster assert that including non-financial assets in the government's balance sheet can increase their returns by 1 percent. Benefits are estimated as a return of 1 percent of the projected property, plant and equipment (PPE) stock for the valuation period.

8. **Increase in customs collection due to the implementation of the new customs administration platform** According to the National Customs Authority, implementing the new tool will allow an increase in customs collections. The new system will allow the standardization of key processes and procedures, which can be seen in the key modules of the system: (i) cargo handling; (ii) clearance of goods; and (iii) subsequent control. The cargo handling module process



information about the handling and transmission of a cargo manifest, the temporary storage of goods, and transit. The cargo clearance module includes the import/export declaration, the selectivity of the same in terms of risk, the payment of tax obligations, and the release of goods. The subsequent control module includes the subsequent control of a set of transactions and subsequent comprehensive control. The latter is based on the audit of the books and records of the importer/exporter. Thus, implementing the tool will optimize the performance of customs collection and increase the amount collected by the National Customs Authority

9. **Improved IT operations.** The project supports the design and implementation of a data governance model and enterprise architecture. These actions will contribute to the reduction of maintenance costs of the current database license support and PFM information systems that are being used independently by key PFM institutions. Maintenance costs currently amount to USD 1.4 million annually. Migration to another provider is expected to reduce these costs to US\$0.9 million from the project’s second year onwards. The initial cost of migration is between US\$100,000 and US\$300,000.

10. **Financial/Fiscal Cost-benefit Analysis.** Following the assumptions of the economic analysis, the financial net present value of the project is 95.20 at a 10 percent discount rate, with an IRR of 91 percent. Sensitivity analysis at -15 percent of benefits and +15 percent of costs does not materially affect project viability. The Bank’s financial analysis covers only those reforms and activities directly supported by the project.

Table A2.2. Financial CBA (in million USD)

Year N°	0	1	2	3	4	5	6	7	8	9	10
Year	2023	2024	2025	2026	2027	2028	2029	2023	2031	2032	2033
<b>Benefits (million USD)</b>											
Increases in custom duties and import taxes	0.00	0.00	29.82	30.41	31.39	35.84	36.92	38.03	39.17	40.34	41.55
Savings from improved IT operations	0.00	0.00	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Efficiency gains from Non-Financial Assets	0.00	0.00	0.00	11.83	12.19	12.55	12.93	13.32	13.72	14.13	14.55
<b>Total benefits</b>	<b>0.00</b>	<b>0.00</b>	<b>30.72</b>	<b>43.14</b>	<b>44.48</b>	<b>49.29</b>	<b>50.75</b>	<b>52.24</b>	<b>53.78</b>	<b>55.37</b>	<b>57.00</b>
<b>Costs (million USD)</b>											
Project costs	8.00	8.00	8.00	8.00	8.00	0.00	0.00	0.00	0.00	0.00	0.00
Estimated recurrent cost						8.00	8.00	8.00	8.00	8.00	8.00
<b>Net economic Benefits (Undiscounted)</b>	-8.00	-8.00	22.72	35.14	36.48	41.29	42.75	44.24	45.78	47.37	49.00
<b>Net economic Benefits (Discounted 10%)</b>	-8.00	-7.27	18.77	26.40	24.91	25.64	24.13	22.70	21.36	20.09	18.89
<b>Net economic Benefits -15% (Undiscounted)</b>	-8.00	-8.00	18.11	28.67	29.81	33.90	35.13	36.41	37.71	39.06	40.45
<b>Net economic Benefits -15% (Discounted 10%)</b>	-8.00	-7.27	14.97	21.54	20.36	21.05	19.83	18.68	17.59	16.57	15.60
<b>Net economic Benefits Costs +15% (Undiscounted)</b>	-9.20	-9.20	21.52	33.94	35.28	40.09	41.55	43.04	44.58	46.17	47.80
<b>Net economic Benefits Costs +15% (Discounted 10%)</b>	-9.20	-8.36	17.78	25.50	24.09	24.90	23.45	22.09	20.80	19.58	18.43

Sensitivity Analysis	Baseline	Benefits -15%	Costs +15%
NPV Discount Rate of 10%	95.20	75.40	89.68
IRR Discount Rate	91%	82%	84%