

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	PANAMA/CID - Isthmus & DR
▪ TC Name:	Improving the Integrity, Financial and Fiscal Transparency in Panama
▪ TC Number:	PN-T1176
▪ Team Leader/Members:	DE MICHELE, ROBERTO (IFD/ICS) Team Leader; DE SIMONE, FRANCESCO (IFD/ICS); GONZALEZ, MELISSA MARIA LAURA (IFD/ICS); KING, DANA MICHAEL (ICS/CTT); CAMBIASSO, EZEQUIEL (FMP/CPN); PRATS CABRERA, JOAN ORIOL (IFD/CMF); BARREIX, ALBERTO DANIEL (FMM/CCR); VALDERRAMA RIANO, PAMELA (IFD/ICS); BARRAGAN CRESPO, ENRIQUE IGNACIO (LEG/SGO); OCHOA, DAVID A. (VPC/FMP); DUGAND OCAMPO, JUAN CARLOS (VPC/FMP)
▪ Taxonomy:	Operational Support
▪ Number and name of operation supported by the TC:	Strengthening Financial and Fiscal Transparency-PN-L1144 - Preparation
▪ Date of TC Abstract:	28 Apr 2017
▪ Beneficiary:	Panama
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	\$ 170,000.00
▪ Local counterpart funding:	\$ 0.00
▪ Disbursement period:	30 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	Institutional Capacity of State
▪ Unit of Disbursement Responsibility:	COUNTRY OFFICE PANAMA
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

### II. Objective and Justification

- 2.1 The overall objective of this project is to support Panama in enhancing the level of transparency of its financial and fiscal sector, particularly by implementing measures that help the country improve its level of compliance with international standards in this area.
- 2.2 The negative effects associated with the lack of fiscal and financial transparency are known and include a higher risk of money laundering, economic distortion, tax evasion, monetary instability, negative financial reputation, mis-allocation of resources, and greater volatility in international capital flows, interest rates and exchange rates, among others. In recognition of the growing importance of improving transparency in critical areas of government action and of the economy, in recent years there has been a proliferation of international standards in this area. These include, but are not limited to the UN Convention against Corruption, the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes, the Financial Action Task Force Recommendations, and the Standards issues by the Basel Committee on Banking Supervision.
- Panama is a recognized international center for financial, corporate, and logistics services. Maintaining the country's competitiveness and credibility as an international hub requires, among other factors, ensuring that the country is up to speed with the

highest international standards on fiscal and financial transparency. Precisely for this reason, the country is signatory and member of a series of international agreements that regulate these issues, such as the FATF and MAC -both from the Organization for Economic Co-operation and Development - and the Basel I and II standards, among others.

Regarding financial transparency, in 2014, the FATF put Panama on a grey list of countries with significant AML/CFT deficiencies. Since then, Panama has adopted significant measures to remedy those deficiencies (see below), and has subsequently been removed from the FATF grey list. Panama is currently being evaluated as part of the 4th round of FATF's Mutual Evaluations and the results of the new evaluation are expected by the end of 2017. In terms of fiscal transparency, Phase 2 of Global Forum on Transparency and Exchange of Information for Tax Purposes from the OECD, rated Panama overall as non-compliant with the international standard, for the review period of July 1st, 2012 to June 30th, 2015. Since then, the country has adopted some corrective measures and in July 2016 it signed the MAC agreement, which will be entering into force in July of this year.

### III. Description of Activities and Outputs

- 3.1 This TC is organized in four components: (i) strengthening financial transparency, (ii) strengthening fiscal transparency, (iii) strengthening the regulation and supervision of the financial system, and (iv) support to the creation of a high-level agency for the coordination of public policies in financial transparency, and fiscal transparency. In terms of the High Level Agency, it will support the following activities aimed at: (i) defining the, structure, functions, and coordination mechanisms of the Agency, and (ii) establishing the legal and regulatory infrastructure for the Agency's creation and functioning. Since each area has a different level of compliance with the international standards, interventions will follow a custom-made approach.
- 3.2 **Component I: Component 1: Reforms for enhancing financial transparency..** This component supports reforms aimed at helping Panama with improving its level of compliance with the FATF Recommendations.
- 3.3 **Component II: Component 2: Measures related to fiscal transparency.** This component is designed to support the full implementation of the MAC requirements together with its Common Reporting Standard for information sharing. For these standards to become operative it is necessary that Panama implements a series of measures reforming its regulation and procedures.
- 3.4 **Component III: Component 3: Measures for strengthening the regulation and supervision of the financial system..** Since Panama is undergoing the implementation of the Standards from Basel I and II, this component will support the strengthening of the Panamanian financial system's regulation and supervision, together with preventing risk-accumulation. Consequently, the country needs to implement measures that will improve the transparency and stability of its financial system.
- 3.5 **Component IV: Component 4: Creation of a High-Level Agency for the Coordination of Public Policies in Financial Transparency, Fiscal Transparency.** This component will support the establishment of a high-level agency for the coordination of public policies in financial transparency, fiscal transparency, including the customs. This agency's main purpose will be to ensure that the public policies related to the three aforementioned areas are duly updated and coordinated with each other, thus improving the country's capacity to respond to the international context.

### IV. Budget

#### Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1: Reforms for enhancing financial transparency.	\$ 40,000.00	\$ 0.00	\$ 40,000.00
Component 2: Measures related to fiscal transparency	\$ 40,000.00	\$ 0.00	\$ 40,000.00
Component 3: Measures for strengthening the regulation and supervision of the financial system.	\$ 40,000.00	\$ 0.00	\$ 40,000.00
Component 4: Creation of a High-Level Agency for the Coordination of Public Policies in Financial Transparency, Fiscal Transparency	\$ 50,000.00	\$ 0.00	\$ 50,000.00

## **V. Executing Agency and Execution Structure**

- 5.1 Upon request from the Panamanian government (see letter of request) This TC will be executed by the Bank jointly through IFD/ICS, IFD/CMF, and IFD/FMM Divisions.
- 5.2 The execution by the Bank is justified in this case for several reasons. First, the bank is an observer or otherwise participates in various of the international mechanisms that establish the international standards mentioned above, particularly the FATF and the Global Forum. From this perspective, bank execution ensures better alignment between the activities to be implemented and those international standards. Secondly, the Bank coordinates closely with other providers of technical assistance in this area, such as the GF, as well as with the FATF, among others, which is essential to avoid duplication and overlap of efforts. Finally, the bank has a proven track record in providing technical assistance in these areas.

## **VI. Project Risks and Issues**

- 6.1 The main risks identified for this project are i) Sustainability, particularly as it relates to the establishment of the new Agency under Component 4. From this perspective, the project team will closely monitor the Government's commitment to adequately staffing and resourcing the agency, and will support the incorporation of clear provisions in this regard in the agency's establishment documents. It is important to note that the establishment of the agency responds to an explicit request from the Panamanian Government and is seen by the Government as an essential part of the country's efforts in the transparency area, particularly as it relates to international aspects.

## **VII. Environmental and Social Classification**

- 7.1 The ESG classification for this operation is "undefined".