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ANNEXES

<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2193076>

Annex I	Statistical annex
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ACRONYMS

ANAM	Autoridad Nacional del Ambiente [National Environment Authority]
ARAP	Autoridad de los Recursos Acuáticos de Panamá [Panama Aquatic Resources Authority]
BDA	Banco de Desarrollo Agropecuario [Agricultural Development Bank]
BNP	Banco Nacional de Panamá [National Bank of Panama]
CAF	Andean Development Corporation
CFZ	Colón Free Zone
CID	Country Department Central America, Mexico, Panama and the Dominican Republic
CPE	Country Program Evaluation
CONADES	Consejo Nacional para el Desarrollo Sostenible [National Sustainable Development Council]
CSS	Caja de Seguro Social [Social Security Fund]
CUT	Cuenta Única del Tesoro [Single Treasury Account]
DGI	Dirección General de Ingresos [General Revenue Directorate]
ECLAC	Economic Commission for Latin America and the Caribbean
ENV	Standard of Living Survey
GDP	Gross domestic product
GWh	Gigawatt-hours
ha	Hectare(s)
ICTs	Information and communication technologies
IDAAN	Instituto de Acueductos y Alcantarillados Nacionales [Institute of National Water Pipelines and Sewerage Systems]
ISO	International Organization for Standardization
ITBMS	Impuesto de Transferencia de Bienes Corporales Muebles y la Prestación de Servicios [tax on transfers of movable goods and services]
MEDUCA	Ministry of Education
MEF	Ministry of Economy and Finance
MICI	Ministry of Trade and Industry
MIDA	Ministry of Agricultural Development
MIF	Multilateral Investment Fund
MINGOB	Ministry of the Interior and Justice
MINSA	Ministry of Health
MITRADEL	Ministry of Labor and Employment Development
MIVI	Ministry of Housing
MOP	Ministry of Public Works
MSMEs	Micro, small, and medium-sized enterprises
MW	Megawatt
NFPS	Nonfinancial public sector
OVE	Office of Evaluation and Oversight
PAFI	Planes Estratégicos de Fortalecimiento Institucional [Strategic Institutional Strengthening Plan]

PAISS	Paquete Integral de Servicios de Salud [Comprehensive Package of Health Services]
PARVIS	Programa de Apoyo Rápido para Vivienda de Interés Social [Rapid Assistance Program for Low-cost Housing]
PBL	Policy-based loan
PCR	Project Completion Report
PPMR	Project Performance Monitoring Report
PPP	Puebla-Panama Plan
PROCAJA	Asociación para el Desarrollo de las Cajas Rurales [Rural Savings Banks Development Association]
PRONAT	Programa Nacional de Adecuación de Tierras [National Land Improvement Program]
PROVISA	Programa de Vivienda con Subsidio y Ahorros [Subsidy and savings program for housing]
SDP	Sustainable development program
SDS	Sustainable development strategy
SEA	Strategic environmental assessment
SENACYT	Secretaría Nacional de Ciencia Tecnología y e Innovación [National Science, Technology, and Innovation Department]
SIAFPA	Sistema Integrado de Administración Financiera de Panamá [Integrated Financial Management System of Panama]
SIF	Social Investment Fund
SMEs	Small and medium-sized enterprises
TC	Technical cooperation program
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USAID	United States Agency for International Development
WB	World Bank
WEF	World Economic Forum

Executive Summary

The main problems identified by the Government of Panama in the document *Visión Estratégica de Desarrollo Económico y de Empleo hacia el 2009* [Strategic Vision for Economic Development and Employment to 2009], which it presented as a development model for Panama during the period 2004–2009, stem from the dual model for economic growth. That model is based on a service export-oriented competitive sector that generates wealth but creates few jobs, and a sector that is not very competitive geared towards the domestic market and employs the vast majority of Panama's labor force but has little capacity to create quality jobs; most workers in this sector are informal wage earners or work in subsistence agriculture. Unequal coverage of social services in rural areas and for indigenous populations compared to Panama City, education gaps in the labor force, a rigid labor market and protection of economic sectors that leads to low productivity are reasons cited to explain the low quality of jobs, the segmentation of Panamanian society, and the income equality seen there. Having weak local institutions has prevented the State from effectively reaching rural areas where its intervention is needed. The negative impact of corruption on development and the need to clean up public finances were other problems the government identified and on which it proposed to work.

The strategic objectives set forth in the Bank's strategy were aligned with the general objectives the country had set forth in the *Visión Estratégica de Desarrollo Económico y Empleo hacia el 2009* and were consistent with the country's needs. In this broad, general sense, the strategy was relevant. A more detailed review of the assistance program reveals, however, that at the design level not all programs were geared towards supporting the achievement of those strategic objectives. Programs for *Supporting Fiscal Sustainability* were designed to control public spending and boost income and were relevant. With respect to *Basic Infrastructure Development*, diagnostic problems and lack of prioritization of problems suggest that the Bank designed relevant programs—its intervention in the electricity sector—but failed to effectively address some of the sectors the government listed as priorities in the *Visión Estratégica de Desarrollo Económico y Empleo hacia el 2009*—interventions to increase electricity and water and sanitation service coverage in rural areas did resolve specific problems but, at the design level, were too limited to have any general impact on the coverage gaps. The assistance program focused on *Expanding Sources of Sustainable Development* and, again, priorities were not established here: assistance in this area was broad and lacked targeting. The largest problems identified by the government that were included in the strategy—inclusion of the rural sector and indigenous peoples in productive development, promoting the formalization of micro, small, and medium-sized enterprises (MSMEs), and making the labor market more flexible—received scant attention from the assistance program and were addressed on a scale too limited to have any overall impact. This is in contrast to the *Sustainable Development Programs*, for example, which represented 10.8% of the active portfolio in July 2009; as opposed to what the strategy proposed, they failed, at the design level, to promote the strengthening of the regional offices of line ministries and municipios and the deconcentration of public spending. The assistance program for *Improving Access to Housing and Land* was designed adequately and was consistent with the strategy: it was relevant as regards land, but not housing solely because this was not one of the priority problems identified by the government in the *Visión Estratégica de Desarrollo Económico y Empleo hacia el 2009*. The program was relevant in the area of *Strengthening Governance and Transparency*, where there are significant synergies among programs. The assistance program for *Making Social Spending More Efficient and Progressive and*

Sustainably Increasing the Coverage and Quality of Social Services was relevant in making social spending more progressive—through support for the Opportunities Network and the health assistance program— but not as regards the proposed changes in the education sector, where it was constrained by economic policy problems.

Even though not all areas of action in the strategy were evaluable, the areas for which targets were established can be evaluated. Regarding the effectiveness of the assistance program for *Supporting Fiscal Sustainability*, the proposed objectives were only met starting in 2006. Thanks primarily to a favorable external environment, and to a lesser extent the containment of public spending and increased revenue, the nonfinancial public sector (NFPS) fiscal balance improved from a deficit of 4.9% of GDP in 2004 to a surplus of 0.4% of GDP in 2008; a deficit of 1% is projected for 2009. The Bank's *Basic Infrastructure Development* support was deficient in terms of increasing electricity coverage in the rural sector and was limited in increasing the coverage of water and sanitation services for the rural and indigenous populations; it was effective in expanding the electric power transmission grid—the entire extension of which was financed by the Bank—and in the impetus given to the sector; and although it has been effective in the road sector infrastructure works, support for the institutional framework for maintenance has progressed very slowly. In the area of *Expanding Sources of Sustainable Growth*, OVE considers that the strategy's targets do not reflect the orientation of the assistance program and that the program is quite scattered without the depth to have an impact on the country's competitiveness: scant progress was made through the *Sustainable Development Programs* and in the financial sector—no regulatory framework was created for the operation of credit unions and finance and microfinance companies, which has affected access to credit for micro and small enterprises and limited the sustainability and replicability of pilot projects promoted under the *Sustainable Development Programs*.

The Bank's support for *Making Social Spending More Efficient and Progressive and Sustainably Increasing the Coverage and Quality of Social Services* was deficient. With the exception of the operational area in the health sector and the progress made by the Opportunities Network, the Bank's participation in this area fell short, particularly in the education sector where Panama requires ongoing support to reduce the coverage gap and improve quality. The preschool education coverage indicator was not reached and was 56.1% for children ages 4 and 5 (the target was 75%); gross education coverage reached 77.8% for young people ages 15 to 17 (the target was net coverage of 70%); 96.2% of the coverage level for basic primary health care services in poor and vulnerable areas was achieved; the coverage of new beneficiaries rose by 432,710, although the goal was to add at least 450,000 new beneficiaries by 2009; no target was established for the indicator on coverage of the Opportunities Network, however, according to the 2008 Standard of Living Survey (ENV), coverage was 7.5% of the Panamanian population.

Although there is room for improvement, OVE considers that the Bank's support for *Improving Access to Housing and Land* in Panama was effective. In 2008, 11.2% of the population in rural areas said that they had benefitted from the land titling program in the last five years—in urban areas and in the *comarcas* the percentages were 2.8% and 2.2%, respectively. The housing deficit contracted 28.4% from 2004 to 2008. Sufficient progress was not made on any of the lines of action proposed in the *Strengthening Governance and Transparency* area and, as a result, the Bank has not supported progress on this crosscutting objective.

OVE's most significant recommendation stemming from this analysis is that, if this is one of the new administration's priorities, *the next strategy should design an assistance program aimed at closing the gap that exists between Panama City and Colón, and the rest of the country; and the program should be on a scale commensurate with the size of the problem.* This means that the assistance program should work in a coordinated fashion on institutional strengthening issues at the regional and municipal level—institutional strengthening should not be understood as financing infrastructure or personnel, but rather as improving institutions' management capacity and it is contingent on, among other things, professionalizing the civil service and sound employment management in the State. A necessary condition for Panama to achieve its goal of resolving its duality problem is that the State must effectively reach the interior of the country.

Other recommendations stemming from the analysis are:

If Panama maintains its plan to leverage promotion of the technological sector—one of the comparative advantages identified by the country—to resolve the problem of the duality of its economy, *the country must enhance the quality of education in the long term, and this requires immediate attention.* Despite the consensus on this issue, the Bank's action in the education sector has been limited by economic policy problems that go beyond the effective jurisdiction of the interventions proposed. When this type of orthodox intervention is costly from a political standpoint, *the Bank should consider using innovative intervention models, through pilot programs, to gradually build consensus and enhance the policy dialogue with the country.*¹

*The Bank should increase the technical value of operations aimed at enhancing the country's competitiveness.*² This recommendation was made in the previous CPE and remains relevant. The competitiveness strategy has placed greater emphasis on the sectors identified by the country as having the greatest comparative advantages—tourism, technology, agroindustry, and logistics (the latter two to a lesser extent). Improving the effectiveness of the portfolio in this area requires *better targeting and design of interventions based on the strategy's objective*—which for the period 2004-2008 was to support sustainable economic growth and reduce poverty. To that end, interventions must be selected that maximize the benefits to the country given their potential impact on productivity and competitiveness in Panama. It should also be borne in mind that *by focusing on the service sector and neglecting the manufacturing and agriculture sectors and not including labor sector-related issues, the problem of the economy's duality is exacerbated, and the causes of social segmentation remain.*

As technical support, *the Bank should take steps to evaluate the effectiveness of the “compensatory” programs targeting less competitive sectors and supporting Panama in designing policies that make it possible to channel resources into the modern sectors of the economy.* The free trade agreement between Panama and the United States opens a window of opportunity for preparing the country to

¹ This would make it possible to identify successful interventions that could be expanded, gradually reducing the political costs of achieving a comprehensive transformation of the sector. It is important to note that the aim of a pilot program is to learn about the intervention model. Accordingly, great emphasis should be placed on the evaluation and other conditions to be fulfilled if the intervention is to be successful when expanded.

² Operations aimed at improving competitiveness account for 70% of the number of operations approved over the last five years, not including technical cooperation programs.

cope with the gradual market liberalization that will accompany the process.^{3,4} In the less competitive sectors, liberalization could have a short-run adverse effect on the well-being of the most disadvantaged population, and the Bank should be ready to support Panama in this area. *It is essential this support be provided without creating incentives that distort resource allocation towards uncompetitive sectors in the long run.* As a short-term solution, the support should be given through measures to mitigate adverse effects on the situation of the most vulnerable population groups. The success of the Opportunities Network in terms of targeting and its impact on the welfare of beneficiaries since 2004 is an example of the support that the IDB, together with the World Bank, can provide the country to mitigate the adverse effects on the vulnerable population.

Interagency coordination problems have hindered project execution. They are especially acute in projects that are complex in terms of the number of entities involved and the breadth of the objectives to be achieved. In some cases, operational delays tend to be the result of design failings that need to be corrected once the project is under way, and which are more prevalent the more complex the project; in other cases they are the result of shortcomings in measures to mitigate potential coordination problems between peers.⁵ *The Bank should consider designing less complex programs and use loan instruments that allow for adjustments to be made during execution—loans in phases.*⁶ In the case of projects involving several entities, *permanent support is required from the Bank to overcome interagency coordination problems, which are particularly acute in Panama.*

There are several undeniable advantages to the intervention model used in the *Sustainable Development Programs*: they have an executing unit with sufficient influence to coordinate the various line ministries, owing to its attachment to the Ministry of the Office of the President—the evidence suggests, particularly within Panama, such coordination between peers is difficult to achieve. Nonetheless, although the supraministerial nature of the executing unit enables it to speed up the implementation process, it also can make it harder to plan the activities of the ministries, because the intervention model makes them less important in the implementation process.^{7,8} The exclusion of sector institutions—responsible for works operation and maintenance—from the planning and implementation process, in some cases generates low levels of project ownership leading potentially to a lack of financial sustainability—i.e. the recovery of operating and

³ Although Panama is considered to have an open economy, and the average tariff benefiting the agriculture sector in Panama in 2007 was 10.6%, some product lines currently enjoy tariff protection of up to 260%. Dairy products, animals and products of animal origin, and grains are the most protected categories with high tariffs and other phytosanitary barriers. Tariffs on the most sensitive agricultural products will be gradually lowered over a 15-20 year period, following a grace period.

⁴ In the previous CPE, OVE recommended closely monitoring the progress of trade liberalization and integration, particularly the bilateral agreement between Panama and the United States, for its impact on the exposure of the Panamanian market to global competition.

⁵ In some cases, Panamanian institutions have not been strong enough technically to give an opinion on the quality of the design of loans before they are approved.

⁶ This statement should not necessarily be interpreted as smaller projects in terms of amounts approved.

⁷ In some cases this situation increases works costs when the technical standards used by ministries are not satisfied from the outset.

⁸ Involving Bank sector specialists in the design process and especially in supporting execution of the SDPs would improve effectiveness by giving technical rigor to supervision. In this regard, for the Bank to effectively support the Panamanian State in implementing multisector programs such as SDPs requires intervention by specialists from the different sectors in which the SDPs have major projects. This multisector support does not seem to have been achieved in the SDPs already executed.

maintenance costs by charging fees. *The goal of institutional strengthening in the regional offices of ministries and municipios has been overshadowed by the urgency of meeting the needs of populations in the regions.*⁹ *Nonetheless, both objectives are compatible and can be tackled simultaneously if an effort is made to incorporate the line ministries and municipios in the planning and execution activities carried out by CONADES. For this, the personnel constraints these institutions face must be resolved.*

Although a large portion of the Bank's portfolio in Panama is aimed at the development of the regions through SDPs and the *Municipal Development and Decentralization Support Program*, OVE has not found there to be effective coordination between the municipal and regional institutional strengthening components of these programs. Very little progress has been made in this respect, and in many cases it is limited to providing equipment and building offices.^{10,11} It is essential for the Panamanian State to effectively and sustainably reach the regions and municipios through strengthened institutions, if it is to close the quality-of-life gap among its inhabitants.

Opportunities to improve dealings between the Bank and Panama

Approval of the Fiscal Accountability Act achieved its objective of limiting NFPS deficits to 1% of GDP in the last few years. *Budgetary constraints on the disbursement of programs by multilateral organizations, which stem from application of the law, could pose a risk for planned project execution.* In this context, Bank support for the Investment Programming Division, which was designed as one of the components under the *Program to Strengthen and Modernize Economic and Fiscal Management II*, is becoming even more relevant and urgent.¹² *Until the objectives of that component are achieved, the Bank has an opportunity to support Panama in analyzing resource*

⁹ The Bank and the country have gone through a learning process that has made it possible to gradually improve the design of operations under the Sustainable Development Programs. OVE recognizes that the improvements made to the design of the last SDPs that were approved—Colón SDP, Central Provinces SDP— particularly on institutional matters and thinks that it is important to closely monitor their effectiveness, in order to improve the Bank's work in this type of comprehensive intervention. Noteworthy measures incorporated into the SDP loans approved most recently include: (1) the need for the SDPs' sector activities to be consistent with national policies and the strategies for each sector, as well as with the standards of the coexecuting agencies—technical and viability criteria, efficiency, fee sustainability, etc.; (2) the need to involve the coexecuting agencies —line ministries—starting in the early stages, to improve project sustainability—operation and maintenance. The agreements that are signed must clearly state their responsibilities—bidding, technical supervision, operation, and maintenance—as well as establish targets and indicators for measuring them. In the case of Colón, each sector coexecuting agency is also expected to assign at least one professional to serve as the technical liaison for the SDP. Nonetheless, the cost such personnel entails for the coexecuting agencies must be taken into account, and whether or not the institution has the capacity to cover that cost; and (3) the need to include performance targets in the PAFIs for the institutional strengthening components, with performance indicators, and clear responsibilities in the loan and under binding agreements.

¹⁰ So long as there is no municipal administrative career law that can minimize the turnover of technical staff as a result of the political parties alternating in power, as is guaranteed in a democracy, no progress can be made through staff training, because it would be very expensive for the State to provide such training on an ongoing basis.

¹¹ The provision of equipment and offices is valid for the ministries' regional offices, but not for the municipios.

¹² The objective of this component of the program is to improve the quality of public investment through the creation of a computerized tool, the "control tower," that would record outcome and public investment project management-related indicators and could be fed budget, public credit, and technical cooperation data, and data from the regional offices. There were serious delays in executing this component, and the control tower is not yet operational.

*allocation to Bank projects, to ensure that the country has sufficient information for efficient allocation of funds.*¹³

The complexity and importance of the *Sustainable Development Programs* requires greater monitoring and evaluation work to make it possible to increase the technical capital of the country and the Bank in this area. According to interviews held in ANAM for the purpose of this evaluation, progress is being made on the targets for the *Program for Modernization of Environmental Management for Competitiveness* related to the *strategic environmental assessment* (SEA) in the country. Consulting services are working to define the conceptual framework to be adopted in Panama, and the pilot cases to be evaluated include issues of land management, mining and the energy sector in general. *This could be exploited jointly to encourage an in-depth assessment of the results obtained through the SDPs and establish provincial sustainable development strategies also financed by the Bank. This evaluation would form part of the context of the land management SEA in the country, and could be aligned with the Bank's recent efforts in preparing Strategic Environmental Assessment Guidelines.*

In the context of a change in government, early dissemination of projects to the new authorities improves the execution of operations. The Bank must take steps to communicate the objectives of projects in execution as soon as a new government takes office, or whenever there are changes at the ministerial level. Many projects currently in execution are delayed because the Bank failed in this task and it took the government time to recognize the advantages of these projects.

The permanent presence of sector specialists in the Bank's Country Office has been recognized by the executing agencies as significant value added by the Bank. The Bank's new organizational structure was positively evaluated when the interviewees interacted with specialists in the Bank's Country Office in Panama, but not with specialists stationed in a neighboring country from which they served Panama's needs. The Bank should permanently monitor this situation with a view to making adjustments as necessary.

¹³ This support will make it possible to improve coordination between the Bank, the Ministry of Economy and Finance, and the beneficiary institutions and program executing agencies.

I. INTRODUCTION AND CONTEXT

- 1.1 This report presents the evaluation conducted by the Office of Evaluation and Oversight (OVE) of the Bank's strategy with Panama for 2005 to 2009. Its aim is to describe the outcomes of the Bank's activity in that country and to draw lessons that can help make future Bank actions more effective. This first chapter reviews the context in which the strategy was conceived and implemented.

Section .01 Context

- 1.2 Panama's geographic location and monetary regime have had a significant impact on the structure and growth pattern of its economy. Economic growth has been driven mainly by the service sector, thanks to Canal and port operations, the Colón Free Zone (CFZ)—the world's second-largest duty-free port zone after Hong Kong—the International Banking Center, and also tourism in last several years. The service sector represents roughly 76% of the country's economic activity, and it accounted for 62.9% of all jobs in 2004 when the strategy was being charted.
- 1.3 Service sector activities are carried out mainly in the Canal zone, in the inter-oceanic region located in the Colón-Panama City corridor which is home to 58% of the country's population.¹ In all, 75% of the country's economic activity is generated in the metropolitan areas of Colón and Panama City, while the remainder takes place in the interior of the country and in Darién, where most of the population lives in rural areas.² Of Panama's total population 10.1% is indigenous and 81.7% of those live in rural areas.³ In 2004, per capita GDP was one of the highest in Central America and above the Latin American average (US\$4,216 for Panama compared to US\$4,027 for the region as a whole, measured in constant 2000 dollars). Nonetheless, its income distribution was the second most unequal in Central America, as shown by its Gini coefficient of 56.1 (2003 figure), which indicates a high degree of inequality.⁴
- 1.4 The main development challenges identified by the Panamanian government at the start of the 2004-2009 electoral period were set out in the document entitled, *La Visión Estratégica de Desarrollo Económico y de Empleo hacia el 2009* [Strategic Vision for Economic Development and Employment to 2009], known as *Visión 2009*, which the government put forward as a development model for Panama.
- 1.5 *Visión 2009* summarized the main problems facing Panama in 2004 as follows:
- The dual economic growth model based on an export-oriented service sector and another sector targeting the domestic market, protected by public policies.

- A segmented society arising from the dual model, where the sector that serves the domestic market has very little capacity to create quality jobs, and a large proportion of the population works in subsistence agriculture.
 - Lack of jobs and an unequal income distribution resulting from uncompetitive agroindustrial production, low-quality jobs, and growth of the informal sector.
 - Unequal coverage of social services mainly to the detriment of rural zones and indigenous population groups.
 - Lack of competitiveness in protected sectors of the economy and an unsustainable fiscal model involving high borrowing levels and large deficits both in central government and in the Social Security Fund.
 - Corruption and its adverse impact on development.
- 1.6 The problems identified by the public at large—and documented by Latinobarómetro in its 2004 annual survey—confirm the diagnosis made by the Panamanian State (see Figure 1 in the Statistical Annex).
- 1.7 In relation to the country's environmental management, the National Environment Strategy (ANAM, 1999) identified a number of emerging priority issues, including: deforestation, given its repercussions in terms of loss of biodiversity and degradation of soil and water resources; progress towards sustainable development that would move beyond the natural resource exploitation approach of the country's environmental administration; and resolution of specific environmental management issues in Arco Seco, the Panama Canal Watershed, and Panama Bay.

(a) Dual model for growth

- 1.8 The Panamanian economy is segmented into an export-oriented services sector and a manufacturing and agriculture sector that mainly serves the domestic market (see Figure 2 in the Statistical Annex). Competitive advantages are the main reason for this segmentation, although the distortions introduced by some public policies have significantly exacerbated the division: for example, some sectors have enjoyed preferential tax treatment, while others have been protected through subsidies and trade barriers without such measures being accompanied by actions to promote productivity gains.
- 1.9 By way of example, commercial transactions within the CFZ—fueled by the port facilities and the Canal—are exempt from value added and transfer taxes; and income taxes are levied at a lower rate than for the rest of economic activity. The CFZ moves 6.1 times the volume of merchandise exports actually produced in the country and in 2004 it generated around 7.1% of GDP; but that year it employed just 1% of the labor force and generated as little as 0.28% of tax revenue.⁵ Similar fiscal incentives have been used in the manufacturing sector by creating export

processing zones, where imported raw materials are tax exempt provided they are processed for re-exportation. Nonetheless, high labor costs and a shortage of skilled labor make these zones less attractive than similar ones elsewhere in the region to set up either maquila operations, at one end of the activity spectrum, or technology parks at the other. As a result, the special zones have not had the desired success in creating domestic jobs and generating exports—their net exports amounted to just US\$69.8 million in 2004 or 7.3% of net goods exports generated in the country. The industrial sector is dominated by agricultural product processing, while manufacturing as such is incipient.

- 1.10 Since 2003, a boom in the construction sector, which has posted average real growth of 23% per year, was driven by the residential sector, mainly high-rise buildings to attract foreign investment benefiting from Panama's tax incentives for the tourism sector.^{6,7} The construction sector has also been largely responsible for the drop in unemployment in recent years; in 2004 it accounted for 4.56% of GDP and generated 7.52% of jobs. In 2004, the Canal produced 4.95% of GDP and, on average, between 2004 and 2008, it contributed the equivalent of 3.56% of GDP to the Panamanian Treasury; yet it created just 0.78% of all jobs.⁸
- 1.11 Use of the United States dollar as legal currency and the absence of restrictions on mobilization of capital have enabled Panama to keep inflation very low and foster a climate of confidence for operation of the International Banking Center.⁹ Despite being one of the most competitive sectors in the Panamanian economy, in 2004 it employed just 1% of the labor force, while producing 6.7% of GDP.
- 1.12 In contrast, in 2004 the agriculture sector generated 7.4% of GDP, but employed 19.3% of the Panamanian labor force. The sector consists of an uncompetitive segment exporting traditional products (coffee, sugar and bananas) and a more dynamic subsector that exports nontraditional products (melons, pineapple, watermelon and livestock). There is also a subsistence farming sector that grows food staples on marginal land and employs the majority of agricultural workers—55% of farm units produce for their own consumption without generating any sales revenue, and 62.7% of farm workers operate independently or as unpaid family hands (2003).¹⁰
- 1.13 While the average tariff protection in the agriculture sector in Panama was 10.6% in 2007, some items benefited from rates as high as 250%. Dairy products, animals and products of animal origin, and grains are the most protected categories, benefiting from high tariffs and other phytosanitary barriers. Nonetheless, the free trade agreement between Panama and the United States, signed in June 2007, will allow duty-free entry for 88% of industrial and consumer products produced in the United States and over half of its agricultural products.¹¹ Tariffs on other goods will be gradually rolled back, with the most sensitive agricultural products enjoying a 15- to 20-year tariff reduction period. The lack of competitiveness of products in this sector, resulting from protection, has meant that most agricultural production is consumed locally—agricultural exports represented just 37.9% of sector GDP in

2004. Other product categories receive protection through tariff quotas or tax breaks.¹²

- 1.14 In addition to tax benefits, interest rates on loans to agriculture and the agroindustrial sector exporting nontraditional products are subsidized by the rest of the economy through the Special Interest Compensation Fund (FECI) which levies a tax of 1% per year on personal and commercial bank loans to other economic activities.¹³ This subsidy represented 1.6% of GDP in 2004 and 1.9% in 2008. According to figures from the Banking Superintendency, the agriculture sector in general is well supplied with credit: in 2004, loans for agriculture represented 86.2% of sector GDP; while comparable to the rest of the Panamanian economy, this is far above the equivalent figures elsewhere in Latin America.¹⁴ The interest received by banks on loans extended to farmers under certain conditions is also free of income tax. Nonetheless, a more detailed analysis using microdata (2003 Standard of Living Survey) shows that just 3.9% of farmers try to obtain credit—46% of those who did not apply for credit said they did not need it, while 18.9% said they had no collateral, which is consistent with the very high proportion of subsistence farmers. While 80.2% of all loan applications in 2003 were approved, the rate was just 15.2% in the indigenous rural sector.¹⁵ A Bank-funded study for Panama estimates that in 2004 the annual monetary value of gross transfers made to farmers from consumers and taxpayers amounted to 36.7% of sector GDP; and 98% of such transfers were in the form of high prices paid by consumers, which make the products in question less competitive.¹⁶ Moreover, these transfers do not reach subsistence farmers.¹⁷ The study also shows that the distribution of support for farmers is unrelated to the economic, productive and social importance of the product in question.¹⁸
- 1.15 There is also a set of subsidies and incentives apparently designed to protect the agriculture and agroindustrial sectors, but which do not promote efficiency gains, fuel growth, or create quality jobs. Although the State has a policy to protect farming activity and territorial planning instruments have been created, there is no well-defined rural development policy.¹⁹

(b) Segmented society resulting from the dual growth model

- 1.16 Much like the overall economy, the labor market is segmented. Service activities undertaken around the inter-oceanic transit route are competitive, and worker productivity is well above the country average: in the financial intermediation sector, for example, worker productivity is 3.3 times the national average. Workers in the agriculture sector, however, achieve just one quarter of national average worker productivity and receive the second lowest wage in the country after domestic employees—in 2004, 37.2% of agricultural workers earned less than the legal minimum wage, 66.5% were self-employed, and 79.8% were not covered by social security. This situation has led to a fragmented society: one segment of the population lives in metropolitan areas in the provinces of Colón and Panamá, where 80% of the country's economic activity is generated and most people have access to quality jobs. In these zones there is a greater prevalence of formal employment,

- 67.7% of the employed (nonfarming) population is working in the formal sector, and 31.9% in the informal sector. In contrast, the country's other provinces generate little economic activity and offer very low quality jobs: 67.7% of the population there works in rural areas, where 53.6% of the labor force was employed in the agriculture sector and 28.6% of (nonfarming) workers were in the informal sector.
- 1.17 The prevailing high levels of informality reflect the quality of the work force and strict labor regulations—surpassed in Latin America only by those in Bolivia, Venezuela, and Paraguay, according to the Employment Rigidity Index calculated for the World Bank's annual Doing Business report.²⁰ Figures for Panama reported by the Enterprise Survey show that more flexible regulations would have a net positive effect and would raise formal employment by at least 3.7% in a single year for small nonagricultural enterprises and by 1.3% for manufacturing firms (see Table 1 in the Statistical Annex).²¹ An increase in formal employment would also have positive effects on unemployment and underemployment, and potentially also on poverty which is closely related to labor market conditions given their key role in social inclusion.²² This is evidenced by the reduction in poverty in the period 2004–2008 that resulted from the drop in unemployment, among other things.
- 1.18 Although these hypothetical formal job creation figures seem low, they only consider the direct reaction of existing firms, not possible collateral effects such as the emergence of new enterprises and consequent new job creation. Moreover, between 2004 and 2008, formal employment grew by an average of just 1.4 percentage points per year, even though the economy expanded on average by 8.6% in real terms and unemployment fell by an average of 1.5 percentage points per year over the same period. Informal employment declined, despite job losses in the primary sector, and the unskilled labor thus released was absorbed by the construction sector, which started a major upswing in 2003. Despite the positive trend of these indicators, Panama has not undergone any structural change suggesting that permanent changes have occurred in the labor market, or that the latter will not falter as a result of the global crisis. Although the Canal expansion works are expected to absorb part of the contingent of workers from the construction sector, its needs are far less than the number of jobs created annually in that sector since 2003. While an average of 11,425 new jobs per year were created in the construction sector from 2003 to 2008, Canal expansion is expected to require around 6,500 workers during the peak construction period.
- 1.19 When entrepreneurs were surveyed in 2006, 21.7% of them viewed labor regulations as an obstacle for business operations, while 31% cited shortcomings in the education of the labor force.²³ In its annual opinion survey of executives in 2004, the World Economic Forum (WEF) identified restrictive labor regulations and a poorly educated labor force as the third and fourth most problematic factors when doing business in Panama, behind corruption and inefficient government bureaucracy. The 2008 survey yielded the same results.

(c) Lack of employment and unequal income distribution

- 1.20 The existence of an inadequately trained labor force does not generate incentives to create high-quality jobs for the majority of the population. In 2004, for example, 79.2% of individuals working in agriculture had not completed primary school, and the median income in the sector was just US\$88 per month—less than the minimum wage. This population group was affected to a greater extent by poverty and by the lack of direct access to social security. It was also more likely to exploit protected forest land, thereby generating overuse and turning such areas into zones of critical soil degradation.^{24,25}
- 1.21 Education levels for workers in the formal sector of the economy were a very different story: just 14.4% had not completed primary education, and the median income in the sector was US\$406 per month (see Table 2 in the Statistical Annex). Nonetheless, less than half of the population is employed by the formal nonfarming sector. As a result, economic growth has not translated into an equivalent increase in employment, or, as work is the main source of income and principal route out of poverty, by a similar reduction in poverty rates.
- 1.22 Although poverty has decreased in recent years, its elasticity to growth remains low. Using data from household surveys, for example, an estimate was made of the percentage of people who would move out of poverty and extreme poverty each year if the income of the population as a whole increased by 1%—a measure of elasticity under the “Headcount ratio” (Table 3). If economic growth were distributed equitably among the population, actual elasticity should be equal to those estimates (or higher if growth is pro-poor). In the case of extreme poverty, growth was pro-poor in 2003-2005 and again in 2008; whereas for general poverty this only occurred in 2004—the years flagged in Table 3. The other elasticity measure used—the poverty gap—has increased, which suggests that the proportion of poor people close to the poverty line has risen, and that they are more likely to escape from poverty.²⁶ At this rate, Panama could meet the first Millennium Development Goal before the deadline.

(d) Unequal coverage of social services and infrastructure

- 1.23 The national poverty figures conceal the serious problem of inequality resulting partly from labor market segmentation and regional differences—an inequality that exists generally but also among the poor themselves, since the population living in poverty is highly heterogeneous. The extreme poverty gap among the urban population is much smaller than among rural dwellers and indigenous groups; moreover, between 2004 and 2008 the gap narrowed proportionately more in urban areas than in rural ones, and it has widened in indigenous reserves (*comarcas*).
- 1.24 Poverty is concentrated in the indigenous *comarcas* of Kuna Yala, Ngöbe Buglé and Emberá, which reported a 98.3% general poverty rate (90% extreme poverty) in 2003; and in the provinces of Darién and Bocas del Toro with general poverty of 71.9% and 69.8%, respectively. Panamá province reported the country's lowest

- incidence of general poverty at just 20.3%. This situation persists not because of lack of resources but because of social policy targeting failures, local institutional weakness, and diminishing expenditure quality resulting from institutional growth of the public investment sector at the central level.²⁷ In 2004, Panama had one of the highest levels of social spending in Latin America, and the second highest in Central America after Costa Rica.²⁸ It also has various autonomous entities and special funds responsible for public investment, but does not have the capacity to monitor and supervise their projects.²⁹ The scattering of efforts results in burgeoning administrative expenses and complicates the coordination of the different actors involved: despite their proliferation, there are no mechanisms to coordinate planning and execution between these entities and autonomous funds, and with line ministries and municipios.³⁰
- 1.25 Social and infrastructure investment traditionally does not reach the more remote parts of the country or Darién, but remains concentrated along the Colón-Panama City corridor. Public services are scarce in rural and indigenous areas, even though per capita social spending is high compared to other Latin American countries. Service coverage disparities between urban and rural indigenous areas are over 70 percentage points in sewerage, electricity and telephone services (see Table 4). This reinforces poverty and social inequity, particularly in terms of unequal opportunities in education, where lack of access, grade repetition, and dropout are more serious problems in rural areas and among indigenous groups.³¹ This situation is similar in terms of access to health services and problems of chronic malnutrition.³²
- 1.26 There are national deficits in terms of access to the electric power grid, the density of the road network, and the availability of sanitation services—particularly sewerage—compared to other Latin American countries with comparable income levels (see Figure 3 in the Statistical Annex). The largest deficit is in education, as shown particularly by indicators of progression to secondary school. Shortcomings in the education process are a risk factor for youth violence, particularly in urban areas, where they help to generate violence and criminality through gang activity. Although the gang problem in Panama is not comparable to that of its Central American neighbors, there are hotspots with very high rates of violence: the Office of the Prosecutor General reported 51.4 homicides per 100,000 inhabitants in the province of Colón in 2008, one of the highest rates in Latin America.
- 1.27 The WEF annual opinion survey of executives rated the overall quality of infrastructure in Panama in the 57th percentile among another 103 countries.³³ In the case of the electricity sector, stalled generation capacity, higher demand fuelled by economic growth, and climate problems hampering hydropower generation have created a critical situation. According to the World Bank's Enterprise Survey, the situation in the electric power market was perceived in 2006 as the most serious constraint on business operations in Panama.

(e) Spent fiscal model

- 1.28 Although social spending and public expenditure generally were among the highest in Central America, tax revenue was among the lowest, representing around 39% of total central government income from 2000 to 2004. According to figures published by the Ministry of Economy and Finance (MEF), Panama had posted fiscal deficits in most years before 2004, accumulating a public debt equivalent to 70.3% of GDP in 2004. In 2002, Panama passed the Fiscal Accountability Act to limit fiscal deficits in the nonfinancial public sector (NFPS) to 2% of GDP, setting ceilings of 50% of GDP on borrowing (public debt/GDP) and 35% of GDP on the level of external borrowing—the latter two targets to be achieved within 15 years.³⁴
- 1.29 Panama's fiscal deficits have widened partly due to a reduction in tax revenue—over two percentage points of GDP less tax revenue in the decade ending 2004 and over three percentage points if social security is included—and to current expenditure growth, particularly wages and debt service (public sector employment expanded by 22% from 1999 to 2004). A tax reform was approved in December 2002, when revenue reached its lowest level; and although the International Monetary Fund estimated the potential impact of this reform at 0.3% of GDP in 2003, actual revenue growth came in well below expectations at just 0.11% of GDP.
- 1.30 While perceptions on fiscal policy and tax administration are not a problem in Panama, tax evasion is. Data collected by the World Bank show that 64% of firms interviewed in 2006 under-reported their sales to the tax administration, and 34% under-reported their number of employees to the Social Security Fund. On average, tax evaders reported 20.2% of their sales and 14.6% of their employees. The size of the informal economy in Panama is estimated at 65.3% of GDP, which is surpassed in Latin America only by Bolivia.³⁵ The rate of evasion on the tax on transfers of movable goods and services (ITBMS) was estimated for the IDB by Gomez-Sabaini at 38.1% in 2003 and 26.6% in 2006, the latest figure available.³⁶ The high cost of complying with tax and labor laws, and lack of trust in the government, explain the high levels of noncompliance; 84.85% of the population interviewed by Latinobarómetro in 2003 did not believe that the money paid in taxes would be well spent by the government. Moreover, the exemptions and benefits granted to promote and develop certain sectors have gradually eroded the tax base.
- 1.31 Owing to evasion and high levels of informality, the Social Security Fund (CSS) faced a serious fiscal crisis, including an actuarial deficit; it was estimated that if reserves continued to be used at the current pace, they would disappear by 2013. Although the Panamanian pension system is generous compared to those in other Latin American and European countries (a low contribution rate and high benefits), the coverage of the economically active population had declined partly owing to the growth in informal activity and higher evasion rates.³⁷

(f) Corruption

- 1.32 Corruption was one of the main problems cited by Panamanians in 2004, with 9.1% of the population rating it the country's most serious problem.^{38, 39} The perception of corruption in Panama, however, is geared towards influence peddling to protect special interests over the public interest. In 2004, for example, the Global Competitiveness Report indicated that the areas in which Panama had major comparative disadvantages in terms of corruption compared to other countries were: the judiciary's susceptibility to influence from members of the government, citizens or companies; favoritism in the decisions made by government officials; and the ease with which the outcome of public policies can be influenced by making contributions to political parties.⁴⁰ That same year, 76.7% of the Panamanian population felt that the country was governed by powerful special interests.⁴¹ In all 37.6% were personally aware of at least one case of persons who received privileges because they supported the party in power (2005) and 30.1% thought it was proper for an official to give work to a family member (2006).⁴² This had made civil service highly politicized, with low levels of merit, and has made the government bureaucracy inefficient.⁴³ Moreover, corruption, understood as irregular payments to obtain connections to public utilities, permits, tax reductions, public contracts, and loans do not appear to be as serious as the issues mentioned above.⁴⁴ The chance that a firm will ask for a special, undocumented payment was estimated at 4.5% for Panama (2006 data), compared to 2.3% in Chile and 15.9% in Ecuador.⁴⁵

II. THE BANK'S PROGRAM IN PANAMA

- 2.1 This chapter analyses the relevance of the program and the degree to which the design and objectives of the strategy and the assistance program were compatible with the country's needs and the government's development plans and priorities. It assesses the realism of the diagnostic study and strategy, and the assistance program's sufficiency and consistency with that strategy in the light of economic and social events, economic policy problems, and the approach taken by other partners to Panama's development.
- A. Relevance, positioning, and consistency**
- 2.2 The key objective of the 2005-2009 strategy was to support sustainable economic growth and poverty reduction. Two strategic objectives were set for this purpose: (i) boosting the economy's competitiveness; and (ii) developing the country's human and productive capital. The strategy also included strengthening governance and transparency as a crosscutting dimension.
- 2.3 The objectives put forth by the country for that period were to: (1) reduce poverty and improve income distribution; (2) develop an economic growth policy for job creation; (3) strengthen the country's public finances; (4) develop human capital; and (5) reform and modernize the State. These objectives were set out as the five

pillars of the economic and social policy in the document *Visión 2009* presented by the Government of Panama in 2005. Each pillar was accompanied by specific objectives and actions to support its implementation.⁴⁶

- 2.4 As the Bank's strategic objectives were so broad, they were generally aligned with the country's general objectives set forth in *Visión 2009*, and consistent with the country's needs. In this broad and general sense, the strategy was relevant. As regards the suggested assistance program for achieving these strategic objectives, the Bank proposed implementing sector strategies and executing projects in the various sectors discussed below.⁴⁷ Not all of these programs were designed to support the achievement of these strategic objectives, however.

1. Supporting fiscal sustainability⁴⁸

- 2.5 To support fiscal sustainability it was proposed that the programs in execution at that time be continued; and a policy-based loan (PBL) was formulated to support fiscal stabilization, broadening the tax base and controlling fiscal expenditure by limiting the number of civil servants to 1999 levels.^{49,50} Attempts were also made to reduce the actuarial deficit of the CSS and make it sustainable in the long term, by reforming its legal framework.⁵¹ Although the strategy mentioned the need to review the role of public development banks, and initially this was included in the 1997 *Financial Sector PBL*, none of the operations executed in the period 2004-2009 addressed that issue.

- 2.6 In this sector the assistance program was generally appropriate and consistent with the strategy—by targeting expenditure containment and revenue growth—and it addressed one of the problems identified as a priority by the Panamanian government.⁵²

2. Promoting basic infrastructure development⁵³

- 2.7 Particularly relevant in this area were the *corporate loan extended to the Panama Canal Authority to support the Panama Canal expansion*, which is one of the government's priorities, and the Bank's support in structuring the syndicated loan (that operation was not included in the strategy).⁵⁴

- 2.8 **The coverage of electricity services in rural areas was to be increased** through the *Rural Electrification Program*, by subsidizing the cost of connection to the power grid and subsidizing operators of isolated systems.⁵⁵ The sustainable development program (SDP) for Darién province also proposed funding for various interventions in rural electrification, power distribution lines and small-scale electricity integration projects.⁵⁶ While these actions were compatible with the country's needs, owing to its low levels of electricity coverage, this was not one of the problems identified by the Panamanian government. With the MIF grant, and at the government's request, the Bank funded a *Comprehensive Review of the Regulatory Framework and Policies in the Energy Sector*, which aimed to introduce changes to promote the supply of energy and diversification of sources, including hydropower.^{57,58} This problem was identified by the government as a priority. With regard to **expanding the coverage of telecommunication services**

- in rural areas**, the regulatory changes made before the strategy was approved allowed for a massive increase in mobile phone service in rural areas; and in principle it is not clear that Bank intervention would be needed in that sector; moreover, this was not a problem identified by the government. **The increase in coverage of drinking water and sanitation services among rural and indigenous population groups** was not the target of any direct intervention, and the only action in that area was undertaken through the SDP and through the *Poverty Alleviation and Community Development Program* executed by the Social Investment Fund (SIF).⁵⁹ The design of these programs meant that the needs in question would be addressed in these regions only if the communities requested it. Nonetheless, these were very specific, small-scale interventions despite the fact that the government had identified low coverage of drinking water services as a priority issue.
- 2.9 Although the Bank proposed **promoting physical and energy integration with Central America and the Andean Community, and improving highway infrastructure, setting up a road maintenance fund and strengthening sector institutions**, the Panamanian government only identified electric power integration with Colombia and rehabilitation of the Pan American highway as priorities. In this area, the Bank's participation was broader than requested by the government.⁶⁰ In *Visión 2009* the government indicated that maintaining and expanding the rural road network was a top priority; nonetheless, the Bank has not conducted an analysis that would make it possible to determine the level of priority of its activity in this sector.^{61,62} **Mapping out and implementing a mass transit solution in Panama City** was included in the government's plans and addressed before the strategy was approved.⁶³ No large-scale operation was undertaken owing to differences of opinion on how to solve the public transport problem in Panama.⁶⁴ Another area in which no operation was approved, despite having been programmed, was the **consolidation of reforms in the infrastructure sectors and promotion of private and local government participation**.⁶⁵
- 2.10 Although all of the proposed actions have an impact on the goal of *developing basic infrastructure*, the strategy did not make clear how these different actions would impact the strategic objective of *boosting competitiveness*.⁶⁶
- (g) **Expanding sources of sustainable growth**⁶⁷
- (i) **International positioning**
- 2.11 The assistance program in this area **sought to enhance the country's position in the global marketplace by fostering the development of sectors with comparative advantages,**⁶⁸ **strengthening foreign trade management in order to facilitate the implementation of trade agreements and promote investment, and stimulating integration with Central America through the Puebla-Panama Plan (PPP) and the Andean Community.** Although the programming was wide-ranging and ambitious, little support was provided to the agroindustrial sector; and its lack of competitiveness as a result of sector incentives was also not addressed,

even though that problem had been raised by the government and was associated with low rates of job creation.⁶⁹ The assistance mechanisms proposed in this area are not necessarily the most suitable.⁷⁰

(ii) Sector inclusion

- 2.12 To **support inclusion of the rural sector, indigenous peoples, and women, by engaging them in productive development and promoting new economic opportunities for those adversely affected by trade liberalization**, the Bank implemented small-scale operations through technical cooperation programs (TCs).⁷¹ Although exclusion was one of the key problems identified by the Panamanian government, and these were the sectors hardest hit by the dual growth model, the Bank channeled just 0.12% of its active portfolio in June 2009 into projects in this area. This was the same amount deployed to **promote the development of micro, small, and medium-sized enterprises (MSMEs) in the formal sectors of the economy, and promote the business climate and strengthen private sector capacity to contribute to economic growth with equity**. In these areas (rural sector, indigenous peoples, and MSMEs), although all the programs are praiseworthy and aligned with the country's needs, the intervention is not of sufficient scale to have any impact on the target population, even though these are areas where Panama possibly needs the greatest support to overcome the problem of economic duality in the short to medium term.⁷²

(iii) Financial sector development⁷³

- 2.13 Strengthening of the banking sector continued, and small-scale operations were approved to promote microcredit and financial services for micro and small enterprises.⁷⁴ The Bank did not propose any actions to improve the efficiency of public banks—one of the actions proposed in the sector strategy but that the Panamanian government did not consider a problem. It also approved several loans to the private banking sector through the Trade Finance Facilitation Program, which were not among the actions proposed in the strategy.⁷⁵

(iv) Technological innovation and the labor market⁷⁶

- 2.14 In the *technological innovation* area, the Bank's activity focused on the Ciudad del Saber (Knowledge City) and the National Secretariat for Science, Technology, and Innovation (SENACYT), although this area had not been identified by the government in the *Visión 2009* document as a priority.⁷⁷ In the **labor market** area, the program to promote job placement and enhance the competitiveness of Panamanian workers with new institutional schemes continued. This program is crucial, firstly, because it aims to resolve shortcomings in the education of the labor force, which is one of the obstacles identified by entrepreneurs in operating their businesses; and, secondly, because the government's strategy was based on promoting growth in sectors that require highly skilled labor.⁷⁸ Nonetheless, no progress was made in the dialogue on increasing labor market flexibility, although

this is one of the issues that most affects the creation of quality jobs in Panama (a recommendation contained in the previous CPE).⁷⁹

(v) **Sustainable development programs**

- 2.15 To **develop natural resources on a sustainable basis, by consolidating the institutional, legal, and regulatory systems governing their management and encouraging decentralization**, the strategy proposed sustainable development programs (SDPs).^{80,81} The corresponding loan documents identified institutional weakness at the provincial level and potential problems with interagency coordination as execution risk factors. From that standpoint, working through SDPs at the provincial level would seem to make more sense in countries that have well-defined federal governments and sufficient installed institutional capacity. This is a very important point given the centralized nature of decision-making in Panama. The alternative to this intervention model was working directly with line agencies and municipios, to support their institutional strengthening, one of the points proposed in the strategy. From 2004 onwards, and following the selection of the National Sustainable Development Council (CONADES) as executing agency, these programs exacerbated the problem raised in Chapter 1, namely the existence of different autonomous entities and special funds responsible for public investment in Panama.⁸²
- 2.16 The sector strategy also sought to “**develop an institutional, financial, and physical strategy for reducing the country’s vulnerability to natural disasters,**” but the Bank has not worked directly in this area.⁸³ Three programs were also planned to strengthen environmental institutions,⁸⁴ although this issue had not been raised by the government as a priority.
- 2.17 The programs proposed to expand the sources of sustainable growth are wide-ranging but do not necessarily reflect the priorities identified by the Panamanian government and the Bank. The sectors that received the least attention were rural and indigenous populations (which are precisely the groups most affected by the dual growth model), along with job skills development and greater flexibility in the labor market. Considering that the rural sector was addressed through regional SDPs, it is not clear whether the type of actions planned in these programs are relevant in terms of having any impact on competitiveness among rural populations or helping close the gap that divides the two Panamas (given the size, lack of mutual coordination, and future sustainability of the actions in question).
- (h) **Making social spending more efficient and progressive and sustainably increasing the coverage and quality of social services**
- 2.18 Here the strategy sought to **safeguard levels of expenditure (particularly investment spending) in programs having the greatest impact on poverty reduction.** For this purpose, the Bank continued executing the program being implemented by the SIF.⁸⁵ It also embarked on the *Social Protection Program - Phase I*, a technical and financial effort in conjunction with the World Bank to help

Panama finance a number of strategic hubs in the Opportunities Network—one of the points identified as a priority by the Government of Panama.⁸⁶

2.19 The strategy continued to implement operations in the health and education sectors **to increase coordination among social sector institutions and build up their management capacity.**⁸⁷ The line of action defined by the sector strategy for this purpose was irrelevant. The Bank continued to execute the *Educational Development Program* which had proven relatively ineffective until it was reformulated, in 2006, to support the *Social Protection Program - Phase I*, in supplying basic education services.⁸⁸ According to the Project Performance Monitoring Report (PPMR), owing to a lack of monitoring and evaluation, it is impossible to measure the attainment of the indicators in the previous phase of the project. Moreover, during program execution, the World Bank commissioned four impact assessments on the components of its loan “to learn from the implementation experience, fine-tune interventions, and maximize results and impacts.” With regard to **making public expenditure less centralized**, the strategy had no room to maneuver.⁸⁹ The little that the Bank can do in this respect is to promote the deconcentration of planning and execution, and the SDPs provided an opportunity to do so. Nonetheless, the Bank and the country went in the opposite direction, in terms of the deconcentration of project implementation, by using CONADES as the executing agency for these programs.⁹⁰ Although the strategy’s line of action was rejected, it is nonetheless crucial, along with its institutional strengthening subproduct, to ensure that Panama attains its objective of resolving the country’s duality problem. The Bank wasted the chance to use the SDPs as a tool to strengthen line ministry regional offices and municipios, and to deconcentrate public expenditure.⁹¹

(i) **Improving access to housing and land**⁹²

2.20 To improve access to housing, the Bank continued to implement the program in the portfolio and approved three additional operations. These aim to increase access to housing for middle-low income families through: (1) subsidies to make them eligible for loans from private banks and for the provision of homes by the private sector; and (2) other instruments to be pilot tested.^{93,94} Nonetheless, the 2003 Standard of Living Survey (ENV2003) shows that access to housing is not a problem in Panama: 80.3% of the population has housing (either paid in full or with a mortgage) and in the lowest decile, 91.9% of the population owns the home in which they live.⁹⁵ Access to housing was not a problem identified by the Panamanian government; and, while the assistance program was consistent with the strategy and the scale of intervention was adequate, the assistance program is not relevant. The most recent housing program supports the process of regularizing land ownership, in which the solution proposed is suited to the housing problem in Panama.⁹⁶

2.21 To address access to land, the IDB continued to work with the World Bank in supporting the *National Land Improvement Program* (PRONAT) in different, mutually exclusive areas of the country; and it approved a titling program in the

Metropolitan Area of Panama City.⁹⁷ Large-scale titling programs were included in the government's plans; and as the Bank's intervention in the sector was consistent with the strategy and the scale of intervention was adequate, the interventions were relevant. Through these programs, the Bank supported Panama in increasing the net worth of the most vulnerable sectors by improving their access to physical assets.^{98,99}

(j) Strengthening governance and transparency

- 2.22 The strategy stated that progress was needed in this crosscutting element to make headway in the two strategic areas proposed. Although the Bank's intervention is highly specific, there are significant synergies between program components and among the Bank programs in this crosscutting element.^{100,101} This also means that a failure in one these programs diminished the scope of influence of the others. As correctly noted in the strategy, municipal institutional strengthening was essential for resolving the country's duality problem, for which enabling the State to effectively reach the interior of the country is a necessary condition. In that area in particular, the Bank's intervention is extremely important and relevant, but it required additional monitoring owing to the institutional weakness of the municipios.

III. THE BANK'S EFFICIENCY IN EXECUTING THE PROGRAM

- 3.1 This chapter considers the efficiency with which the assistance program was implemented, or the degree to which the design and delivery of assistance maximized the return. Given the lack of tools for measuring the return of program implementation, a number of proxy variables were used, such as assistance programmed compared to assistance actually approved, preparation and execution costs, and developments in classifying implementation progress and the likelihood of achieving the development objectives reported in the PPMRs. The Bank's preparation and execution times were used as a proxy variable to measure the time executing agencies spent on project design and implementation.¹⁰²

A. Program execution

- 3.2 The 2004-2009 strategy proposed two scenarios for the lending program: A low scenario of US\$575 million, and a high scenario of US\$870 million.¹⁰³ The conditions to be satisfied for execution of the high scenario were: (i) a nonfinancial public sector deficit under 2% of GDP starting in 2007, reflecting an improvement in the fiscal situation; (ii) start-up of the Ministry of Economy and Finance's (MEF) "control tower," to improve project monitoring and management capacity; and (iii) projected disbursement for 2007 of at least 25% of the undisbursed balances of the eligible investment loan portfolio, reflecting an improvement in the country's absorption capacity. Although the second and third conditions were not met, the Bank nonetheless decided to execute the high scenario.¹⁰⁴ This decision was taken despite the fact that the portfolio execution period was not reduced and the country

- does not yet have a tool to monitor and supervise projects undertaken. This means that project absorption capacity has not changed, and use of the borrowing scenario put the efficiency of project execution at risk, according to criterion defined in the strategy.
- 3.3 The loans programmed in the strategy amounted to a total of US\$870 million, plus US\$175.5 million for the private sector, corresponding to 36 operations—10 of them for the private sector. Of this total, operations were approved for US\$495 million (17 projects) or 47.32% of the programmed amount, although not all of the programs included in the low scenario were approved. The total amount approved in the period 2004-2009 (both programmed and unprogrammed loans) was US\$1,228.8 million, corresponding to 32 projects, 17 that were programmed and 15 that were not included in the strategy.¹⁰⁵ In the same period, 59 technical cooperation operations were approved for US\$24.8 million.
 - 3.4 The approved loan operations were concentrated in investment loans (65.6% of the number of operations and 43.6% of the amount approved), and loans to the private sector (25% of all operations and 47.8% of the amount originally approved).
 - 3.5 There are evident programming problems in the private sector, where the Bank's planning capacity is less exposed to economic problems: loans programmed in the energy sector were not approved, and those that were approved under the Trade Finance Facilitation Program for the banking sector were never included in the strategy. There were also programming problems in the SDPs, which were not all included in the strategy.
 - 3.6 Preparation costs per million approved fell 48.4%, from US\$12,717 for operations executed in the period 2004-2009 but prepared earlier, to US\$6,510 for operations prepared and approved during the strategy period. Execution costs, in contrast, increased by 174.8%, rising from US\$14,228 per million disbursed, for operations executed in the period 2004-2009 but approved earlier, to US\$39,099 per million disbursed for operations approved during the strategy period (see Figure 4). The previous CPE had noted that administrative costs in Panama were very high, and they increased during the 2004-2009 period; nonetheless, operation execution costs in Panama are the same as the average for the Country Department Central America, Mexico, Panama and the Dominican Republic (CID) countries. The most costly operations in terms of execution are the *Social Protection Program - Phase I* (US\$164,157 per US\$1 million disbursed), the *Rural Electrification Program* (US\$133,429 per US\$1 million disbursed) and the *Sector Facility Profile to Strengthen Foreign Trade Management* (US\$119,978 per US\$1 million disbursed).
 - 3.7 The transaction cost for the government and portfolio execution efficiency were measured using as a proxy variable the preparation and execution times for loans approved during 2004-2009 compared to the average for the CID countries, Group C countries, and the Bank as a whole in the same period (see Table 5).¹⁰⁶ A comparison was also made of the Panama portfolio approved during the 2004-2009

strategy period and the active portfolio during the same period (active, completed, or approved projects) (see Table 6).

- 3.8 In the initial phases, from projection to approval and from approval through to full eligibility, the average time elapsed for the approved Panama portfolio is less than the average for CID, Group C countries, or the Bank as a whole.¹⁰⁷ In the phase from full eligibility to the first disbursement, the average is greater in the case of Panama;¹⁰⁸ as is the phase from the actual first to last disbursement, where the average difference is up to 7.4 months in the case of CID. This shows that there are efficiency problems in execution but not in program preparation.¹⁰⁹ The sector-by-sector analysis for this final phase shows that this problem is particularly serious in the social investment and energy sectors, and in reform and modernization of the State. In other sectors, however, such as financial and capital market development or foreign trade, execution time is below the averages for CID countries, Group C countries, and the Bank as a whole.
- 3.9 One positive aspect is that a comparison between the portfolio approved during the 2004-2009 strategy period and the active portfolio in the same period in Panama shows a downward trend in preparation and execution times in all sectors. Nonetheless, this is not of sufficient magnitude to justify activating the high lending scenario.
- 3.10 Although there are differences in preparation and execution times between Panama and the comparator groups, and between the various sectors within Panama, OVE found a very low correlation between efficiency, as measured through execution times, and how programs were rated in the PPMRs in terms of implementation progress and the likelihood of achieving the development objectives. If the monitoring systems were actually reflecting project implementation problems, one would expect that projects whose final disbursement date had been extended by years would not have their implementation progress continuously rated as “satisfactory.” What’s more, one would expect to see changes in the rating, to reflect the problems that led to execution delays. For example, there are cases such as the *National Environment Program* which, despite falling 3.63 years behind in execution compared to the scheduled final disbursement date, was rated **throughout its lifetime** as having “satisfactory” implementation.¹¹⁰ The correlation between years of delay and the variance in the rating of implementation progress for projects that were completed in 2004-2009 is just 0.22; while the correlation between amounts cancelled and this variance is 0.69.
- 3.11 In addition, the correlation between the rating given to implementation progress and the probability of fulfilling the development objectives is just 0.59 for projects for which there is sufficient variance to make the calculation. Nonetheless, there are cases such as the electricity expansion program and the *Program to Support the Tourism Sector*, where the correlation is just 0.12, which suggests that the likelihood of achieving the objectives is independent of implementation progress.

- 3.12 This monitoring system is unreliable, and an effort is needed to unify criteria to make the system useful as a proxy for measuring the efficiency of the Bank's contribution.
- 3.13 In terms of project evaluability, there are no substantive differences between the operations approved before 2004 but executed in the 2004-2009 period, and those approved after 2004. For projects approved before and after 2004, the proportion of objectives with at least one indicator defined is 89.2% and 90.9%, respectively; the indicator quality (measured as those with well-established baselines and targets) has also gone unchanged: the evaluability ratio is 72.9% and 73.6% for projects approved before and after 2004, respectively. With respect to monitoring, the projects from before 2004 have compiled information for 14.8% of the outcome indicators (5% in the case of those approved afterwards).

IV. RESULTS

- 4.1 This chapter summarizes the Bank's effectiveness or the extent to which the assistance program achieved the proposed objectives. The results were evaluated at different levels: individual loan, sector or thematic area, and for the strategy as a whole bearing in mind the program's cumulative results. An analysis was also made of the program's impact in the few cases where this was possible, as well as its long-term contribution to changes in development conditions, and the sustainability of the results.

A. Effectiveness, impact, and sustainability

1. Supporting fiscal sustainability

Although there is room for improvement, OVE considers that the Bank provided effective support to Panama to achieve fiscal sustainability (see Table 7). The indicator proposed in the strategy to measure progress in this area was keeping the nonfinancial public sector (NFPS) fiscal deficit within the parameters specified in the Fiscal Accountability Act.¹¹¹ This objective was achieved in part and only after 2006, thanks primarily to a favorable environment (a condition exogenous to Panama and the Bank) and secondarily to the measures to contain public expenditure and increase revenue promoted by the assistance program. The NFPS fiscal balance improved from a deficit of 4.9% of GDP in 2004 to a surplus of 0.4% of GDP in 2008; a deficit of 1% is projected for 2009 in the context of the crisis and within the parameters specified in the Fiscal Accountability Act. Current expenditure was cut, and tax revenue increased as a percentage of GDP. Investment spending, however, rose 2.4 points of GDP from 2004 to 2008; this was achieved even though the Investment Programming Division continues to suffer from problems related to monitoring and evaluating investments.

- 4.2 The *Program to Strengthen and Modernize Economic and Fiscal Management, Phase II* made significant progress in the General Property Registry Directorate.¹¹² Between 2004 and 2008, property tax increased from US\$47.2 million to

US\$80.9 million (from 0.33% to 0.35% of GDP) and property transfer taxes grew from US\$14.6 million to US\$41.1 million (from 0.10% to 0.18% of GDP).

- 4.3 The General Revenue Directorate (DGI) implemented a mass inspection and collection process and pilot tests were conducted for the tax on transfers of movable goods and services (ITBMS).¹¹³ The increase in revenue since 2006, when the component was reformulated as a result of the Tax Code reform introduced through Law 6 of 2005, exceeded the 5% annual growth target by the end of project execution. Another suitable measure was the ITBMS productivity index, which has risen since 2002, reflecting legislative changes and an improvement in DGI efficiency.¹¹⁴ The changes made since 2006 can be entirely attributed to efficiency gains in DGI revenue collection: productivity grew by 16.7% in 2006 and by 17.0% in 2007 (see Figure 5). In the old General Customs Bureau, now the National Customs Authority, not all of the tasks envisaged had been executed, and the objectives have not been achieved thus far.¹¹⁵
- 4.4 The aim of strengthening financial management has been partly achieved.^{116,117} The electronic payment system is currently being used for 100% of suppliers and 97% of the payroll—only civil servants working in areas where there is no banking service do not use the system. The average number of days for paying central government liabilities has been cut from 175 in 2004 to 53 in 2008, and the number of official bank accounts has been reduced.¹¹⁸
- 4.5 Modernization of the public investment system is the component that has made the least progress.¹¹⁹ Despite having the computerized Project Bank, the capacity to tie the projects to output, process, and outcome indicators for results-based project management and for making spending more efficient still need to be incorporated.¹²⁰ Implementation of the “control tower” was one of the triggers to activate the Bank's high lending scenario. The activities listed within the Ministry of Economy and Finance (MEF) strengthening component were completed; but the ministry has not yet taken a decision to implement the Institutional Development Plan.¹²¹
- 4.6 The *Investment Climate and Free Trade Adjustment Program* supported the approval of the Fiscal Equity Act (February 2005) and the entry into force of its legal framework. This law introduced the alternative income-tax calculation (CAIR) as a minimum prepayment of corporate income tax; and it abolished preferential regimes and exemptions with respect to personal income earned abroad. According to the Office of the Comptroller General of the Republic, the number of civil servants grew by 2.7% between 1999 and 2006 in the specified institutions (the law provided for zero growth). The regulations governing the new legal framework of the Social Security Fund (CSS) made it possible to increase the number of active insured contributors from 688,620 in 2004 to 913,000 in 2008.¹²²
- 4.7 The nonfinancial products proposed in this sector were: (i) a study on fiscal sustainability and public borrowing, which was not completed; (ii) the Public Expenditure Review, which was finally prepared exclusively by the World Bank

and presented in January 2007—although the strategy proposed collaboration with the IDB; and (iii) an evaluation of the country's financial administration and government procurement system, prepared in collaboration with the World Bank and presented in December 2006.

(k) Development of basic infrastructure

In terms of basic infrastructure development, the indicators proposed in the strategy to measure progress in the electric power sector were to expand capacity to meet demand from 5,200 GWh/year and 861 MW in 2004 to 6,358 GWh/year and 1,304 MW in 2008, equivalent to 22.3% growth in demand and a 51.5% expansion in installed capacity;¹²³ and to increase the national electrification ratio from 81% to 91%. In 2008, electric power sales by distributors amounted to 5,394 GWh/year and 1,638 MW of installed capacity—up 18.4% and 2.3% over the 2004 figures reported by the National Public Services Authority (ASEP) of 4,556 GWh/year and 1,601 MW. The customer base of power distribution companies grew by 20.7% from 631,097 in 2004 to 761,720 in 2008. The strategy also called for reducing transport costs on rehabilitated roads by 10%; however, the programs did not collect data to verify whether or not this target was met. Another indicator proposed in the strategy was the number of new sewerage connections in outlying districts; but here also there are no data to verify the trend of the indicator.¹²⁴ The Bank's support fell quite short in terms of increasing electricity coverage in rural areas, and was very limited in increasing drinking water and sanitation service coverage among rural and indigenous population groups. In contrast, it has been effective in expanding the electric power transmission grid and boosting the sector; and, although it has provided effective support in road infrastructure works, support for the institutional framework for maintenance has moved forward very slowly, despite being included repeatedly in several operations.

a. Electric power sector

4.8 Investments to extend electricity grids in rural areas could not be implemented owing to difficulties in getting the agreement signed between the government and the distributors—despite the commitment undertaken by the parties when they signed the loan. The economic terms set by the Bank for negotiating payments to distributors considered a per-connection subsidy different from the amount that is recognized for this by the Rural Electrification Office in the program being financed by the Government of Panama with its own funds.¹²⁵ The TC for a *Comprehensive Review of the Regulatory Framework and Policies of the Energy Sector* made it possible to relaunch investments in power generation.¹²⁶ As a result, an expansion of over 700 MW was achieved and close to US\$1 billion invested, with a view to reducing the risk of power crises in 2008 and 2009, and to provide for an orderly, coordinated expansion of supply to meet electric power demand when the programmed expansions are completed. According to the National Dispatch Center, the expansion in installed capacity under centralized dispatch arrangements between 2004 and June 2009 amounted to 327.2 MW, of which 40.9 MW are produced by hydropower plants.¹²⁷ In May 2009, there were 14 private hydroelectric projects either under construction or with energy supply contracts signed. Growth in the Panamanian electric power transmission network between 2004 and 2008 was financed by the *Electric Power Transmission Expansion*

Project, which began in 2001. The stock of transmission lines in 2004 included 1,455.7 km of 230-kV lines and 305.6 km of 115-kV lines; in 2008, there was a total of 1,845.7 km of 230-kV lines and 306.1 km of 115-kV lines.¹²⁸ Transmission losses were reduced from 3.35% in 2004 to 2.47% in 2008.¹²⁹

(vi) Drinking water and sanitation

4.9 The *Poverty Alleviation and Community Development Program* financed infrastructure construction in the water and sanitation sectors. Figures provided by the program show that it benefited a total of 6,385 individuals with new water supply systems, 37,226 people with new latrines, and 55,450 with new sewerage systems— representing, respectively, 0.5%, 3.1%, and 4.6% of Panama's rural population. The SDPs also undertook activities in Darién, Bocas del Toro, and through the *Project of Priority Activities in the Canal Watershed* (see analysis of the SDPs).¹³⁰ Nonetheless, there are no data to verify the trend of the indicator proposed in the strategy.

(vii) Road infrastructure

4.10 The *Program to Strengthen Highway Administration and Local Road Rehabilitation* achieved its aim of reducing works preparation and tendering times by 7.1 months (the target was six months), and there is anecdotal evidence of shorter travel times and lower costs, as well as year-round serviceability of the rehabilitated roads.¹³¹ Under the *Program to Improve the Puebla-Panama Plan Pacific Corridor*, the number of traffic accidents in the provinces of Herrera (where Divisa is located) increased by 1.6%, while in Veraguas the number of accidents fell by 18.9% (where Santiago and El Pajal are located) between 2003 and 2005, the last year for which data are available.¹³²

(l) Expanding the sources of sustainable growth

The proposed indicators for measuring progress in this area were to increase Panama's score on the World Economic Forum (WEF) Growth Competitiveness Index from 3.55 in 2005 to 4.55 in 2009, along with the number of jobs created. The index did increase, but by less than expected—from 3.97 in 2004 to 4.22 in 2008.¹³³ In all, 230,227 jobs were created from August 2004 to March 2009: 23% of them in construction and 32% in the commerce sector, but only 7% in the primary sector of the economy. It is not known whether the objectives were attained, since no target was set for this indicator. OVE considers these indicators to be inadequate, because they do not reflect the orientation of the assistance program in this area. OVE studies suggest that Panama succeeded in reversing the negative trend in labor productivity that the country had been experiencing since 1980; the trend has been positive since 2004.

This area of intervention by the Bank was very broad, and the results vary from sector to sector.

a. International positioning

4.11 The *Program to Promote Competitiveness* surpassed the target for the number of clusters it helped form.¹³⁴ Bank monitoring reports show that cluster participants

have increased their competitiveness (sales, production, and productivity), but there is currently no impact assessment that would make it possible to attribute these results to the program. The PBL for the *Investment Climate and Free Trade Adjustment Program* simplified procedures for creating new companies and for exporting.¹³⁵ The results in this area include: an increase in nontraditional exports, exports to new markets, signing of new free trade agreements, and a reduction in the number of days needed to start a company.¹³⁶ The main contribution made by the *Program to Support the Tourism Sector* has been institutional strengthening of the Panamanian Tourism Institute (IPAT).¹³⁷

b. Financial sector

- 4.12 The Financial Sector Program helped implement market mechanisms for the placement of domestic bonds: treasury bill auctions in 2008 were oversubscribed by 84.8% although only 96% were awarded. In 1998, the bonds offered were undersubscribed, and only 70.8%, of the total amount was actually awarded. Major progress was also made in strengthening the Banking Superintendency and the National Securities Commission since the start of the operation in 1998.¹³⁸ No progress was made on the commitment made by the Bank, following the contractual amendment of the PBL, to assist the government in auditing the Agricultural Development Bank, or in preparing the legislative amendments needed to modernize rural financial services. The absence of a regulatory framework for operating saving and loan cooperatives and financial firms, and the general lack of specific regulations for microfinance institutions, have hindered the goal of improving access to credit for the micro and small enterprise sector; and they have seriously undermined the sustainability and replicability of pilot projects for agricultural diversification and environmental improvement of the productive areas promoted by the SDPs regionally.
- 4.13 Bank support in this regard has been confined to a very small area; but in the niches where it has intervened, the projects have been successful: the Asociación para el Desarrollo de las Cajas Rurales [Rural Savings Banks Development Association] (PROCAJA) was consolidated and made economically viable, serving low-income, rural populations in the provinces of Veraguas, Herrera, and Los Santos.^{139,140} Another program to improve microenterprise and small business access to credit was the *Expansion of Financial Services to Micro and Small Enterprises through Banco Delta*. One of three microfinance banks in Panama, Banco Delta serves the urban population in Panama City, Santiago, and David.¹⁴¹ Although it is not yet fully executed, the program has already introduced new products and services targeting microenterprises and small businesses and has surpassed the target for the size of the microcredit portfolio.¹⁴² Unlike the two previous programs, the other MIF program in execution has a broader field of action and, if successful, could have a highly positive impact on microenterprise and small business access to credit. With this program, the Credit Bureau of the Panamanian Credit Association would be incorporated into a broad sector of the economy that is currently not covered, and as a result does not borrow from the banking system.¹⁴³

(viii) Technological innovation and the labor market

4.14 OVE made an impact assessment of one of the components of the *Assistance Program for the Building of a Training and Employment System in Panama*. It found that the program had a positive effect on the employment rate, but not on the quality of jobs or on wages. A five percentage point difference was found between the employment rate of young people participating in the programs and the rate in the control group (46.9% compared to 42.2%), with larger differences for the job placement modality (47.7% compared to 41.9%) than for the transition one (46.3% compared to 43.1%). An interesting result is the heterogeneity of the program's impact by gender and region: it had a significant impact on the female employment rate (44.1% compared to 32.2%) and on the rate among young people in Panama City (47.2% for participants compared to 31.5% in the control group).

(ix) Sustainable development of natural resources and consolidation of the institutional, legal, and regulatory framework for their management

Sustainable Development Programs (Darién,¹⁴⁴ Bocas del Toro,¹⁴⁵ and Chiriquí)

4.15 With respect to land management and according to the latest data reported by the Bank, in Darién the area in dispute between the *comarcas*, protected areas, and other uses decreased from 467,000 hectares in 1999 to 326,900 in mid-2007 (30% reduction, still well below the 50% target).^{146,147} The deforestation rate also seems to have declined in the region, according to the most recent data reported by ANAM; and the goals of stabilizing human settlements in the Darién National Park to a maximum of 3% of its land area also seem to have been achieved.^{148,149}

4.16 OVE was unable to obtain information reflecting progress in the institutional strengthening area, beyond the creation of Strategic Institutional Strengthening Plans (PAFIs) for various ministerial offices at the regional level, as well as the construction of buildings and provision of equipment (in the case of Bocas del Toro the programmed PAFIs were not completed). In terms of municipal strengthening, similar plans were also prepared and increases recorded in municipal revenue beyond the proposed targets in Darién, but the relation between the activities financed by the SDP under these strengthening plans and this result is unclear (such an increase was not observed in Bocas del Toro, nor was there evidence of improvements in municipal management). In Chiriquí, the activities thus far have been limited to preparing municipal action plans (which complement the plans funded by the *Municipal Development and Decentralization Support Program*), subregional action plans, and, as in other SDPs, the rehabilitation of buildings and equipping of facilities.

4.17 In terms of promoting sustainable productive projects, the Darién SDP is very limited, going no further than validating productive alternatives at a pilot level.¹⁵⁰ The lack of a State policy to support the diversification of agricultural production in the province made the task more difficult. Problems of access to credit for small-scale producers and lack of human resources in the Ministry of Agricultural Development (MIDA) for monitoring and control of this type of project are a

constraint on its replicability and sustainability. Interventions on a similar scale were made for fisheries and ecotourism.¹⁵¹ In Bocas del Toro all the productive projects targeted the banana sector, where the yield of the farms covered by the programs did not increase; however programmed projects in other areas were not completed.¹⁵² In Chiriquí, work has begun, on a very incipient basis, on innovative demonstration projects in agricultural productive systems.¹⁵³ In the livestock sector, 34 demonstration farms had been served throughout the province, but there are replicability problems owing to a lack of capital among other producers to make the necessary investments.¹⁵⁴

- 4.18 In terms of rehabilitation of the transport system, paving of the Pan American Highway was completed under the Darién SDP—138 km between Puente Bayano and Yaviza, cutting travel times between the two points from five hours to two and keeping the road serviceable year-round.^{155,156} In Bocas del Toro, a bridge was built over the Changuinola River. This directly benefits 80,000 inhabitants of the province by improving safety for heavy freight transport and reducing travel times, thereby making the ports of Almirante and Chiriquí Grande more competitive. Under the Chiriquí SDP, to date, several infrastructure works have either been completed or made progress, to support competitiveness by improving access to the David airport and rehabilitating production roads.
- 4.19 In terms of improving basic services, distribution lines and an electric integration project benefiting 10,000 people in Darién were financed.¹⁵⁷ The data show growth in the coverage of the public electricity service from 37.75% in 2003 to 55.44% in 2008. The results in water and sanitation were more modest: Standard of Living Survey (ENV) data for 2003 and 2008 show that drinking water coverage did not vary during the period, and the number of homes in Darién with sanitation service either inside the home or in the patio increased by just 3.4%.^{158,159} The waste management situation worsened: the percentage of homes that burn or dump their waste increased from 63.11% in 2003 to 69.52% in 2008; and the number of homes that dispose of their waste material through municipal or private vehicles for transportation to a sanitary landfill increased by just 2%.¹⁶⁰ Lastly, in relation to health service improvements, two health centers were rehabilitated in addition to the three initially proposed, benefiting 7,073 people. In Bocas del Toro, investment in drinking water and sanitation works financed improvements to the Bocas sewerage service and improved water intake and the purification plant in Isla Colón, as well as 56 rural water supply systems; but there is no information on beneficiaries, only the amount invested in these works. Coverage of access to a reliable water source rose from 73.83% in 2003 to 77.83% in 2008 (ENV 2003 and 2008).¹⁶¹ The SDP began work on solid waste management but has not yet succeeded in creating adequate sanitary landfills in a zone that has a large floating population thanks to tourism. The program did not do any work in the electric power sector.¹⁶² Progress on public utilities under the Chiriquí SDP has been slower, and coordination problems have arisen with line ministries, particularly in the area regarding the technical specifications of the drinking water works.

Other programs

- 4.20 The *Program for Priority Activities in the Panama Canal Watershed* had disbursed 78.5% of its funding as of July 2009. In relation to projects for the protection, conservation and management of natural resources, the reforestation target has been met.¹⁶³ None of the projects programmed in relation to sustainable production systems implemented through technical assistance and incentives have yet begun; and the program is on alert status owing to delays in its execution. Progress on basic infrastructure projects has been made at a different pace in different areas.¹⁶⁴ No headway has been made towards providing communication systems, or public radio or telephone services, to 30 rural communities. The program aimed to design and implement the Investment Fund, which would operate with seed capital from the Panama Canal Authority and make the project sustainable. Nonetheless, the fund was not yet operational as of July 2009.
- 4.21 In the case of the *National Environment Program*, the new ANAM organic and functional structure was put into operation, although further work is needed to strengthen the institution.¹⁶⁵ Data reported by ANAM show that the self-financing target has been met: it was expected that revenue from the sale of services (registration of consultants and environmental auditors, environmental impact assessments and related sanctions), together with fees and duties (for the use of forest resources, flora and fauna, protected areas, water and land) would represent 45% of the institution's income by the end of program execution; the corresponding figure in 2008, was 49.1%. Revenue grew from US\$3.3 million in 2004-2005 to US\$9.1 million in 2008.¹⁶⁶
- 4.22 In terms of expanding environmental management tools, tangible progress has been made through the environmental impact assessment process and its systemization.¹⁶⁷ Nonetheless, the sanctioning scheme is showing signs of problems, because administrative fines imposed for failure to comply with environmental regulations are usually cheaper than implementing the corrective measures themselves. The aim of generating pilot experiences for environmental improvement through civil society was partially fulfilled.¹⁶⁸ This is an activity that could have been coordinated with other Bank projects, such as the SDPs and the *Municipal Development and Decentralization Support Program*.

(m) Making social spending more efficient and progressive and sustainably increasing the coverage and quality of social services

The indicator proposed in the strategy, to expand the coverage of basic primary health care services in poor and vulnerable areas by at least 450,000 new beneficiaries by 2009, was 96.2% achieved; coverage grew by 432,710. The preschool education coverage indicator was not achieved, reaching a level of 56.1% for children ages 4 to 5 (the target was 75%). The **gross** coverage rate of secondary education was 77.8% for young people ages 15 to 17 (the target was 70% **net**). No target was set for the indicator of the coverage of the Opportunities Network, but according to the Standard of Living Survey, the network covered 7.5% of the Panamanian population in August 2008. Bank support to make social spending more efficient and progressive and increase the coverage and quality of social services was deficient. Apart from the operational component in the health sector and

progress achieved by the Opportunities Network, the Bank's participation in this area has been deficient particularly in the education sector, where Panama needs permanent support to bridge the coverage and quality gap.

a. Safeguarding investment in programs with an impact on reducing poverty

4.23 Although Phase I of the Social Protection Program has disbursed only 6.3% of its funding, OVE estimates that, thanks to the sharp targeting of the Opportunities Network (95% of transfers benefit poor families and 80% benefit extremely poor families), the program is better placed to support the objective of investing in programs with an impact on poverty reduction (see Figure 6). Although the Opportunities Network only represents 0.2% of total household income, its excellent targeting enabled it to raise incomes among the poorest 10% by nearly 20% from 2004 to 2008.¹⁶⁹ Preliminary OVE studies indicate that the program has had a positive impact of up to 10 percentage points on the enrollment of children ages 4 to 17 in rural and indigenous areas.¹⁷⁰

4.24 The *Program for Poverty Alleviation and Community Development*, however, was less clearly targeted: 60% of program funds executed by the Social Investment Fund were destined for extremely poor communities, compared to the 50% target; 84.7% of funds went to infrastructure projects concentrated in the roads (36.8%), education (17.6%), and water (13.0%) sectors; while 15.2% went to social services.¹⁷¹ There is no way to monitor the individual impacts of the 504 projects financed with these funds, averaging US\$71,320 each. Nonetheless, a general lack of evaluation of investment projects could undermine the quality of the results achieved. The 2008 Standard of Living Survey shows the percentage of Panamanians that claim to have benefited from the Social Investment Fund in various areas, nationwide, over the last five years (see Table 8). The percentages calculated with the figures reported by the executing unit are 0.2% for water supply systems; 1.1% for latrines, and 1.6% for sewerage systems (the two latter categories are overestimated compared to the figures reported by the beneficiaries themselves).

(x) Increasing coordination among social sector institutions and building their management capacity

4.25 The institutional changes proposed by *Phase I of the Multiphase Program for Institutional Transformation in the Health Sector*, which aims to develop the role of the Ministry of Health (MINSa) as governing agency and regulator in the health sector, have not been made.¹⁷² Nonetheless, the program was highly successful in expanding the coverage of health services through outreach organizations—a new methodology in Panama. The target number of beneficiaries covered by these organizations through the Comprehensive Package of Health Services (PAISS) was surpassed by 16.3%: the aim was to cover 275,000 beneficiaries in remote areas, and the result was a total of 319,798 beneficiaries—38% of them in the Ngöbe Buglé *comarca*, where PAISS is the only service provider for this population group.

- In addition, outreach organizations achieved the target coverage rates on all indicators except for the percentage of children ages 6 months to 36 months suffering from moderate and severe malnutrition who received Nutricrema.¹⁷³ The coverage achieved through PAISS with the public health system and the fund for integral medical tours was below target—112,912 beneficiaries were served out of the target number of 175,000 (64.5%).¹⁷⁴ The aim of supporting mechanisms to decentralize the service has only been partially fulfilled.¹⁷⁵
- 4.26 As of July 2009, the *Educational Development Program* had disbursed 55.7% of the amount available following its reformulation in January 2006; and cumulatively it now has been extended 5.8 years beyond the original expiry date. Infrastructure works are progressing slowly, but the supply of education services for groups in rural and indigenous zones is expanding faster: whereas the number of classrooms built and rehabilitated as of May 2008 represented 17.9% and 1.6% of the target, respectively, the new quotas generated for early and pre-secondary education in rural and indigenous zones represent 34.6% and 91.3% of the proposed target—ENV2008 data confirm that the rural and indigenous areas have benefitted the most from school construction and improvements since 2003, with 42.4% and 66.9%, respectively. The school improvement program has not yet been implemented.
- 4.27 This progress is reflected in OVE's analysis: the measure of inequality of opportunities, defined as the likelihood of children completing primary education on time, shows that the situation has improved from 2003 to 2008; the gap between the different ethnic, regional, and social groups has closed. The analysis suggests that the improvement reflects the fact that more children from vulnerable groups are completing primary education on time, but mainly the fact that the increase has been proportionally larger among children in such groups. The gap in terms of the quality of education received by children in vulnerable groups, however, is reflected in the results of standardized tests of academic achievement implemented by the National Learning Quality System (SINECA). In 2005, whereas the average score in mathematics among urban sixth-grade students was 49, in rural areas it was 47, and among the indigenous population just 36; the scores in Spanish were 51, 45, and 23, respectively.
- 4.28 In the area of health, OVE analyses found that the unequal opportunities measure, defined as the likelihood that children under 5 possess a vaccination card (a proxy for immunization), shows that the situation improved from 2003 to 2008. Coverage has increased and now more children from vulnerable groups have the card. Indicators of coverage through outreach organizations show that 95% of children under the program have completed the immunization schedule for their age group.^{176,177}

(n) Improving access to housing and land

The indicators chosen by the strategy to measure progress in improving access to housing and land was that 75% of urban households had access to mortgage credit, and at least 85,000 properties in the rural sector and over 35,000 in urban areas would be included in

cadastres and registries. The target number of rural land plots included in the cadastre was achieved, but not the number of land plots in urban areas, 96,661 and 26,000 respectively.¹⁷⁸ In 2008, 74.4% of Panamanians living in urban areas had their own home paid in full or with a mortgage; in 2003, the figure was 74.0%. Of persons with mortgages in urban areas in 2008, 33.4% had loans with private banks, 24% with public banks, and 3.8% with the Ministry of Housing (MIVI). In 2003, the corresponding figures were 32.3%, 31.37%, and 1.7%, respectively. The housing deficit decreased by 28.4% from 2004 to 2008: from 195,769 to 140,120 units, according to MIVI. Although there is room for improvement, OVE considers that Bank support for improving access to housing and land in Panama was effective. In 2008, 11.2% of the population in rural areas claimed to have benefited from the land titling program over the previous five years; the corresponding figures in urban areas and *comarcas* were 2.8% and 2.2%, respectively.

a. Housing

- 4.29 The *Housing Program* contributed to the fact that, through the *Rapid Assistance Program for Low-cost Housing* (PARVIS), 25,445 of the 26,000 grants programmed for building housing units for low-income families were delivered—98% of the target. In all, 67% of beneficiary families had a monthly income of US\$100 or less, and the objective of serving at least 25% of households headed by a single mother was surpassed: 49% of beneficiary families met this criterion. The MIVI continued to use this instrument with its own resources once the program had ended.¹⁷⁹ OVE is currently evaluating the impact of PARVIS. Preliminary results show that the program succeeded in making housing more durable, by reducing improvisation in the construction process and improving flooring and roofing materials. Nonetheless, it failed to improve access to public utilities—inadequate access to sanitation services is more prevalent among the beneficiaries than in the control group. Improvements in living spaces were limited to a reduction in the number of families sharing the home. There was no impact on traditional indicators of social welfare: labor force participation, children who work, school attendance, occurrence of diarrhea in children under 5, household poverty, access to credit. Nonetheless, nearly 60% of the beneficiaries claimed their living standards had improved over the last five years. PARVIS was the program second most frequently associated with improvements in living conditions, surpassed only by microcredit programs (ENV 2003). The *joint financing program* (PROFINCO), which aimed to show private banks the feasibility of extending mortgages with a small initial down payment, was adopted and is currently being used by the Panamanian banking sector. The *subsidy and savings program for housing* (PROVISA), which subsidized up to US\$4,000 of the down payment, with the aim of increasing access to mortgages and commercial housing, came into direct competition with the Prime Rate Act, but this alternative was much more attractive for households with access to a private sector mortgage. PROVISA did not arouse any interest, and the funds were ultimately transferred to PARVIS.
- 4.30 The *Program for the Development of New Operational Instruments for Low-cost Housing* succeeded in identifying the operational feasibility of the instruments

tested: the enhanced PARVIS surpassed the target number of beneficiary families receiving a home—target was 850 families, but 1,042 homes had been delivered by June 2009. Basic infrastructure works were also completed—water supply systems, sewerage, sidewalks, electricity and legalization of land plots—in the Villa María settlement, benefiting 760 families. The government considered the two remaining instruments, macrolots and direct subsidies, not to be viable.^{180,181}

- 4.31 The *Pilot Project for Urban Revitalization and Poverty Relief in Colón*, as an experiment requiring close collaboration between the public, private, and civil society sectors has thus far had little success.¹⁸² Its experimental nature required an additional effort from the Bank in monitoring the project, together with the participation of local authorities who were not involved in the project.

(xi) Land

- 4.32 As of July 2009 the *Land Administration and Regularization Project* had disbursed 68.7% of the loan amount.¹⁸³ Although it is not yet completed, OVE was able to identify significant progress on titling: 44,356 land plots had been included in the cadastre, and 32,384 titled, as of February 2009, representing 65.2% of the cadastre target and 50.3% of the titling target.¹⁸⁴ The midterm evaluation showed that 82% of land plots registered were located in rural areas. According to beneficiary surveys, 23% of recently titled beneficiaries claimed to have made improvements to their property costing US\$2,235 on average, and this figure increased to 28% in the case of beneficiaries who had received their property title at least two years ago, and on average made improvements worth US\$18,193. The survey also shows that 23.9% of beneficiaries who received title at least two years ago had applied for credit.¹⁸⁵ In terms of land sales after titling, the surveys show that just 1.9% of urban land plots and 9.8% of rural properties changed owner after titling between 2003 and 2008.¹⁸⁶

(o) Strengthening governance and transparency¹⁸⁷

The Bank has not made progress on any of the lines of actions proposed in this sector; and, as a result, it has not supported progress on the crosscutting objective of strengthening governance and transparency. One of the indicators proposed in the strategy to measure progress in this area was raising the WEF Public Institutions Index from 4.26 in 2004 to 6.25 in 2008. (In 2004, no country had a Public Institutions Index as high as that proposed by the strategy. The highest were Singapore (5.53), followed by Finland (5.50), which suggests that the indicator target was set without any foundation or thought). The index for Panama did increase however, rising from 3.0 in 2004 to 3.6 in 2008, according to the new methodology.¹⁸⁸

- 4.33 The *Municipal Development and Decentralization Support Program*, the furthest along of the three programs in execution in this area has made very little progress in achieving its objectives, and is on alert status in the Project Alert Identification System (PAIS) owing to its low rate of disbursement in the fifth year of execution.¹⁸⁹ Funds intended for investments in infrastructure, which by design were tied to progress in institutional strengthening, to operate as an incentive, have been approved and disbursed, despite the lack of any progress justifying this.¹⁹⁰ Consideration is currently being given to implementing SIAFPA on a Web

platform, to improve the municipios' financial and budget management capacity. Nonetheless, one of the points raised by the MEF divisions in the *Program to Strengthen and Modernize Economic and Fiscal Management II* is precisely the capacity of municipios, in terms of equipment and skilled staff, to make these systems viable.¹⁹¹ Implementation problems and the lack of progress achieved to date suggest that this program will have difficulties achieving its development objective of improving the municipal government's capacity to respond to demands from the local population.¹⁹² Achieving this objective is a necessary condition for strengthening governance, promoting deconcentration and decentralization, and resolving the problem of duality in the Panamanian economy—a problem that is exacerbated by the State's inability to reach Panama City as effectively as the rest of the country.

- 4.34 With regard to the *Comprehensive Security Program*, there are no data to show whether the infrastructure works constructed and the activities implemented to date have had an impact on citizen safety.¹⁹³ Statistics from the Office of the Attorney General of the Nation show that the number of homicides per 100,000 inhabitants in the provinces where the program beneficiary municipios are located, increased between 2007 and 2008; and the figures up to April 2009 also show an increase over the same period in 2008.¹⁹⁴

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ENDNOTES

- ¹ In all, 87.4% of the inhabitants of these provinces are considered urban.
- ² 68.7% of their inhabitants.
- ³ Figures from the 2000 Census. There are seven indigenous ethnic groups in Panama: the Emberá, Wounaan, Kuna, Ngöbe, Buglé, Nazo, and Bri bri. The Kuna, Emberá-Wounaan, and Ngöbe-Buglé peoples each have a defined self-governing region (known as a *comarca*).
- ⁴ According to the World Development Indicators (WDI), the Gini coefficients for Central American countries are as follows: Honduras 56.7 (2005), Guatemala 53.7 (2006), Nicaragua 52.3 (2005), El Salvador 49.7 (2005), and Costa Rica 47.2 (2005).
- ⁵ The equivalent figures for 2008 are 2.1% of the labor force and 0.89% of tax revenue.
- ⁶ The 2009 United Nations Global Environment Outlook report for Panama warns of the incentives that have been present in recent years to draw agricultural or forestry areas into the land market and turn them into urban land, particularly for "residential tourism". Ros (2006) discusses some of the negative effects of this "real estate boom": (a) rising land prices which render other economic activities unviable, such as agriculture, livestock breeding, industry, regulated tourism, etc., and hence reduce economic diversification; (b) rising housing costs for local people; (c) the creation of a vicious circle in municipal financing, which relies mainly on fees and taxes from real estate activity, and has no long-term vision for increasing public expenditure on maintaining and providing the services that urban development would require; (d) the risk of creating residential ghettos; and (e) the possibility that once the initial land purchase transactions have been completed, the speculative process will fall into foreign hands and the subsequent capital gains will flow out of the country.
- ⁷ The tax benefits include: exemption from property taxes for 20 years, depreciation of properties over a 20-year period, exemption from all taxes on the promoter company's capital, and 20-year exemption from the payment of income tax on interest accrued by creditors. These incentives benefit all participants in the business. Since August 2004, similar incentives have been offered to firms participating in the construction and development of hydropower generation systems and other new, renewable and clean energy sources.
- ⁸ The Canal has a special labor regime regulated by the Constitution, which has enabled it to maintain its productivity since the transfer of control to the Panamanian State in December 1999.
- ⁹ Since 1997, the government has taken steps to strengthen the banking system. In its Article IV Consultation in 2004, the International Monetary Fund described the Panamanian banking sector as reliable, with sound performance indicators and a strong regulatory framework. In 2002, the Fund had praised the Banking Superintendency for strengthening both supervision and the regulatory framework to ensure that the system satisfied most of the 25 Basel core principles for effective banking supervision.
- ¹⁰ Although the value of goods exports grew on average by 6.3% per year over the last decade, traditional products saw their share of the export basket decline: the export shares of bananas, coffee and sugar dropped from 19.7%, 3.5%, and 3.6%, respectively, in 1998 to 10.2%, 1.4%, and 1.3% in 2008. In contrast, nontraditional products gained ground. Melons, which accounted for 3% of exports of goods in 1998, represented 10.3% in 2008; watermelon and pineapples did not feature on the list of the leading goods exports in 1998, but accounted for 8.5% and 3.2%, respectively, in 2008.
- ¹¹ The free trade agreement has not yet been ratified by the United States Congress. In October 2008, Panama signed a free trade agreement with Costa Rica, and it now has agreements in place with all of its Central American neighbors.
- ¹² For example, despite being scheduled to expire in December 2005, Tax Bonus Certificates (CATs)—equivalent to 15% of value added in nontraditional goods exports—are subsidies granted to promote the export of nontraditional products used to pay various domestic taxes, and in some cases can be reimbursed in cash. These Certificates were extended until September 2009, and the subsidy was cut to 10% for 2008 and 5% for 2009.
- ¹³ The 1% levy is added to the interest-rate calculation base.

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- ¹⁴ Domestic lending to the private sector as a percentage of GDP for the entire Panamanian economy was 85.1% in 2004, the highest ratio among Latin American countries of comparable income levels. The countries with the next highest rates were Chile (79.5%); Costa Rica (31.9%); Brazil (29.0%); Uruguay (25.1%); Mexico (15.2%); Venezuela (11.0%); and Argentina (10.5%).
- ¹⁵ The inconsistency between the macro figures reported by the banks and the micro figures reported by farmers, together with the incentives that banks have to grant tax-free loans and for borrowers to access subsidized interest rates, and the difficulty of verifying how credits extended to the agriculture and agroindustrial sector are used, make it possible that the figures reported by the banking sector are exaggerated, and in reality less use is made of the funds in question in these sectors.
- ¹⁶ The high prices are due to the existence of instruments such as safeguard clauses, purchasing agreements for certain products, legal restrictions on importing sensitive products, price freezes in the domestic market based on temporary agreements between producers and the government, and other nontariff barriers in force in the country on the importation of agricultural products. See “Estimado de apoyos al sector agropecuario de Panamá 2000-2004” [Estimated support for Panama’s agricultural sector 2000-2004], Arthur D Little, July 2006.
- ¹⁷ Subsistence farmers do not benefit from these transfers because they do not sell their crops.
- ¹⁸ For example, eggs received the greatest support in 2004, despite accounting for just 3.3% of agricultural GDP, and 0.3% of goods exports. In all, 99.8% of the transfer to producers was through high prices paid by consumers.
- ¹⁹ In 2003 ANAM developed the General Environmental Management Indicative Plan (PIGOT), to adapt and preserve the country's natural potential in the face of socioeconomic demands. The National Sustainable Development Council (CONADES) used Sustainable Development Programs (SDPs) to make progress in developing territorial plans at the subnational level, but did not prepare a rural development policy.
- ²⁰ There is also a highly complex structure of minimum wages, depending on the region and economic activity, which fuels wage differences between workers and distorts the allocation of factors in the economy.
- ²¹ The rigidity of the labor code does not affect either the modern sectors, which are productive enough to cover without problems the high cost of employing a worker, or the majority of the agricultural sector, where 66.5% of workers work for themselves. It does have, however, a harmful effect on small companies and on the manufacturing sector: this is evidenced in the low capacity to create formal jobs in the case of small companies—only 9.9% of jobs were created by companies with fewer than 20 employees in 2005—and in the manufacturing sector’s limited participation in job creation at the national level—just 9.5% in 2004 and 8.7% in 2008.
- ²² Botero et al. (2004) find that strict labor regulation has adverse effects on labor market participation and employment, particularly among young people. Heckman and Pages (2000) reach similar conclusions in a study of the labor market in Latin America: they find that labor protection provisions are extremely inefficient mechanisms for guaranteeing workers' incomes, and that they also increase inequality by: (1) reducing job prospects for young workers, women, and unskilled workers; and (2) segregating the labor market between workers with secure jobs and those with very slim prospects of becoming employees (they also increase inequality by increasing the size of the informal sector).
- ²³ This is the percentage of companies that considered these aspects as moderate, major, or very serious obstacles to their business operations. Enterprise Survey for Panama 2006.
- ²⁴ Center for Investment Programs and Projects, and the Panama Office of the Inter-American Institute for Cooperation on Agriculture (IICA), Panamá: Sector Agropecuario, Diagnóstico y Propuestas [Panama: Agricultural Sector, Diagnostic Assessment and Proposals]. IICA, June 1992.

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- ²⁵ For example, as indicated in the National Environment Strategy and the GEO2009 report, the area of Arco Seco, which encompasses the central provinces of Los Santos, Herrera and Coclé and western Panamá province, is the largest agricultural production zone, and paradoxically the area worst affected by land degradation in the country. The environmental indicators published by the National Environment Authority (ANAM, 2006), show that 37% of land area is used for agriculture, which is 14 percentage points more than the potential capacity indicated for this activity by the United Nations in its 2004 Global Environment Outlook. Using forest land for agriculture results in inappropriate production practices, excessive use of agrochemicals, soil erosion and degradation, and low productivity.
- ²⁶ The absolute value rises as the depth of poverty declines, since the percentage of poor close to the poverty line is high.
- ²⁷ See Arenas de Mesa and Gnazzo, *Estudio sobre el Gasto Público en Panamá*. [Study on Public Spending in Panama] IDB, December 2004.
- ²⁸ While average annual spending in Central America, excluding Panama, was US\$237 per capita in 2004, Panama spent US\$724 per capita on education, health and nutrition, social security, employment, social assistance, housing, water and sanitation in that same year.
- ²⁹ The Community Development Program (PRODEC), the Social Investment Fund (SIF), the National Council for Sustainable Development (CONADES), the Community Works Program of the Regional Planning Department of the Ministry of Economy and Finance (MEF), and the Local Investment Program (PROINLO).
- ³⁰ See National Human Development Report, Panama 2007-2008. UNDP.
- ³¹ The repetition rate in primary school nationwide was 5.6% in 2007, however in the comarcas it was double that—10.5% in the Kuna Yala comarca, 13.7% in Ngobe-Buglé, and 16.1% in the Emberá comarca. And although the repetition rate was lower in pre-secondary and high school and comparable with national statistics, the dropout rate for pre-secondary and high school was 24.4% in Darién and over 20% in the comarcas—double the national figure, which was 12.1% in 2007.
- ³² Infant mortality in indigenous zones was 38 per 1,000 live births in 2003 versus 17 per 1,000 live births in urban areas and 14 per 1,000 in rural non-indigenous zones. In 2003, chronic malnutrition affected 56.6% of children in indigenous areas and 18.5% of children in rural areas (only 13.8% of children in urban areas suffered from chronic malnutrition). In 2008 the situation improved in urban and rural areas, but worsened in rural indigenous areas where 61.9% of children suffered from chronic malnutrition.
- ³³ It reported advantages in port facilities (84.8 percentile) and air transport (66.3 percentile), but disadvantages in terms of the efficiency of the postal system (15.4 percentile), rail infrastructure (39.4 percentile), and phone services (39.4 percentile), and the quality of the electricity service (41.3 percentile). Road infrastructure was not evaluated.
- ³⁴ The fiscal deficit surpassed the legally imposed ceiling in both 2003 and 2004, and implementation of the law was ultimately suspended for one year in late 2004 because the targets would not be achievable owing to the deficit the new administration inherited.
- ³⁵ Estimates for 2002-2003. The figures represent legal production of goods and services deliberately concealed from the authorities to evade taxes and social security contributions, and to avoid complying with regulations and administrative procedures in the labor market. See Schneider, Friedrich, *The Size of the Shadow Economies of 145 Countries all over the World: First Results over the Period 1999 to 2003*. IZA Discussion Paper 1431. December 2004.
- ³⁶ Juan Gómez-Sabaini, *Panamá: Consideraciones metodológicas y estimación de los gastos tributarios y del coeficiente de cumplimiento del ITBMS*. [Methodological Considerations and Estimate of Tax Expenditures and of the ITBMS compliance rate] IDB, December 2008.
- ³⁷ The CSS deficit was cited by risk rating agencies as a structural reason for not raising Panama's debt rating to "investment grade".

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- ³⁸ The 2004 Latinobarómetro survey notes that corruption was identified as the country's main problem by 12.03% of the population in Argentina; 3.07% in Brazil; 15.94% in Costa Rica; 1.86% in Chile; 12.92% in Mexico; 2.58% in Uruguay; and 1.37% in Venezuela.
- ³⁹ Executive identified this perception of corruption as the most important obstacle to doing business in Panama—it was identified by 22% of the executives interviewed by the WEF in 2004, the highest percentage in the medium-high income Latin American countries.
- ⁴⁰ On all of these criteria the country was ranked below the 9th percentile. Wasteful public spending and the public's lack of confidence in the financial honesty of politicians were also below this percentile.
- ⁴¹ According to the Latinobarómetro, in 2004 Venezuela had the highest percentage of the population that believed that it was governed for the general good (and not to benefit powerful groups), with 45.5%, and Peru the lowest, with 13.2%. The figures for Panama have deteriorated in recent years, sliding from 23.3% in 2004 to 12.8% in 2008.
- ⁴² In Latin America this last figure is surpassed only by the Dominican Republic where 47.5% of the population thinks this is proper.
- ⁴³ See Iacoviello, Mercedes and Laura Zuvanic "El Rol de la Burocracia en el PMP en América Latina" [The Role of Bureaucracy in the PMP in Latin America], Mimeo, Inter-American Development Bank, Washington, DC (2005).
- ⁴⁴ On these criteria the country was ranked below the 56th percentile.
- ⁴⁵ Estimated probability when any of six commercial transactions is conducted: electricity connection, water, telephone, and obtaining import, operating, and construction permits. See Gonzalez, A., E. López-Córdova and E. Valladares, The Incidence of Graft on Developing-country Firms. Policy Research Working Paper 4394, World Bank, November 2007.
- ⁴⁶ Under this framework, and to boost competitiveness, the Bank proposed supporting fiscal sustainability (one of the five pillars of economic and social policy proposed by the country), promoting basic infrastructure development, and expanding the sources of sustainable growth. To build the country's human capital (another of the pillars proposed by the country) and productive capital, it proposed heightening the efficiency of social spending, making it more progressive, and increasing the coverage and quality of social services on a sustainable basis (which forms part of the first pillar proposed by the country through improved income distribution); and also improving access to housing and land (this action was also included in the country's strategy, in the poverty reduction and income distribution pillar). The crosscutting element of strengthening governance and transparency proposed, first, strengthening the institutions that underpin the country's democratic system, keeping the peace, and upholding legal certainty and public safety; and, second, producing public goods and services more efficiently. Although the country's strategy included the aim of reforming and modernizing the State, its actions in this regard were directed towards 'ensuring that public-sector institutions and activities become development facilitators,' through measures to guarantee transparency and eradicate public-sector corruption, reduce bureaucratic hurdles, incorporate the private sector into infrastructure investment, reform regulations in the electric power and transport sectors, restructure health administration, and strengthen municipios. The country's strategy did not explicitly discuss the judiciary, which was one of the intervention areas proposed by the Bank.
- ⁴⁷ Sustainable development programs are an exception because they do not work on a sector basis and represent a significant portion of the Bank's portfolio.
- ⁴⁸ This was to be achieved by increasing revenue and containing public spending, and by supporting the implementation of laws on fiscal accountability, fiscal equity, and social security reform.
- ⁴⁹ Except for education, health, and the police (Article 1 of the Fiscal Equity Act).

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- ⁵⁰ Programs in execution were the *Program to Strengthen and Modernize Economic and Fiscal Management II*, which included a wide range of actions within the MEF, and the *Financial Sector Program*. The *Program to Strengthen and Modernize Economic and Fiscal Management II* proposed a review of the MEF's institutional framework; implementation of Panama's Integrated Financial Management System (SIAFPA) in all financial management entities; implementation of a Single Treasury Account; strengthening of the National Accounts Department, an increase in the efficiency and effectiveness of tax collection; improvement in the quality of public investment using computerized tools to manage public investment projects; improvement of the management and oversight capacity of the Customs Administration, and institutional strengthening of the cadastre system. In September 2003, before the strategy was prepared, the *Financial Sector Program* was reformulated by eliminating floating tranches tied to privatizations of public development banks and social security reform, both of which are directly related to fiscal sustainability. In 2002, the Housing Program was also reformulated, and this probably helped improve the efficiency of State involvement in the provision of housing, while also proposing reorganization of the Ministry of Housing (MIVI), the National Mortgage Bank (BHN) and the Social Security Fund (CSS). The only project approved in this sector during the review period was the *Investment Climate and Free Trade Adjustment Program*.
- ⁵¹ This point was taken up again after being eliminated from the *Financial Sector Program* in 2003. The Bank continues to support the MEF and has recently begun supporting the Office of the Comptroller General of the Republic with funds from the program to implement the external pillar of the Medium-term Action Plan for Development Effectiveness (PRODEV), as part of the dialogue with the country, and to maintain its relevance in the process of modernizing economic management.
- ⁵² The strategy proposed that a strengthening of fiscal accounts would reduce uncertainty and the country-risk premium, thereby making it more attractive to invest in Panama.
- ⁵³ This goal was to be achieved through the sector strategy to expand the coverage of electricity and telecommunications services in rural areas and by creating incentives for hydropower generation; increasing the coverage of water and sanitation services among rural and indigenous population groups; improving highway infrastructure, creating the road maintenance fund and strengthening the sector's institutions; defining and implementing a mass transit solution for Panama City; promoting physical and energy integration with Central America and the Andean Community; and consolidating reforms in the infrastructure sectors and promoting private and local government participation.
- ⁵⁴ The previous CPE recommended an in-depth analysis of the Bank's comparative advantages to support Panama in the likely Canal expansion.
- ⁵⁵ This program aimed to increase rural coverage by 10% by the end of its execution, and to lower the cost of electricity for this population group.
- ⁵⁶ This was not the case for the Bocas del Toro I and Chiriquí SDPs. The Bank also approved a grant in August 2008, to design the rural electrification program for the Kuna Yala *comarca*.
- ⁵⁷ Law 45 of 4 August 2004 defined an incentives regime, including tax breaks, to promote hydropower generation systems and other new, renewable and clean sources. It establishes the tax breaks for these generation options.
- ⁵⁸ Another technical cooperation operation was approved to support the *Santa Fe wind farm project*, which finances specific studies to promote the use of renewable energy sources and enhance energy efficiency.

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- ⁵⁹ The largest works in this area involve building a drinking water supply system for 31 communities along the Pan American highway (supplemental loan for the Darién SDP); upgrading the water purification plant on Isla Colón, which is crucial for sustainably maintaining the tourist sector in that area; and upgrading the sewerage system in the Bocas del Toro population (Bocas del Toro I SDP). The Bank also continued to execute the 1998 *program to support restructuring of the Institute of National Water Pipelines and Sewerage Systems (IDAAN)*. This initially involved partial privatization of IDAAN, but the execution process from December 1999 until June 2002 was rated in the PPMRs as highly unsatisfactory, after which it was restructured in 2002 to support the Ministry of Health Policy Unit—rural water and sewerage—and the Water Quality Surveillance Unit, and to finance studies to prepare the Panama City sanitation project. By June 2004, the MEF had cancelled financing to implement the Rural Water and Sanitation Master Plan, and for the Storm Drainage Study in Downtown Panama City. Other funds to prepare the *Panama City and Bay Sanitation Project I* were obtained from the Japan Fund to finance design of the *wastewater collection, treatment and elimination system*. The issue of downtown urban sanitation was addressed with the *Panama City and Bay Sanitation Project I*.
- ⁶⁰ This included the following: the *Electric Power Transmission Expansion Project*, to extend and adapt the power transmission grid to the west of the country and Central America; the *Central American Electric Interconnection System (SIEPAC)*, to support the creation of a regional electric power market and expand the capacity of electricity interconnection in the region (a project approved in 1997 and reformulated in 2006); the *Program to Improve the Puebla-Panama Plan Pacific Corridor*, for partial rehabilitation of the Puebla-Panama corridor—the three latter projects were in execution when the strategy was charted; the *PPP multiphase program on road infrastructure for competitiveness*, to rehabilitate and maintain the priority arteries of the road network and provide institutional strengthening; and the *Investment program for corporate change in ETESA (Empresa de Transmisión Eléctrica S.A.) - Phase I* to expand the electric power transmission grid.
- ⁶¹ In this area, the *Local roads and bridges rehabilitation program* was continued, along with related activities from the Darién and Bocas del Toro I SDPs. Design of the Darién SDP focused the bulk of its activities on rehabilitating the Pan American Highway and a number of other roads in the region. These actions, which are crucial for reducing transport costs in the province, were not accompanied by actions to improve the precarious state of rural roads, which, according to assessments conducted in Darién, hinder rural competitiveness in the area. The Bocas del Toro I SDP proposed building a new bridge over the Changuinola River, which is very important for improving transport safety and the transit of merchandise and passengers from the province to the rest of the country.
- ⁶² The Bank also provided grants to finance the workshop for authorities from the Ministry of Public Works (MOP), the Ministry of Agricultural Development (MIDA), and the Social Investment Fund to discuss successful experiences in several Latin American countries in managing the local roads subsector, entitled *Exchange of experiences on the management of local road maintenance*.
- ⁶³ An MIF grant was made to support *Strengthening of the regulatory framework and concessions for operating small and medium-sized bus companies in Panama*. Two new technical cooperation programs were also anticipated to map out an urban development plan for Panama City and a national transport plan, but neither was approved.
- ⁶⁴ Although the Bank proposed organizing and modernizing the city's bus system, the government preferred to build a new metro system; as this alternative started to gain support, the Bank's involvement was replaced by that of the World Bank and the Andean Development Corporation (CAF). The Panama City urban transport project is now in the World Bank pipeline.

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- ⁶⁵ Although not explicitly stated, OVE interprets the strategy as relating to the electric power sector through financing envisaged in private sector projects to increase the country's power generation capacity (the strategy proposed financing three generation plants through the private sector: the Bonyic hydroelectric plant, the Bajo de Mina hydroelectric plant, and a thermal conversion project. Lack of private sector funding was widespread in the electric power sector and associated with regulatory failings, which have been overcome in recent years thanks to changes promoted by the TC for a *Comprehensive review of the regulatory framework and policies in the energy sector*). Information supplied by the regulatory agency shows that the Bank's withdrawal from these projects was hasty and was related to management of the environmental issue. The strategy did not make clear how local government participation in infrastructure sectors would be promoted.
- ⁶⁶ The strategy did not identify or rank the infrastructure problems hindering Panama's competitiveness. Various surveys of Panamanian entrepreneurs (Enterprise Survey, Global Competitiveness Report) state that shortcomings in road infrastructure, water supply, or telecommunication services do not pose major constraints for firms of any size. OVE is aware that these surveys are of entrepreneurs in Panama City and by no means capture the perceptions of all entrepreneurs and workers in the country. As the strategy indicates, it also believes the road network needs to be expanded and maintained to meet the needs of the agriculture and tourism sectors. The Bank should therefore conduct a comprehensive diagnostic study to identify priority actions to maximize competitiveness gains. There is no evidence that such a study has been done.
- ⁶⁷ The Bank stated that the strategy would focus on "promoting the development of sectors that can stimulate gains in competitiveness and open up opportunities to integrate rural and indigenous sectors of the population".
- ⁶⁸ Tourism, agroexports, information technology and other clusters to be identified in the *Competitiveness Promotion Program*.
- ⁶⁹ The Competitiveness Promotion Program, which began in 2004, aimed to build consensus to formulate a national cluster strategy and to finance cluster projects through matching grants. The chosen sectors were agroindustry, logistics, technology, and tourism. The Bank's intervention in these four sectors was uneven, however. While the tourism sector received several operations, the agroindustrial sector only received one TC and the logistics sector none. The *Program to Support the Tourism Sector*, which had begun operations in 1999, aimed to lay the foundation for promoting private sector participation in the tourism industry. The strategy also approved a TC (*Panama Tourism Master Plan 2007-2020*) that financed a comprehensive and forward-looking diagnostic assessment of the Panamanian tourism sector; and a second TC was approved to *support preparation of the Rural Tourism Program*. The Darién SDP also included a number of tourism sector activities in its component on diversifying low-productivity agricultural activities (the previous CPE recommended considering alternative ways to support Panama's tourism sector which was growing swiftly when the CPE was being prepared). A TC targeting the agroindustrial sector (*environmental, sanitary and phytosanitary requirements in export chains*) aimed to help SMEs fulfill the environmental requirements and sanitary and phytosanitary measures imposed by their main export markets. The technology sector was supported by two TCs: *increasing competitiveness in the information and communications technology (ICT) sector*, which addressed issues such as the quality and quantity of human capital and training for professional workers in the sector and strengthening of the Panamanian Chamber of Information and Communication Technologies (CAPAtec), to ensure the program's sustainability; and *application of ICT as a competitiveness strategy*—a highly specific intervention that sought to make use of ICTs to monitor and manage the Chiriquí Palm Oil Producers Cooperative (COOPEMAPACHI). The *Sector Facility Profile to Strengthen Foreign Trade Management* sought to build capacity for formulating, negotiating, and implementing foreign trade policy in Panama. The second pillar of the *Investment Climate and Free Trade Adjustment PBL* aimed to cover a broad spectrum of activities by amending legal frameworks governing infrastructure, vocational training, competition in local markets, investment and export promotion, innovation, and governance and transparency (in the infrastructure sectors, the legal frameworks governing the maritime and aviation sector were expected to be altered and a national energy strategy prepared, as part of the MIF program to finance a *Comprehensive Review of the Regulatory Framework and Policies in the Energy Sector*. Changes were also envisaged in

the legal framework: to restructure the Ministry of Trade and Industry (MICI) and the Vice Ministry of Foreign Trade (VICOMEX), simplify the formalities for setting up legal enterprises, the Digital Signature Act, to promote public sector transparency and enable the Panamanian State to fulfill its international commitments. The aim was also to develop a strategy for the private sector to provide labor training services, supervised by the public sector. The loan to provide *Technical Support for the Investment Climate and Free Trade Adjustment* would fund the studies needed to satisfy the conditions of the PBL.

⁷⁰ For example, the program on competitiveness and trade liberalization, which was not originally included in the strategy, is a complex, ambitious operation involving nine ministries and government institutions (MICI, MEF, MIDA, SIG, MINSA, ANAM, SENACYT, MITRADEL and MINGOB) totaling US\$103.5 million in its first phase. It has the very broad objective of strengthening the institutional framework to facilitate exports and investment, and it includes several apparently unconnected activities. Although the activities contemplated all aim to boost competitiveness, it is not clear why they had to be grouped together in a single operation (the activities proposed include setting up and technically strengthening the Economic Analysis Unit, for when Panama decides to join the Central American customs union process; studies on the State's role in agricultural research and its links with the science and technology system; improvements in public governance for indigenous business development; creation of a guarantee mechanism to facilitate enterprise financing, and many other activities). The operation has not yet started to be disbursed and, given its scale and complexity, it is likely to over-run its 4.5-year disbursement period. The program of credit lines for second-tier banks proposed under this operation is not the most suitable, given the characteristics of Panama's banking system, where there is no shortage of funds for lending, but rather problems relating to the coverage of the credit bureau, the assets that can be used as loan collateral, the complicated, costly process involved in fulfilling contracts, and so forth, which discourage the banking sector from lending for certain activities. The solution proposed by the program does not resolve the underlying problems, but rather addresses the symptoms; once the treatment ends, the symptoms will reappear, so the proposed solution is not sustainable.

⁷¹ To support the inclusion of **indigenous peoples and women**, the operation to promote the *Competitiveness of Panamanian Handicrafts* was continued, with a view to forging commercial links between handicraft workers and local and international markets. In addition, the following programs were also started: *Training and sustainable support for the design, production and marketing of Molas* through the Kalu Ibaky Foundation, which supports the Kuna community by providing training and publicizing business opportunities in local and international markets. The *comprehensive development strategy and plan for the Kuna Yala and Ngöbe-Buglé comarcas* aimed to establish dialogue to formulate comprehensive development strategies and plans, and to identify alternatives for direct participation by the Bank in funding projects in the *comarcas*. The *evaluation and plan of action for business development among indigenous people* performed a diagnostic assessment of potential and existing business activities in five *comarcas* and with the Naso people. The information generated was used in preparing the advisory TC to support indigenous business development, which aimed to close gaps and overcome barriers identified in the diagnostic assessment, improve the suitability and capacity of firms run by indigenous groups in Panama, and enable them to gain access to capital and support from the *competitiveness and trade* loan and other Bank financing facilities. This program totals US\$2,421,000 and is complemented with operation PN-L1014, which includes a US\$935,000 component to strengthen the indigenous business environment. In both cases there will be a local counterpart. To support inclusion of the **rural sector**, the program for *institutional strengthening of agribusinesses of small producers in the provinces of Veraguas, Los Santos, and Coclé* was continued, strengthening management and entrepreneurial capacity among individuals and cooperatives in the area. The following programs were also started: the *Agribusiness Strengthening Project (PROFA)*, which aims to strengthen the management and operational capacity of three producer associations (encompassing 240 producers), to identify opportunities and organize and coordinate production through training and the preparation of business plans; the *program to strengthen the production and marketing of organic products from Valle de Antón*, by providing technical, business and commercial strengthening to PROVALLE to enable it to coordinate and plan its members' production and help them position themselves with certified organic products in the country's leading marketing chains; *implementation of quality standards in small and medium-sized producer associations*, to improve management quality in the National Association of Coffee Producers, the Juan XXIII Cooperative, and the El Progreso Cooperative, by adopting international quality standards leading to ISO certification. The TC

to support the competitive transition of agriculture and the rural economy in Panama, which financed a consulting service to make specific recommendations for adjusting public policies and programs in the agriculture sector to achieve a competitive transition in response to trade liberalization; and *strengthening of local capacities and self-managing tourism activities in Darién*, which aimed to support the Tourism Committees of El Real and La Palma in promoting ecotourism development in the region. All of these operations in the rural sector would be complemented with SDPs.

- ⁷² The approved interventions with the greatest potential impact were those aimed at generating public policy recommendations, such as *support for economic inclusion of the informal sector in Panama*, which aimed to design and implement reforms to assist that process among micro and small enterprises. To produce an impact, first the studies must be of high technical quality and the recommendations specific and politically viable; and second, the recommendations need to be implemented.
- ⁷³ The Bank sought to consolidate financial sector development by improving its transparency, promoting capital market development, strengthening the regulatory framework governing insurance and reinsurance, cooperatives, and financial enterprises; improving access to credit, in particular for MSMEs and women; and making public banks more efficient.
- ⁷⁴ For that purpose, execution of the *Financial Sector Program* continued, having been restructured in September 2003, with the aim of creating supervisory bodies for the banking system, the stock market, private pension funds (the program's original plan), and also for the insurance and reinsurance market (which were added during restructuring); and giving oversight agencies sufficient powers and resources to perform effective supervision. It was also intended to strengthen the legal and regulatory framework of the Financial Enterprise Division of the Panamanian Autonomous Co-operative Institute; and to help consolidate the system for preventing money laundering and terrorist financing, and strengthen the Financial Coordination Council of the Republic of Panama (these objectives were also added when the loan was reformulated). Nonetheless, the disbursement conditions remained unchanged and were not tied to the fulfillment of these objectives. The PBL was accompanied by two TCs to support the government in the institutional strengthening needed to satisfy the disbursement conditions. In addition to strengthening the regulatory and legal framework of entities responsible for regulating part of the spectrum of microfinance services, execution of the loan to *Support the Expansion of Rural Microcredit in the Central Provinces* continued, strengthening the executing agency, PROCAJA (support for the agriculture sector by improving access to credit was one of the recommendations in the previous CPE). Two MIF operations were also approved: *Expansion of Financial Services to Micro and Small Enterprises through Banco Delta*, mainly targeting the urban sector in Panamá, Santiago and David; and *Implementation of credit scoring tools for micro and small enterprises*, an initiative proposed by the Panamanian Credit Association and initiated by the Country Office, with the aim of centralizing the credit risk analysis process to make it easier for microenterprises and small businesses to obtain credit.
- ⁷⁵ In 2009, the Bank cofinanced the Financial Stimulus Program to encourage bank lending in response to the global financial crisis, in conjunction with the Andean Development Corporation (CAF) and the National Bank of Panama (BNP). The terms and conditions imposed by the IDB are far more demanding than those of other providers (the rate charged by the CAF is 1.7% above the six-month LIBOR, whereas the BNP and IDB charge 4% and 4.5% above LIBOR respectively. The corresponding maturity terms are: CAF up to 7 years, BNP up to 5 years, and IDB up to 2 years). OVE expects that IDB funds will be used, if at all, once CAF and BNP funds have been exhausted.
- ⁷⁶ This sought to promote technological innovation by developing a policy adapted to the country's needs, increasing private investment in research and development, strengthening the labor training system, and reducing rigidities in the labor market.

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- ⁷⁷ The *project to support the creation of a higher level center of science, technology, and innovation* was continued, seeking to give long-term sustainability to the "Knowledge City" (Ciudad del Saber) through a new organizational structure, a plan for marketing its services, and renewal of information technology facilities (the Knowledge City Foundation is a league of business, technology, research, and education services that operates in one of the areas reverted in 1999 as part of the handover of the Canal to the Panamanian state. Its members enjoy tax and migratory incentives). The Knowledge City Foundation also continued executing the TC to support the Panamanian business technological accelerator, with a view to *promoting the technology business accelerator*. These two operations are too specific to be relevant for the country. In conjunction with the National Science, Technology, and Innovation Department (SENACYT) phase I of the *multiphase technological transformation program* was implemented, which seeks to expand and consolidate the arrangement for cofinancing research and development projects, improving science teaching in primary and secondary schools, and strengthening SENACYT. Institutional strengthening began with the TC to *support SENACYT institutional strengthening*, to improve the technical services and customer support platform; methods for economic evaluation of cofinancing requests and the project execution oversight system. Approval was also given to the TC for the *development and promotion of intellectual property*, to increase knowledge and enforcement of intellectual property laws, and increase the number of requests in the intellectual property register.
- ⁷⁸ This program does not resolve the underlying problem of shortcomings in the educational system, but it is a short-term solution to address the needs of cohorts currently forming part of the labor force.
- ⁷⁹ A pilot MIF project to *support job skill development* was also continued, with a view to developing job skill standards and mechanisms for evaluating and certifying skills in four strategic industries: construction, tourism, maritime activities, and information technology.
- ⁸⁰ In Darién, Bocas del Toro, Chiriquí, Colón, and the central provinces—including supplementary funding for Darién and Bocas del Toro phase II. The Darién and Bocas del Toro phase I programs began before the strategy was formulated.
- ⁸¹ Initially these projects were implemented by what is now the MEF; and in 2004, following the change of government, coordination of their execution was transferred to the CONADES Secretariat, attached to the Ministry of the Office of the President (following the Rio Summit on Sustainable Development in 1992, these national commissions were set up in several of the region's countries, with a mandate that included coordinating sustainable development and formulating local sustainable development agendas, among other activities. CONADES was set up in Panama in 1998. Several studies to evaluate progress for Rio+10 found that these commissions had not achieved their expected potential owing to a lack of funding and political will (ECLAC-UNEP, 2001; UNDP, 2001; Rodríguez B., 2001; Vargas, 2001). The original CONADES mandate did not seem to include direct implementation of projects of this type; it was not until 2004 that those efforts were materialized by creating the SDP Coordination and Execution Unit). These programs aim to promote sustainable social and economic development in the various regions, based on natural resource management; and for that purpose, land management was promoted along with improvements in governance, both in line agencies at the regional level and among local government authorities (the provincial SDPs that the Bank has been funding respond to the sustainable development strategies and investment action plans defined by the Panamanian government in conjunction with provincial stakeholders, in most cases with technical cooperation funding to prepare the corresponding loans. These planning tools have been geared towards economic development that is consistent with territorial and environmental management guidelines at the national and provincial levels). The programs aimed to promote pilot projects to demonstrate the viability of improving management practices in productive activities, to reduce their environmental impact and boost productivity. To support competitiveness, both infrastructure and service projects were proposed within the regions; and to encourage participation, both development and infrastructure projects were required to originate from demand in the communities themselves.

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- ⁸² The design of the most recent SDPs in the central provinces and Colón draws on lessons learned from previous SDPs, particularly on institutional issues: consistency between the sector activities of the SDPs and the national policies and strategies of each sector; use of the technical standards by coexecuting agencies (line ministries); participation of coexecuting agencies from the earliest stages to improve project sustainability; and the inclusion of performance targets in institutional strengthening plans, with indicators, responsibilities and clear binding agreements.
- ⁸³ It only approved one nonreimbursable technical cooperation program to help prepare a national *plan of action on climate change*. The Bocas del Toro I SDP proposed actions to reduce flood risk at the community level—totally insufficient unless it ties in with a national plan that coordinates the various actors involved.
- ⁸⁴ The *National Environmental Program* (December 2000) and its second phase, *Program for Modernization of Environmental Management for Competitiveness* (April 2008), and the *Program for Strengthening the Management Capacity of the Panama Maritime Authority for Integrated Coastal Management* (October 2007). The first program sought to develop capacities in both ANAM and the interagency environmental system, and to improve management capacity and implement environmental management standards, regulations, and tools to implement Law 41 of 1998, which created ANAM as the environmental management body. It also included investment initiatives on environmental management in communities in order to have a demonstration effect. The second phase aims to consolidate several of the *National Environmental Program's* action areas and targets strengthening the framework for environmental management and natural resource stewardship. Both programs are highly relevant given the need to strengthen a young environmental institutional framework (ANAM was created in 1998). The Panama Maritime Authority (AMP) program was transferred to the Panama Aquatic Resources Authority (ARAP), which was created in November 2006, just one month before signing the loan contract (ARAP was created by Law 44 of 23 November 2006, by merging the AMP Marine and Coastal Resources Bureau, the MIDA Aquaculture Bureau, and various other departments which until then had been involved in water concessions). The program seeks to improve capacity for managing marine coastal resources, increase the efficiency of ARAP income generation, and develop integrated coastal management at the national, regional, and local levels, by formulating regional plans and financing pilot schemes to promote management capacity among local stakeholders. This program is considered relevant, given the importance of conserving the country's natural wealth to be used as a resource and to promote tourism and recreation. The strategy also proposed a Program for *Priority Activities in the Panama Canal Watershed*; although this program is not classified as an SDP, it has similar objectives. Other programs were also included, to protect critical areas that guarantee the region's forest cover.
- ⁸⁵ The *Program for Poverty Alleviation and Community Development* aimed to maximize the impact of investments on conditions in poor communities and encourage their participation in the planning of investments that reflect their priorities. The SIF expanded its menu of investments compared to previous programs. The program also sought to strengthen the deconcentration process by opening at least two additional regional offices.
- ⁸⁶ The Opportunities Network in the conditional cash transfer program initiated by the Government of Panama in 2006. This program aimed to strengthen the supply of basic health, education, and nutritional services; provide direct support for beneficiary families to boost the demand for these services; and improve program monitoring and evaluation. Although not included in the program, the strategic thrust of the Opportunities Network, which was geared toward improving housing and building capacity through investments in rural development to promote income generation, has been addressed by housing programs and SDPs and by the World Bank's rural productivity and water and sanitation programs. In addition, although not included in the strategy, a TC was approved in December 2008 to prepare studies on poverty in the *comarcas*, to provide support for the design of public policies and investment programs, analysis of social spending on food and nutrition with the aim of reaching the most vulnerable population groups (emphasizing the Ministry of Education's school lunch program), socioeconomic development of Colón, and an analysis of the determinants of current and future labor supply and demand in the country.

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- ⁸⁷ *Phase I of the Multiphase Program for Institutional Transformation in the Health Sector*, which began in 2002, aimed to implement radical institutional changes (including certification and accreditation of staff and intrasector coordination between MINSA and the CSS in the procurement of services), and to expand coverage through primary care services provided by outreach organizations in communities where no supply was available. Although the actions were intended to increase interagency coordination, the preparation work done by the Bank on this was very weak, merely considering the risk of ‘failure to reach an appropriate understanding with the CSS to implement coordination’; the loan document makes no reference to any consultation process or conversations with institutions that play a key role in developing the project, such as the CSS or professional health associations affected in the certification and re-certification process. Phase II, which was included in the strategy, has not materialized, as the Panamanian government decided to work with the World Bank in the health area through the *project to improve equity and performance in health*.
- ⁸⁸ *The Educational Development Program*, initiated in 1998, is the oldest program in the Bank's portfolio in Panama. In July 2004, it had disbursed just 34% of the expected amount, after six years of operations. Nonetheless, the Bank's monitoring systems have rated execution progress as satisfactory from the outset, and the achievement of development objectives as probable. The program was extremely ambitious: it involved transformation of the academic curriculum, procurement of didactic material, professional development for teachers, performance appraisal of students, and improvements in the operating efficiency of the Ministry of Education (MEDUCA). The only component intended to strengthen MEDUCA's management capacity, the line of action set in the sector strategy, was restructured in 2001 to allow resources to be redirected towards school infrastructure. MEDUCA also worked on operational efficiency with the World Bank through its *Basic Education Project*, which created and implemented an information technology tool for human resource management. The World Bank project was subsequently expanded and needed additional funding (US\$5 million over and above the US\$35 million initially envisaged; the Bank loan amounted to US\$58 million).
- ⁸⁹ As the strategy correctly notes, "[t]he institutional processes involved in the delivery of basic public services, as well as infrastructure and urban development planning, are in the hands of central government agencies, while the municipios have few specific responsibilities."
- ⁹⁰ The agreements envisaged in the loan documents between CONADES and the regional offices of the line ministries gave discretionary power to CONADES to determine the degree of participation by these offices in execution.
- ⁹¹ The strategy also sought to **set up a system to monitor and evaluate the impact of social programs**. Here the Bank's effort focused on support for the Opportunities Network. Modernization of the public investment system in the *Program to Strengthen and Modernize Economic and Fiscal Management II*, although included in the strategy as a program supporting this line of action, was oriented towards monitoring public investment management, but not evaluating its impact.
- ⁹² The strategy in this area first aimed to strengthen the legal and institutional structure in the (housing) sector, develop instruments to supplement and deepen the supply of bank financing for lower-middle-income groups, and expand and target existing subsidies to meet the needs of low-income groups, including those living in unregulated, spontaneous settlements. Second, it sought to expedite the regularization of land tenure while promoting private-sector participation in the provision of land to low-income families; and strengthen the land registry and cadastre system at both the central and local levels.

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- ⁹³ The *Housing Program* was intended to develop and implement subsidies targeting middle-low income families, who depended directly on the State to solve their housing problem, to make them eligible for loans from private banks and for homes from the private sector. The program also envisaged radical changes in the institutional framework and the way the State tackles the housing problem among low-income sectors, which in principle seemed difficult to implement for economic reasons. The component addressing this point was modified in 2002, before the strategy was prepared, owing to a lack of political support. The *Program for the Development of New Operational Instruments for Low-cost Housing* aimed to test new instruments, through pilot programs, to expand access to housing for middle-low-income families, and to consolidate management and monitoring capacity in the Ministry of Housing, by implementing these pilot schemes and ultimately extending them nationwide. The program aimed to work with two modified instruments introduced under the *Housing Program*, and with two new instruments.
- ⁹⁴ The programs approved under the strategy included the *Pilot Project for Urban Revitalization and Poverty Relief in Colón*, which is an experiment to test an innovative multisector methodology that proposes close collaboration among the public sector, private sector, and civil society. Local authorities had minimal involvement, focusing on urban refurbishment of buildings scattered throughout the old part of Colón, where overcrowding and physical deterioration of houses translates into social segregation and very low quality of life for residents living in condemned buildings, declared uninhabitable, without formally provided basic utilities (most of the inhabitants of the intervention area are squatters; they do not pay rent or own their property). Although the loan document acknowledges that the scope of action is quite small to have any impact on the city—apart from the direct impact on the residents of the properties chosen for rehabilitation because of their historical value—the indicators chosen to monitor and evaluate the project, and even the name of the project, reflect overly ambitious objectives and little mastery of the implicit model and assumptions underlying the intervention. To imagine that the project would improve health and overcrowding conditions among families in the old part of Colón, or increase economic activity, is naive, considering that this is one of the most violent cities in the Hemisphere, and no action was being taken to deal with that problem at the time of project approval. Although the experiment is praiseworthy in itself, the fact that the project is an experiment would require an additional monitoring effort from the Bank, in terms of facilitating collaboration between the sectors involved and ensuring monitoring. As stated in the loan document, the aim was to test this solution and strengthen capacities before undertaking larger-scale programs, and it was known, *ex ante*, that the executing agency had a low institutional capacity and shortage of staff.
- ⁹⁵ The problem is the ownership papers and the quality of the home, particularly among the poor population: while 94.4% of the highest decile has ownership papers for the home in which they live, the figure is only 10.2% in the lowest decile (56.2% of the lowest decile lived in a hut or cabin versus 0% in the top decile).
- ⁹⁶ The *Program to Improve Housing Conditions* seeks to improve marginal urban neighborhoods through integrated urban development, including the provision of physical infrastructure (water and sanitation networks, road system, street lighting, etc.), urban services and social facilities (parks, sports fields, community centers) and support for the regularization of land ownership. It also proposes providing low-income housing to families on very low incomes in the outlying areas of the largest urban centers, outsourced to private builders. In addition, it focuses on restoring properties for low-income housing in the old part of Panama City.

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- ⁹⁷ Under the *land management and regularization program*, the Bank implemented a land management project through the *National Land Improvement Program* (PRONAT), in conjunction with the World Bank, in various non-overlapping zones of the country. Although the land regularization activities and methodology were the same in both institutions, the objectives proposed by each one were significantly different—both programs were targeted on selected rural, periurban and urban areas. (In the case of the World Bank loan for PRONAT, the objectives were limited to improving legal certainty in landholding and improving natural resource conservation by consolidating the National Protected Areas System (SINAP) and indigenous territories. Rural development issues were addressed through other projects, without reducing assistance to the beneficiaries of PRONAT-WB). Although secure landholding is a necessary condition for the growth of agricultural activity and, hence, rural economic activity generally, other factors also affect that growth (adequate infrastructure, access to product markets, availability of credit) on which the Bank did not take action apart from one of the components of the program, the SDP or the PROCAJA program, which was confined to the central provinces. There is no evidence in the loan document that other multilateral organizations or the country itself are working extensively in these areas. Without a comprehensive rural development policy, land titling is unlikely to improve access to credit or investment in land—the objectives proposed by PRONAT-IDB. This program illustrates the unrealistic assumptions on which some Bank programs are based, reflecting shallow diagnostic studies and a lack of mastery of the underlying intervention model. This results in overambitious objectives and inadequate indicators for monitoring and evaluating program interventions. With the *Metropolitan Region Cadastre and Land Administration Modernization Program* (PRONAT-CRM), in addition to regularizing landholding in the metropolitan area of Panama City, the aim was to integrate the Metropolitan Region Cadastre with other public and private databases that make it possible to perform mass valuations (geographically the program encompasses the municipios of Arraiján, La Chorrera, Capiira, Panamá, San Miguelito, and Colón. The largest of these is Panamá, although Colón has the highest level of informality). It also aims to support municipal land management by strengthening municipal capacity to develop and implement land management plans and operate a modern institutional structure that ensures better governance of land management in Panama and makes the progress achieved by PRONAT sustainable. Nonetheless, the institutional framework to implement these objectives remains inadequate and puts the relevance of the project at risk.
- ⁹⁸ These two loans consolidate the Bank's strategic positioning with respect to activities to regularize landholding in the country. These began with a pilot project in the province of Veraguas, through the *agriculture modernization* loan approved in 1996, which was the first program with a land regularization component in the country. Both loans are relevant for achieving the strategy's objectives for this sector.
- ⁹⁹ Nonetheless, OVE was unable to identify how the Bank planned to promote private sector participation in supplying land for low-income families, as proposed in the strategy, or operations pursuing this aim; nor was there any action aimed at strengthening the legal framework in the housing sector.
- ¹⁰⁰ The improvements achieved in the judicial sector will have an impact on achievements in the security program, just as municipal investments in leisure areas for young people, implemented through the municipal development program, can contribute to positive use of free time by at-risk youth. These institutional strengthening activities in the municipios, promoted by the various programs, can support each other provided the municipios have resources to manage the activities simultaneously.

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- ¹⁰¹ The aim was to **promote democratic deepening, by supporting the modernization and strengthening of legislative and judiciary institutions**. Here, the Bank approved the second stage of the *Justice Administration Improvement Program*, with a view to strengthening the rule of law in Panama by implementing and consolidating reforms. During the strategy implementation period, no operations were approved targeting the legislature, as proposed in the sector strategy. In terms of **support for strengthening of the regulatory framework for transparency in public governance, including the government procurement system**, OVE was unable to identify any operation approved by the Bank in this area. The only operation that could be included is a nonreimbursable TC program to fund feasibility studies for introducing an electronic purse system (*monedero electrónico*), which would help to extend financial services to disadvantaged population groups, reducing costs and making it easier to pay for public utilities. The TC document claims that, under certain circumstances, the system, if implemented, could help to improve the efficiency and transparency of public administration, but it does not explain how this would be done. The proposal was not implemented, however. To **promote citizen safety and civic coexistence**, the Bank approved the *Comprehensive Security Program* in 2007, but it had already been working on the ground through the TC to prepare that operation. The fact that the operation addresses the problem holistically makes it operationally very complex from an interagency coordination standpoint, by involving the Ministry of Interior and Justice, the Ministry of Social Development, the Ministry of Education, four mayoralties, and the national police. It targets vulnerable groups in municipios reporting the highest levels of violence, namely Colón, David, Panamá, and San Miguelito. The operation's complexity poses a challenge to the Bank and requires permanent monitoring. The Bank approved the *Municipal Development and Decentralization Support Program to improve public governance at the central and local levels, and to strengthen the decentralization and municipal development process, through the transfer of competencies, modernization of local public administration, improvement of the management capacity of municipal governments, strengthening of civil society capacities, and promotion of local economic development*. This program also aimed to make simultaneous progress in strengthening municipal capacities and modernizing the institutional and policy framework. It created a scheme of incentives for access to investment funds in areas of municipal jurisdiction, for municipios that attained the targets agreed upon in the municipal action plans. These were defined on an ad hoc basis and could include activities such as financial and administrative modernization, strengthening of municipal planning functions, and better management of services. The municipal strengthening activities, however, seemed very ambitious compared to the activities projected under the *Program to Strengthen and Modernize Economic and Fiscal Management II* in the MEF, and the progress that had been made at the time of its approval.
- ¹⁰² Preparation and execution time for loans approved during the strategy period (2004-2009) and for programs approved earlier but executed during the same period.
- ¹⁰³ At the end of 2004, debt to the IDB represented 8.41% of total public debt and 55.7% of Panama's debt with public creditors. Actual disbursements that year represented 7.0% of public investment (10.7% in 2008).
- ¹⁰⁴ The projected disbursement level for 2007 was 15.54%, and the MEF "control tower" was never implemented.
- ¹⁰⁵ Of the 32 programmed and unprogrammed projects, eight correspond to the private sector—one programmed, for US\$10 million, and seven unprogrammed for a total of US\$577 million.
- ¹⁰⁶ The CID country group consists of Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Mexico, and Panama. Group C countries, those with insufficient markets, include the Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago, and Uruguay.
- ¹⁰⁷ The average times between projection and approval, and between approval and full eligibility for the Panama approved portfolio are 12.68 and 7.96 months; for CID countries the corresponding times are 15.49 and 13.25 months; for Group C countries they are 16.80 and 10.60 months; and for the rest of the Bank (excluding Panama) the figures are 15.67 and 11.53 months, respectively.

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- ¹⁰⁸ In the case of Panama, 0.31 months, compared to negative values for CID countries, Group C countries, and the Bank, excluding Panama (-1.96, -0.38, and - 0.61 months, respectively). Negative values mean that disbursement began before the project had attained full eligibility.
- ¹⁰⁹ The average times for the phase from the first to final disbursement are 45.11, 37.71, 40.01, and 39.17 months for Panama, CID countries, Group C countries, and the Bank, excluding Panama, respectively.
- ¹¹⁰ The guidelines state that a project should be rated satisfactory if implementation of most significant components (critical to achieving the development objectives) is on schedule as envisaged in the original or revised Project Execution Plan and the quality is adequate. Some components may require remedial actions, but they will not seriously affect or delay overall project implementation (IDB, 2007. *Quick Reference Guide for the Project Performance Monitoring Report*. Internal document).
- ¹¹¹ The 2002 law set a limit of 2% of GDP, which was reduced to 1% in June 2008. In June 2009, this limit was relaxed, and the permissible deficit was increased from 1% to 3% of GDP under certain conditions, including if the government declares a national emergency or when the economy grows by less than 1% for two consecutive quarters.
- ¹¹² Service agreements were signed between the Public Registry, the General Property Registry Directorate, PRONAT, and the General Revenue Directorate (DGI) to develop computerized procedures to resolve problems of double identification and discrepancies in existing information. A single universal property identification code was created, along with communication channels to periodically access information in the public property registry and computerized processes to update the cadastral base and the current account of taxpayers liable for the property tax. In addition to creating a basis for increasing the property tax, procedures for individual citizens were simplified and some were eliminated, and the administrative burden for institutions was eased. Properties were included on the cadastral base and current accounts were generated for the property taxes in some cases.
- ¹¹³ The objective of these pilot schemes was to anticipate benefits and help the institution adapt to the new process, based heavily on the information technology sector. Institutional communication policies were established and efforts were made to professionalize the DGI and improve its operating capacity, supported also by the United States Agency for International Development (USAID). Although an effort was made to select personnel in the Large-scale Inspection Unit, the institution has not succeeded in retaining staff owing to a lack of suitable incentives (OVE studies show that human resources are the most important factor for sustaining the achievements frequently reached in tax administration modernization programs).
- ¹¹⁴ The productivity index was calculated as the quotient between the ratio of ITBMS revenue as a percentage of final consumption and the ITBMS rate. The index serves as a proxy variable for the ITBMS noncompliance rate, it has a correlation close to -1. If all goods and services are subject to the ITBMS and that there is zero evasion and avoidance, the index should be equal to 1. Nonetheless, even in the absence of evasion and avoidance, the index is less than one, because not all goods and services consumed in the country pay ITBMS. Increases in this indicator can be attributed wholly to DGI efficiency gains if there are no changes in the tax base.
- ¹¹⁵ Import and export transaction costs, measured in dollars per container, rose from US\$650 to US\$729 for exports and from US\$850 to US\$879 for imports between 2005 and 2008 (*Doing Business*). This is the indicator chosen in the loan document to measure progress in this area.
- ¹¹⁶ It required integration of the information technology systems of the National Budget Directorate, the General Treasury Directorate, the Public Credit Directorate, the National Accounting Directorate and the *Integrated Financial Management System of Panama* (SIAFPA)—all on a Web platform, with the aim of maintaining timely consolidated information.

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- ¹¹⁷ For example, although the IT development of the Single Treasury Account (CUT) was completed, only one of the four modules (payments) is operational, because the information systems that generate revenue data and feed into the CUT system have not been implemented, and the two other CUT modules are maintained by the revenue model (implementation problems are political and not technical. The DGI has information systems capable of communicating with the CUT, but revenues are recorded manually through the Office of the Comptroller General of the Republic). In terms of budgetary management, there are 69 public sector entities with capacity to generate their draft budget through the budget information system under a Web platform (SIPRES-WEB), but one incorporating a large number of municipios into information systems is a challenge because they lack equipment and qualified staff (the number of institutions originally considered in the loan document was surpassed, and technological advances were included that had not been initially envisaged, such as system development on a Web platform). SIAFPA is operating in central government institutions and communicates with the Treasury and the operating module of the CUT, the *debt management and analysis system* (SIGADE), e-Tax (revenue), PanamáCompra, and the *National Public Investment System* (SINIP). The system is developed on a Web platform but is only being used in pilot form (the new system, which is expected to begin production in June, will facilitate the granting of credit to support factoring through the sale of suppliers' accounts receivable and improving their cash flow management. A total of US\$480 million was managed in this category in 2008). With regard to payment of the public debt, information technology development exists and the procedure has been made official, but record keeping and payment continue to be done by the Office of the Comptroller General of the Republic.
- ¹¹⁸ The number of days corresponds to the period between invoicing and payment, and involves procedures in the Office of the Comptroller General of Republic and the entities themselves.
- ¹¹⁹ There is still no communication between the National Public Investment System (SINIP), in which the project bank has to record the investment initiatives undertaken by State institutions, and the budget system (SIPRES).
- ¹²⁰ The deliberate replacement of the “control tower” with the “integrated project bank” resulting from the reformulation of the loan in 2006 caused this delay. The Investment Programming Division currently does not have a tool that allows it to monitor outcome and public investment project management indicators.
- ¹²¹ The administrative career has not been accredited, and this has affected the stability of ministry staff, particularly in the information technology area. Many staff involved with the program have left, turnover is high, and the information technology training effort could be lost.
- ¹²² Whereas the average annual growth rate of active contributors between 2000 and 2004 was 1.07%; from 2004 to 2008 it was 7.32%.
- ¹²³ The baseline for this indicator does not agree with the figures reported by the National Public Utility Authority (ASEP) for 2004.
- ¹²⁴ OVE assumes that the indicator refers to outlying neighborhoods in Panama City. The indicator was not properly defined. Although there are no data on new connections, there are figures showing the trend in sewerage connections for the country as a whole.
- ¹²⁵ Because of difficulties in signing the framework agreement between the Government of Panama and the distributors and the resulting delays in executing the project with the Bank, the country itself continued to make progress in expanding coverage, presumably in unfavorable conditions for the government (at an average cost of US\$1,236 per connection). Between 2000 and 2008, 24,700 homes were connected to the electricity grid, serving more than 123,000 inhabitants. To achieve this, the Rural Electrification Office signed contracts with distributors and executed an investment of over US\$30 million.
- ¹²⁶ The Bank provided assistance by conducting studies and holding discussion workshops, making it possible to promote and direct the second-generation reforms needed to restore confidence in the electric power model and market.
- ¹²⁷ The sector strategy was aimed at creating incentives for hydropower generation.

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- ¹²⁸ The additions were 0.5 km of 115-kV line between Caldera and Paja de Sombrero in Chiriquí, and 390 km of 230-kV line Llano Sánchez-Panamá II between Panamá and Coclé, the latter being financed by the project. The 230-kV Guasquitas-Veladero and Veladero-Llano Sánchez transmission lines were financed by the project between 2001 and 2004. These investments represent 100% of the growth in the electric power grid from 2000 to 2004.
- ¹²⁹ With regard to regional electric power interconnection, through the *Central American Electric Interconnection System*, contracts for building the transmission line were signed in 2006. Nonetheless, the multiple problems that have arisen over easements, municipal and environmental permits, building permits, and changes in the route to be taken by the line have delayed its completion. In 2009, progress on the works was about 80%, and completion is expected by 2010, when it will be possible to exchange up to 300 MW among the countries of the region.
- ¹³⁰ As a result of the restructuring and cancellation of over 78% of the original loan amount, the *program to support restructuring of the IDAAN* was converted into a reimbursable technical cooperation program which funded part of the preparation of the *Panama City and Bay Sanitation Project I*. The PCR notes the success of the program's MINSA strengthening component, by providing equipment and systems for fulfilling its functions; but OVE was unable to verify the effectiveness of this strengthening during its visit to the executing agency, since there was no institutional memory of it. No infrastructure investment was envisaged.
- ¹³¹ The initial targets were surpassed: 781 km of secondary roads were rehabilitated and 561 linear meters of bridges were replaced (the original targets were 670 km and 490 m, respectively). The program was modified to widen the Aguadulce-Santiago highway to four lanes, as part of the PPP. Nonetheless, the sustainability of these achievements is questionable. The objective of setting up a mechanism to provide sustainable maintenance was not achieved. Five-year routine maintenance contracts signed with private enterprises were not executed owing to contractual problems relating to prices and very small performance bonds. Maintenance activities never began, and when they did they were suspended; the firms in question preferred to pay the bonds than finance maintenance activities, since this was cheaper for them (communication sent by the Planning Directorate, June 2009).
- ¹³² As of December 2005, only 42% of the works between Divisa and Santiago had been completed, and works on the Santiago-El Pajal segment had not yet started. The 39 km Divisa-Santiago segment has now been expanded and rehabilitated; but the Santiago-El Pajal segment has not yet been fully completed. Institutional changes associated with road maintenance, through the creation of the Road Maintenance Fund (FOMAVI), have not been achieved.
- ¹³³ The index had to be "adjusted," because not all the variables forming the index as initially proposed were collected by the WEF in 2008. OVE used figures from 2004 rather than 2005, which reflected a deterioration in the index's score compared to 2005.
- ¹³⁴ Ten were proposed, and 18 were formed: seven agroindustrial, four in logistics and transport, six in tourism, and one in information technology.
- ¹³⁵ Support was also provided for restructuring of the Ministry of Trade and Industry (MICI) and the National Institute of Education and Training for Human Development (INADEH). The Consumer Protection and Defense of Competition Authority (ACODECO) was created.
- ¹³⁶ Nonetheless, OVE does not have the tools to determine to what extent these results can be attributed to the program.
- ¹³⁷ According to the PCR, the strategic market study and planning process enabled the Panamanian Tourism Institute to obtain US\$10 million from the government for promotion abroad. The results of this promotion are a larger number of visitors, and foreign exchange inflows that almost doubled from 1999 to 2005. Although Panama has experienced exponential growth in the number of visitors, this increase cannot be attributed to the promotion effort without a detailed study. The program also helped develop the tourism satellite account and finance the tourism expenditure survey, which are fundamental tools for designing and evaluating policies in this area. It also laid foundations for developing the TC for the *2007-2020 Tourism Master Plan*.

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- ¹³⁸ In other areas where the program had proposed progress, achievements were very limited, particularly in terms of strengthening the regulatory framework governing the insurance and reinsurance sectors, and financial cooperatives and firms. These objectives were added when the program was reformulated, but progress was not considered a condition for disbursement. As was to be expected, the objectives became no more than a wish list.
- ¹³⁹ In all, 76% of PROCAJA members have family income of less than US\$2,000 per year; and while the beneficiaries are highly diverse, the farmers receiving assistance mostly own less than 5 ha of land. Moreover, 49.1% of the active loan portfolio in February 2009 was in the hands of women.
- ¹⁴⁰ One of the points to be highlighted about this project, however, is how PROCAJA's image deteriorated, when in June 2008 the Agricultural Development Bank (BDA) started its *Agrocompite* program offering rural credit at 2% per year. Since then, PROCAJA members have complained that the interest PROCAJA charges is very high compared to the BDA, although the conditions are such that only relatively large-scale farming enterprises have access to these subsidized loans. This point is important because it reflects how a failure by the Bank in areas of potential synergy affects not just one project but an entire sector: by failing to complete the proposal for modernization of financial services in the rural area, the Bank to some extent weakened PROCAJA's success and restricted the scope of land titling programs—poor campesinos with land titles but no access to credit.
- ¹⁴¹ Banco Delta competes with PROCAJA in semirural areas of Santiago de Veraguas.
- ¹⁴² The number of beneficiaries is below target, however, which suggests that the companies being served are larger than initially envisaged in the project. Portfolio risk problems have also arisen, although this seems to be a short-term situation arising from specific problems with two analysts.
- ¹⁴³ Although legislative changes—Law 24 of 2002 and Law 14 of 2006—made it possible to incorporate information from public utilities into the Credit Bureau to create the population's credit history, users must provide written authorization before the utilities can share their service payment history. This step makes it unfeasible to incorporate the population (and SMEs) en masse into the bureau and restricts access to credit.
- ¹⁴⁴ The program started out as a project to rehabilitate and modernize the highway that links the nation's capital to the province of Darién. Nonetheless, as it included land and environmental management components in its design, the rehabilitation of the Pan American Highway became just one more component of the program. For this reason, it has been considered a pioneer in Panama, by including, from the design stage, strategic elements to guide its execution, combining activities on zoning, natural resource management, strengthening of institutions responsible for environmental and productive management in the region, support for sustainable production and protected zones, and an improvement of basic services and promotion of intermodal transport.
- ¹⁴⁵ The crisis in the banana sector that originated in 2000 created social tensions in the province of Bocas del Toro, which is heavily dependent on this product; this occurred because it was the main banana company in the region that provided most public utilities. The Bank financed preparation of a Sustainable Development Strategy (SDS) for the province in 2001, and it subsequently approved an SDP to finance some of the strategic projects previously prioritized in the SDS.
- ¹⁴⁶ Although the Land Management Indicative Plan was approved in 1999, a framework law for land management in Darién has yet to be passed, as was intended. The fishing and forestry regulations were approved. However, the ANAM and the AMP still have serious difficulties controlling logging and fishing in the region. Implementation of the Integrated Coastal Management Plan is being financed through the Program to Strengthen the Management Capacity of the ARAP for Integrated Coastal Management, since the SDP did not provide resource other than for preparation of the plan.
- ¹⁴⁷ In all, 559.5 km were demarcated and signposted as *comarca* perimeters, protected areas and collective lands. Also, 383,326 ha (20 *corregimientos*); and 10,434 land plots were registered, surpassing the target of 350,000 ha and 5,500 plots. A total of 3,058 property titles were awarded, corresponding to 107,030 ha (the target was 2,500 titles).

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- ¹⁴⁸ ANAM, 2009. Informe Final de Análisis y Actualización de la Cobertura Boscosa en la República de Panamá [Final Report Analyzing and Updating Forest Cover in the Republic of Panama], 2008.
- ¹⁴⁹ The activities associated with the sustainable use and conservation of coastal-marine ecosystems in the Gulf of Chiriquí, under the Chiriquí SDP, have not begun to be executed because they were contingent on GEF financing that was not approved. There is no strategy for reformulating this subcomponent or for seeking alternative financing. Although management and monitoring plans for protected areas were prepared, there are not the necessary funds to tackle the priority activities indicated in the Plan by the municipios or the ministries responsible for implementing those plans.
- ¹⁵⁰ For example, 20 pilot agricultural environmental restructuring farms were created in the buffer zones of protected areas, and work was done on 67 farms to disseminate technology.
- ¹⁵¹ The key activities to achieve the objective of improving sustainable productive practices involved community forestry management, where previous experiences had been implemented successfully by UNDP and USAID. The target for hectares of forest with community co-management plans was surpassed. As of late 2006, 26,000 ha of forest with such plans were reported, compared to a target of 2,000 ha. None of these pilot programs was designed to be evaluated; nor is there any mechanism for studying replicability conditions. In fact there is no guarantee that they can actually be reproduced.
- ¹⁵² In Bocas del Toro, neither the technical assistance project for strengthening campesino business management capacity, nor the pilot project on sustainable forest production that was expected to be implemented in two areas of the province was executed. Regarding sustainable tourism activities, the training modules on tourism culture were carried out, although no projects were received for sustainable tourism or recovery of critical areas and co-management of protected areas that were requested through the district committees. Regarding activities related to artisanal fishing, only the objectives related to the pilot projects have been fulfilled, and the Coastal-Marine Management Plan for the Bocas del Toro Archipelago was prepared through a US\$500,000 consulting assignment.
- ¹⁵³ Two groups of banana producers—a cooperative and an association. Training has been provided on integrated crop management, business registration, and organic management.
- ¹⁵⁴ Another issue raised as an obstacle to the replicability of projects is the length of the program, which is very short for the producers to assimilate the advantages of the productive changes made. The executing agencies also mentioned the lack of credit program that provide this type of activity and stressed the advantage of working with cooperatives and not associations, because it gave them greater control over repayment of the shared revolving funds.
- ¹⁵⁵ Nonetheless, as of August 2009, work was still ongoing to refurbish critical points and rehabilitate certain segments with supplemental loan funds.
- ¹⁵⁶ Before beginning the highway rehabilitation works (2004), the Darién SDP financed an environmental assessment of the potential effects of rehabilitation of the road on timber extraction. The study yielded low estimates for the expansion of the extraction area, because the greatest effect was produced when the road was initially opened. This exercise has not been replicated to analyze the effects of the road rehabilitation. With funds from the Darién SDP, a number of secondary roads have also been rehabilitated, but the ports at Quimba and La Palma have not been completed as of the date of this report.
- ¹⁵⁷ Solar panel projects for 178 homes were carried out.
- ¹⁵⁸ The data contained in the Bank's monitoring reports, obtained from the executing unit during the OVE visit, and those published in the integrated analysis document quoted in the 2008 update to the Sustainable Development Strategy (SDS), are all different with regard to the total number of homes that benefitted from water service. In its December 2008 monitoring report, the Bank refers to rehabilitation and construction of drinking water supply systems for 3,289 homes, compared to the 965 homes reported in the 2008 SDS and the 1,576 reported by the executing unit. Reports by the executing unit state that activities in this sector were confined to the design, improvement, and rehabilitation of water supply systems for over US\$500,000, and a feasibility study for supplying drinking water in communities surrounding the highway, to be financed with funds from the supplemental loan.

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- ¹⁵⁹ Progress on sanitation funded by the SDP is limited to two local sewerage systems benefiting 410 homes and a small latrine building project.
- ¹⁶⁰ There was also insufficient action on improving solid waste collection and disposal. Only a few localities were provided with equipment for this.
- ¹⁶¹ Nonetheless, these data reveal a reduction in the number of days of the month on which this household service is available. Whereas 84.33% of homes had water every day in 2003, the figure had dropped to 54% in 2008.
- ¹⁶² There was also support during the transfer of public utility service delivery (particularly water service) from the banana company to the line ministries like the IDAAN for example.
- ¹⁶³ The reforestation target was 150 ha by the end of the third year of the project in five communities of Río Indio, 12 in Toabré, 3 in Coclé del Norte, and 8 in Caño Sucio. In all, 146.6 ha have been reforested in 14 communities, and 76.75 ha have been designated as agroforestry land.
- ¹⁶⁴ Rehabilitation or expansion work has been completed in 29 of the 30 schools envisaged; and the target for construction, rehabilitation or expansion of 20 water supply systems at the end of the fifth year of execution was fulfilled. CONADES reports the construction of water supply systems in 42 communities benefiting 1,072 people; but only 625 of the 2,000 latrines have been built in 23 of the 60 communities. Progress is also being made in the construction, rehabilitation, or expansion of health facilities—13 of the 15 originally anticipated: health posts, subcenters, and health centers. The objective of rehabilitating 10 rural roads has been met: 11 roads, 69.43 km, but coordination is needed with the MOP or the municipios to implement the works maintenance plan to ensure project sustainability. The target of constructing or rehabilitating 10 fords or footbridges by the end of the fourth year has not yet been met. Electric lighting has thus far been provided to one community (70 homes) out of the six planned by the end of the project.
- ¹⁶⁵ For example, although the Environmental Complaints Office was opened in 2005, its response capacity has deteriorated: in 2005, 892 environmental complaints were received and 72.5% of them were resolved; in 2006, 610 complaints were received of which 52.1% were resolved; and in 2007, 774 complaints were received but only 31.9% were resolved. These figures show that the environmental justice program still has serious shortcomings.
- ¹⁶⁶ OVE found that the pilot decentralization plan to strengthen governance capacity at various levels (provincial, municipal, and *comarca*), which prepared land management plans, did not coordinate its activities either with the SDPs or with the *Municipal Development and Decentralization Support Program*, which has a strategy for strengthening municipal environmental units. CONADES has made progress, through the SDPs, on sustainable development planning schemes by province in accordance with the National Environmental Land Management System. Nonetheless, greater effort must be made to harmonize and coordinate methodologies for local environmental land management through land management plans at various levels.
- ¹⁶⁷ Following the approval of Executive Decree 209 of 5 September 2006, regulations were issued for Law 41 of 1998 on the environmental impact assessment process.
- ¹⁶⁸ A total of 22 of the 30 projects envisaged were executed, mostly in the sanitation area. Nonetheless, the lack of monitoring and institutional weakness among local governments to serve as executing agencies diminish their potential long-term impact because they limit themselves to specific activities, in which it is unclear whether the new form of intervention will be replicated and adopted in the future.
- ¹⁶⁹ Ricardo Paes de Barros, presentation on the Opportunities Network.
- ¹⁷⁰ Based on the provisions of the loan document, the IDB and the World Bank are expected to finance the impact assessment for the Opportunities Network program through an international competition.
- ¹⁷¹ The social services category covers a wide range of projects, including distance education by radio, library modernization, children's canteens, school nutrition, and nonreimbursable financial assistance.

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- ¹⁷² Although several consulting assignments were funded, it has not been possible to certify doctors and nurses or effectively regulate the pharmaceutical sector, for example.
- ¹⁷³ The target in this case was at least 66.5%, but the coverage achieved was 63%. Other indicators that were satisfied are: % of children under 1 who have completed the immunization schedule for their age (95%); % of children ages 1 to 4 who have completed the full immunization schedule for their age (96%); % of children under 1 who have attended five growth and development checkups (76%); % of children of ages 1 to 4 who have gone to at least two growth and development checkups for each year of life (85%); % of expectant mothers who have had at least three prenatal checkups by their third trimester (66%); % of women ages 15 and up with pap smear results (70%); % of women of childbearing age (15-49 years old) who receive some form of contraception (68%); % of pregnant women who receive iron and folic acid supplements at each prenatal checkup (95%); % of deliveries assisted by trained personnel (83%).
- ¹⁷⁴ The Comprehensive Package of Health Services (PAISS) contains health activities grouped in three categories: (i) health promotion; (ii) health prevention; and (iii) health care. PAISS services emphasize care for girls and women in communities chosen because of their low human development index, the high percentage of families living in poverty, high rates of infant mortality, high percentage of first graders with growth delays (height), high percentage of homes affected by the 2001 earthquakes, large presence of indigenous people, and the absence of other health projects.
- ¹⁷⁵ A portion of the financial appropriation was transferred to the five regions covered by the program, and self-management funds were increased; but the supply of health services has not been reorganized as expected.
- ¹⁷⁶ Alfredo Privado, Informe de Evaluación Final del Programa Multifase de Transformación Institucional del Sector Salud. [Final Evaluation Report on the Multiphase Program for Institutional Transformation in the Health Sector] January 2009.
- ¹⁷⁷ The coverage of immunization against polio and measles has increased, which helped close the gap between the various situations or groups (defined by ethnic, social, regional, gender, and other differences). In the case of measles, coverage has increased more than proportionately among children in these vulnerable groups. The prevalence of diarrhea and respiratory infections also decreased more than proportionately among children in vulnerable groups from 2003 to 2008.
- ¹⁷⁸ These figures correspond to land plots included in the cadastre but not necessarily registered and titled. The Bank considers that the greatest constraints on the regularization process are in the public registry.
- ¹⁷⁹ Nonetheless, it was found that 14.6% of beneficiaries had not finished building their home by December 2004.
- ¹⁸⁰ The instruments consisted of urban development of public land, to be sold as land plots for the construction of low-income housing; and modification of the direct subsidy instrument used in the previous program, but this time without the constraint imposed by the Prime Rate Act.
- ¹⁸¹ In the case of the direct subsidy, the reason seems to be the constraints imposed by home prices in the design of the instruments.
- ¹⁸² Progress has been very slow in the rehabilitation of buildings and social support; and collaboration between the interested parties never materialized. Only 78 families have been resettled, out of the 250 expected.
- ¹⁸³ In terms of modernization of national and municipal land management services, a number of laws and instruments were presented to streamline regularization processes, but neither the Agrarian Code reform nor the new Agrarian Law has been approved: Law 24 on Large-scale Land Titling, presentation of the Draft Bill on the Agrarian Reform Jurisdiction of the Agrarian Code, preparation of the Procedural Manual for the Management of Municipal Land, implementation of the Pilot Regularization Project in Coastal Zones of Bocas del Toro, and the system for compiling statistics on land disputes, among others.

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- ¹⁸⁴ A further 30,741 land plots were titled inherited from the *Agricultural Modernization Project*, which in the design of PRONAT had not been considered in the budget. PRONAT-IDB also acquired case dossiers from other IDB loans that had land titling components (Darién SDP, Priority Activities in the Panama Canal Watershed), but these were ultimately rejected owing to a lack of budget and time.
- ¹⁸⁵ As no baseline was established, it is impossible to judge whether these figures represent an improvement over the initial situation among the project beneficiaries.
- ¹⁸⁶ Although the figures do not seem very high, the way in which the program has handled the issue is weak: just 13.3% of beneficiaries received training before receiving title, and 3.3% received some type of training and guidance afterwards; 56.1% claimed that the training lasted less than one hour. The beneficiaries interviewed claimed to need training on obtaining loans (21.9%), the titling process (16.0%), beneficiary rights (15.6%), and agricultural techniques (12.9%), but these topics were not addressed by the program.
- ¹⁸⁷ As of June 2009, the programs in execution under the crosscutting element of *strengthening governance and transparency* had disbursed under 50% of the amounts approved and cannot yet be fully evaluated. Nonetheless, OVE was able to review the partial results.
- ¹⁸⁸ The *Public Institutions Index* had to be “adjusted.” In 2008, the WEF did not collect all of the variables comprising the index as initially proposed. To be able to compare the trend, account was taken only of variables that had been collected in 2004 and 2008, and were related to the quality of public institutions. These included: property rights, protection of intellectual property, misappropriation of public funds, public confidence in politicians, judicial independence, favoritism in decisions made by civil servants, squandering of public expenditure, the burden of government regulation, the efficiency of the legal framework, the transparency of government policies, the cost of crime and violence for business, organized crime, and the reliability of police services. The adjusted index for the top-ranked countries in 2004 moved as follows between 2004 and 2008: Singapore rose from 6 to 6.2; and Finland from 6 to 6.1.
- ¹⁸⁹ Studies commissioned for the component to support the creation of local development and decentralization policies were completed; nonetheless, the Decentralization Bill presented to the Assembly in December 2008, and which, according to the executing agency, is the program's major contribution, was not approved, owing to a lack of support outside the local governments.
- ¹⁹⁰ The executing agency told OVE that investments had been made in all of the municipios participating in the program, but progress in terms of strengthening had been made only in a few cases.
- ¹⁹¹ There were weaknesses in the design of loans that include components for modernizing information technology systems, such as the *Program to Strengthen and Modernize Economic and Fiscal Management II* or the *Municipal Development and Decentralization Support Program*. In many cases, the objectives to be achieved in the information technology area do not stem from general project objectives and are addressed in haphazard fashion by the different entities. First, the general objective of the project needs to be defined, and information technology experts should be left to decide how to achieve those objectives. At the technical level, requirements emerging from the general objectives need to be interpreted, and programs of action need to be defined, based on these, after studying both the status of the systems within the agencies and the technologies available on the market. This is highly specialized work, and experts should be the ones to propose global and coordinated solutions consistent with the general guidelines defined in the project. This scenario could resolve the logistical problems of implementing the systems. When details are imposed on how to achieve objectives, the success of programs can be compromised, as a result of the coexistence of information systems, a multiplicity of geographically dispersed databases without adequate communication, problems of compatibility between systems, etc.
- ¹⁹² Achieving this objective is a necessary condition for strengthening governance, promoting deconcentration and decentralization, and resolving the duality of the Panamanian economy—a problem that is exacerbated by the State's inability to reach the rest of the country with the same effectiveness as it does Panama City.

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- ¹⁹³ Progress has been made in activities related to the violence prevention component, by building multipurpose sports fields in the municipio of San Miguelito, and setting up sports leagues in the four beneficiary municipios. Budgetary constraints have prevented progress being made on infrastructure works aimed at preventing violence by increasing the amount of time young people spend in sporting, cultural, and guidance activities. The executing agency stated that larger program disbursements were not authorized—despite having works designs, revised bidding documents, and the Bank's no objection—to avoid increasing indebtedness and breaching the limits imposed by the Fiscal Accountability Act.
- ¹⁹⁴ In Colón the homicide rate increased from 32.2 per 100,000 inhabitants in 2007, to 51.4 in 2008, and in Panama City the rate rose from 18.1 in 2007 to 27.0 in 2008. The number of homicides per 100,000 inhabitants in the country as a whole was 13.3 in 2007 and 19.3 in 2008. The figures were calculated using statistics from the Office of the Attorney General of the Nation, and population estimates, by province, from the Statistics and Census Department of the Office of the Comptroller General of the Republic. The figures are the highest in Panama since 1990, the first year for which data are available.