ove Office of Evaluation and Oversight

Independent Country Program Review

Panama 2021–2024

IDB Group

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Independent Country Program Review

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IDB Group

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ABBREVIATIONS

ACP	Panama Canal Authority (*for its Spanish acronym*)
CAIPI	Comprehensive Early Childhood Care Centers (*for its Spanish acronym*)
CCF	Contingent Credit Facility for Natural Disasters and Public Health Emergencies
CCLIP	Conditional Credit Line for Investment Projects
CDC	Country Development Challenges
CID	Country Department Central America
CP	Country Program
CPD	Country Program Document
CPE	Country Program Evaluation
CS	Country Strategy
DEF	Development Effectiveness Framework
DGI	Internal Revenue Service (*for its Spanish acronym*)
EO	Expected Outcome
FGP	Panama Guarantee Fund (*for its Spanish acronym*)
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GHG	Greenhouse gases
ICPR	Independent Country Program Review
IDAAN	Institute of National Aqueducts and Sewers (*for its Spanish acronym*)
IDB	Inter-American Development Bank
IDB Group	Inter-American Development Bank Group
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
INV	Investment loan
LAC	Latin America and the Caribbean
MEDUCA	Ministry of Education (*for its Spanish acronym*)
MEF	Ministry of Economy and Finance (*for its Spanish acronym*)
MIDES	Ministry of Social Development
MINSA/GAVI	Ministry of Health (*for its Spanish acronym*)
MSME	Micro, Small, and Medium-sized Enterprises
NFPS	Non-Financial Public Sector
NR	Non refundable
NSG	Non-Sovereign Guaranteed
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
PEG	Government Strategic Plan (*for its Spanish acronym*)
PISA	Program for International Student Assessment

SENACYT	National Secretariat for Science, Technology and Innovation
SG	Sovereign Guaranteed
SO	Strategic Objectives
TCP	Technical Cooperation Operation
TFFP	Trade Finance Facilitation Program
TFP	Total Factor Productivity
UNESCO	United Nations Educational, Scientific and Cultural Organization
WB	World Bank

EXECUTIVE SUMMARY

Purpose. This Independent Country Program Review (ICPR) analyzes the relevance of the Inter-American Development Bank Group's latest country strategy (CS), and the relevance, implementation, and contribution of the country program (CP) with Panama during the period from June 16, 2021, to June 30, 2024. The ICPR seeks to provide the Boards of Executive Directors of the IDB Group with useful information to support their consideration of the upcoming CS and the corresponding CP. Additionally, the ICPR can provide the country's government and other external stakeholders with an independent perspective on the IDB Group's work in Panama. The ICPR is based on a document review and information triangulation with IDB Group specialists and external counterparts. The methods, tools, and processes used follow the Implementation Guidelines for Independent Country Program Reviews (RE-348-10).

Country context. Panama has managed to sustain one of the highest growth rates in the region for decades, driven by resources provided by the Canal and its openness to foreign and domestic investment. This growth, though volatile due to high exposure to external shocks (including those related to climate change), has facilitated a sustained reduction in poverty rates and the emergence of a significant middle class. However, the public sector still faces challenges in meeting the growing demand for high-quality public services and addressing the significant disparity in access faced by nearly a third of the population in rural areas and indigenous communities, whose poverty rates are more than double the national average. Panama has established itself as a global logistics hub with significant development in transport infrastructure and advances in digital connectivity, especially in urban areas. The scale of the financial system is remarkable, but there are inequalities in access for MSMEs (which account for more than 97% of the country's businesses), potentially affecting their productivity and producing a gender bias in access to productive opportunities. The country faces a serious productivity challenge: the growth of the last decade was largely sustained by rapid physical capital accumulation, which offset net losses in economic productivity. Factors limiting productivity include a lack of human resources with critical skills (due to deficiencies in education quality and lack of investment in training associated with high levels of informality in the labor market), and structural weaknesses in public management (including rigidity in mechanisms to promote transparency and gaps in the capacity for managing service provision at the territorial level). Additionally, the high dependency of past economic growth on investment flows underscores the importance of maintaining conditions to continue attracting them, particularly in light of recent judicial decisions and social protests that led to the closure of the country's largest mining project, a project with high visibility and economic importance for the country.

Strategic objectives. In this context, the CS set 8 strategic objectives (SOs) that were expected to be advanced through 23 expected outcomes (EOs). These objectives (represented by the

Table 1. Strategic objectives (SOs) of the Bank's country strategy
Priority Area 1: Modernizing public management
SO1. Enhance the effectiveness of the tax administration
SO2. Promote the digital transformation of public administration
Priority Area 2: Improving the delivery of basic services
SO3. Expand access to, and quality of, social protection, health, and water and sanitation services for vulnerable population groups
SO4. Improve quality and relevance in the educational system
Priority Area 3: Reigniting and diversifying productive activity
SO5. Expand access to credit for underserved sectors
SO6. Improve levels of connectivity and digital adoption
SO7. Develop quality infrastructure services based on inclusion and environmental sustainability criteria
SO8. Develop services for sustainable and inclusive growth of tourism and agriculture

set of SOs and their respective EOs) were defined under three priority areas: i) modernizing public management; ii) improving the delivery of basic services; and iii) reigniting and diversifying productive activity (See Table 1).

Relevance of the strategic objectives and the framework of the country strategy. The CS objectives in the three priority areas—public management, delivery of basic services, and productive activity—were relevant due to their alignment with the development challenges identified in the context analysis, the country's priorities outlined in the Government Strategic Plan 2020–2024, and the institutional priorities of the IDB Group. However, the relevance of the *public management* objectives was diminished due to their weak connection with the key challenges of the country, such as the need to improve public management more comprehensively beyond just tax administration and digitalization, strengthen territorial governance (including local capacity to manage basic services), and promote transparency and the fight against corruption. The objectives related to the *delivery of basic services* were relevant because they were well-aligned with the two key social challenges of the country: promoting social inclusion of vulnerable populations and fostering human capital development.

The relevance of the objectives in the *productive* area was also reduced because the bottlenecks identified for tackling the key challenge of boosting the country's productivity were not addressed, such as reducing informality, strengthening the institutional framework to facilitate financing and infrastructure development, and enhancing productivity gains and the integration of value chains of large companies, which account for most of the country's economic activity. In addition, the challenge of adapting human capital to the needs of the labor market was not addressed, as the country strategy included objectives in early and general education, but not objectives more directly related to vocational or technical-professional training. Instead, the productive area objectives focused on MSMEs, gender gaps, connectivity and digital adoption, sustainable infrastructure services, and the development of the tourism and agriculture sectors; all relevant topics, but without the CS providing a rationale for how these could address the key challenge of raising the country's productivity. The objectives in the productive area also failed to address two key risks that intensified during the period: preserving a business environment conducive to investment and ensuring environmentally sustainable development.

In summary, while the objectives addressed the country's needs and priorities, the CS had weaknesses in its strategic selectivity because it did not provide a rationale for the selection of the objectives nor did it anticipate how the IDB Group would contribute to them during the relatively short duration of the CS. Additionally, three design factors reduced the relevance of the CS. First, the CS had some weaknesses in the definition and structure of objectives, which reduced the clarity of the theory of change that the IDB Group intended to use to advance the objectives. Second, the CS had gaps in its monitoring mechanisms, including progress indicators that could be anticipated as difficult to track from the outset, as there were no updated values available when designing the CS results matrix. Third, the CS had weaknesses in identifying and mitigating risks, focusing on general risks rather than specific risks that could affect the contribution of the IDB Group's program to the country, including persistent delays in execution due to the role of the Comptroller's Office.

Country Program (CP). The CP consisted of 122 sovereign-guaranteed operations from the IDB and 38 non-sovereign guaranteed operations from IDB Invest, totaling US$3.491 billion. Nearly two-thirds of the amount in this CP was approved during the review period: the IDB approved US$1.215 billion, including 13 loans, 50 technical cooperations, a contingent credit facility for natural disasters and public health emergencies, an investment loan grant, and two conditional credit lines. Meanwhile, IDB Invest approved ten loans and guarantees amounting to US$425 million, in addition to US$448 million under the Trade Finance Facilitation Program (TFFP). The CP also included 64 previously approved operations: 58 with a total of US$1.403 billion pending disbursement at the beginning of the period and six fully disbursed operations for which an Expanded Supervision Report was prepared during the period.

The CP continued to make significant use of policy-based loans (PBLs), accounting for 54% of IDB approvals, a percentage similar to the previous period. In terms of investment loans, there was an increase in the use of the global credit modality to finance MSMEs, with limited progress towards addressing the country's productivity challenges. At the same time, the use of other specific investment modalities and the global of multiple works (GOM) modality declined, reducing support for key objectives related to the provision of basic services for vulnerable population groups and infrastructure. IDB Invest, for its part, doubled its approvals compared to the previous period, driven by greater use of the TFFP and the growth of long-term loans supported by innovative financial instruments.

Additionally, the IDB Group demonstrated flexibility in the face of the ongoing effects of the pandemic, integrating the COVID-19 response into new operations, reformulating existing operations to reallocate resources, and approving a contingent credit line as a preventive tool. In sectors such as MSMEs and tourism, the IDB Group coordinated efforts, combining public and private funds to advance the set objectives. Finally, the CS had proposed integrating three cross-cutting themes into the CP: gender and diversity, environmental sustainability and climate change adaptation, and institutional strengthening. These were integrated into the CP highlighting that almost all *public management* operations included the institutional strengthening theme; most *basic services* operations incorporated the gender and diversity theme; and most *productive* operations integrated the climate change theme.

Country program alignment with CS objectives. The CP achieved strong alignment with five of the eight strategic objectives of the CS and the vast majority of the expected outcomes (19 out of 23). The CP was strongly aligned with all SOs in the priority areas of *public management* and *delivery of basic services* but weakly aligned with almost all SOs in the *productive* area. In the public management area, the program's alignment with the objectives was strong due to the presence of investment projects with sufficient scope (e.g., in the objective of strengthening tax administration). In the area of provision of basic services, the use of complementary technical cooperations (e.g., in the objective of increasing the *quality and relevance of education*) and a design clearly focused on target populations (e.g., in the objective of access to and quality of services) helped reinforce the alignment. In contrast, in some objectives within the productive activity area, the weak alignment of the country program with the CS was due to an *indirect focus*, where the program could only contribute indirectly through operations pursuing other objectives (e.g., in women's financial inclusion), or *limited scope*, where the program had a scale that was insufficient relative to the ambition of the objective (e.g., in the development of services for sustainable growth in tourism and agriculture). In summary, the CP had pre-existing weaknesses in the *productive* area, as it had a low feasibility of contributing to the set objectives, even if implemented as expected.

Country program implementation. Eighty-five percent of the loans planned by the IDB in the annual programming exercises were approved, reflecting a high level of predictability and good dialogue with counterparts in the country, although there were planned operations that were not ultimately approved, particularly a PBL intended to support fiscal strengthening reforms. Cancellations, which amounted to nearly 3% of the total CP, did not significantly affect support for the objectives. In contrast, there were significant reformulations due to the pandemic, redirecting funds to cash transfer programs for people in poverty or vulnerable situations, and adapting and reopening childcare centers affected by the pandemic. This demonstrated the IDB's adaptability in the face of exacerbated external shocks but also redirected a significant amount of resources, limiting the program's ability to contribute to key CS objectives, particularly those related to the provision of basic services in rural and indigenous areas. The operations continued to face execution challenges similar to those found in the previous country evaluation conducted by OVE in 2019, including issues related to prior control by the Comptroller General of the Republic, which continues to be the main challenge in execution, as well as restrictions in budget allocation, low institutional capacity in some executing units, and high turnover of technical staff. The pandemic exacerbated these obstacles, especially weakening support for the delivery of basic services, education, and tourism. Finally, the limited progress in strengthening and utilizing national systems undermined the support they could have provided to alleviate implementation challenges.

Contribution of the country program to the objectives. The CP made greater contributions toward three of the eight strategic objectives: *promoting the digital transformation of public administration* (SO2), *improving quality and relevance in the educational system* (SO4), and *expanding access to credit for underserved sectors* (SO5). These greater contributions were associated with the presence of one or more of the following factors: (i) the *correspondence* between the scope of the objective and the scale of the CP supporting it; (ii) the support of a long-term *focus* on the objectives, which helped overcome implementation problems; or (iii) the use of a multisectoral approach, either by leveraging *complementarities* between the IDB and IDB Invest or by *involving different government sectors*. In contrast, the CP made lesser contributions toward the other five objectives, which include key challenges for the country, such as the provision of basic services for vulnerable populations. These lesser contributions were associated with factors such as: (i) pre-existing *weaknesses in alignment;* (ii) the *immaturity* of related operations that made their contribution unlikely; (iii) the *absence of evidence* of contribution to the objectives despite reporting progress in outputs; or (iv) *implementation problems* even when the operations were already mature.

In the priority area of public management, the CP contributed by deploying sequential support with a long-term focus on *promoting the digital transformation of public administration*. The *Panamá en Línea* [Panama Online] loan, approved in 2016, helped digitalize 91% of the 450 planned procedures. The support continued with various technical cooperations and a PBL that promoted the simplification and digitalization of procedures such as construction permits or the use of digital signatures in public institutions. The focus on digital transformation has persisted with the approval of more recent operations in cybersecurity, digital inclusion, and justice digitalization. However, these have yet to show results as of the closing date of this report, due to their recent approval and low execution levels. Meanwhile, the contribution to *enhancing the effectiveness of the tax administration* was low, due to delays in the execution of the main related loans.

In the priority area of basic services, the contribution of the CP to *closing gaps in access to quality basic services* was uneven. There was a moderate contribution to the objectives of *immunization against COVID-19* (reaching 70% of the targeted population) and *urban wastewater treatment coverage* (supporting the launch of a Wastewater Treatment Plant in the Panama metropolitan area, connecting at least 700,000 people). However, other projects addressing this objective ended up redirecting resources to cash transfers and canceling their related outputs. On the other hand, the contribution to *improving access to* *health services for indigenous populations, access to drinking water, and improving the efficiency and targeting of social protection programs* was low due to implementation delays, project reformulations that reduced support, and a lack of evidence on their contribution to the objectives. In education, the contribution was moderate, with greater progress in *increasing school attendance in early childhood* (including the strengthening of Comprehensive Early Childhood Care Centers and the development of national-level quality guides and standards) and *reducing school dropout rates* (increasing retention rates in the beneficiary regions and schools). In contrast, the contribution to *increasing the quality of learning in basic education* was lower due to implementation delays and a lack of evidence of its contribution.

In the priority area of productivity, the contribution to *expanding access to credit* was moderate due to a multisectoral approach that created complementarities, with the IDB focusing on smaller businesses and IDB Invest on larger enterprises. In contrast, the CP made a low contribution to *reducing gender gaps in access to credit*, as it lacked a program specifically targeting this objective. The contribution to *improving connectivity and digital adoption* was also low, as the most important operations were not yet mature enough and no results were reported in access to online services for low-income populations. In infrastructure, the CP contributed to improving *road connectivity in rural and indigenous areas* by constructing 125 km of roads, but there were no *reductions in dispatch times at the northern border* or in *access to electricity service* due to implementation problems and projects still in early stages. There were also no significant contributions towards *increasing the share of renewable energies* or *female labor participation in infrastructure sectors*. Finally, in agriculture and tourism, the CP contributed to the *rekindling of tourism* and *access to the country's cultural and natural capital* by restoring and reopening the San Lorenzo Fortifications and the Customs Building in Portobelo. Additionally, it supported tourism by increasing the number and volume of loans granted to companies in the sector, facilitating their access to financing. Lastly, the CP made a low contribution to *increasing agricultural productivity and reducing greenhouse gas emissions*, objectives that would have required a more integrated and complementary approach among the different interventions.

I. INTRODUCTION

1.1 **This Independent Country Program Review (ICPR) analyzes the Inter-American Development Bank Group's latest country strategy (CS, or strategy), and the country program (CP) with Panama during the period 2021–2024.** According to the Protocol for Country Products (document RE-348-8) of the Office of Evaluation and Oversight (OVE), ICPRs focus on accountability. In this regard, the ICPR does not make recommendations but instead draws conclusions to inform the Board's consideration of the future CS with Panama and for the Administration to take into account, if deemed useful, in the design and implementation of the future CS and CP.

1.2 **The ICPR is based on a document review and information triangulation with IDB Group specialists and external counterparts**. The methods, tools, and processes used in this ICPR follow the Implementation Guidelines for Independent Country Program Reviews (document RE-348-10, hereinafter the *Guidelines*). According to these Guidelines, ICPRs rely on a systematic review of the documentary information of CP operations and inputs provided by team leaders of all CP operations, IDB Group managerial staff in Panama, and key external counterparts.

1.3 **The ICPR consists of seven sections.** The first section is this introduction. The second section summarizes the country context, based on the IDB Group's diagnostics (Country Development Challenges, or CDC) and those of other development entities. The third section analyzes the relevance of the CP, considering the selectivity of the objectives set and the quality of its design. The fourth section analyzes the relevance of the CP, focusing on the feasibility of contribution of the operations comprising it. The fifth section examines the implementation of the CP, reporting on its execution and performance (including timelines, costs, and the role of national systems). The sixth section analyzes the contribution of the CP to the CS objectives, identifying factors associated with higher or lower contributions. The seventh section summarizes the conclusions of the ICPR.

II. Country Context

2.1 Panama has one of the most open economies in Latin America and the Caribbean (LAC) and has established itself as a global commercial and financial hub. Since 1999, the country has owned the iconic Panama Canal,[1] through which nearly 5% of global maritime trade passes, generating parafiscal revenue for the country amounting to about 3% of its Gross Domestic Product (GDP) (IMF, 2023). This revenue is comparable to that of a natural resource, also representing an important source of foreign exchange.[2] Leveraging its privileged geographic location as a bridge between the Pacific and Atlantic Oceans, Panama's economy is one of the

1 In 1977, Panama and the United States signed the Torrijos-Carter Treaties, establishing a transition in the administration of the Panama Canal. This process culminated on December 31, 1999, when Panama assumed full control of the Canal through the Panama Canal Authority (ACP).

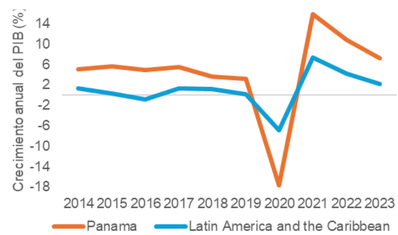
2 The export of services by the Panama Canal Authority (ACP), which is 100% government-owned, represented 6.1% of GDP in 2023, about half of which was transferred to the Panamanian treasury. By comparison, the export of copper products by CODELCO, the state-owned company of Chile, represented around 4% of Chile's GDP that year (WB, 2024b).

most open in the region, both in terms of capital flows and foreign trade.[3] Additionally, the country has developed a thriving value-added services sector in real estate, logistics, and finance, which, along with the Canal, accounted for nearly 40% of GDP in 2023.

A. Macroeconomic Situation

2.2 **Panama has been growing at a pace that quadrupled the average for LAC, even considering the downturn caused by the pandemic.** Between 2014 and 2023, Panama's GDP expanded at an average annual rate of 4.1%, four times higher than the LAC average of 1.0%. Public and private construction accounted for a quarter of the total growth during this period, driven by the Canal and its expansion (which developed a third traffic lane, allowing the passage of ships with almost three times the capacity) and an unprecedented expansion of commercial real estate.[4] The pandemic caused a GDP contraction of 17.9% in 2020, larger than the rest of the region, as the shutdown of trade particularly affected Panama. However, growth rebounded quickly,[5] reaching 15.3% in 2021 (Figure 2.1). Thanks to sustained growth, Panama now boasts one of the highest GDP per capita in LAC.[6]

Figure 2.1. GDP annual growth rate



2.3 **Panama has adopted a model that combines very low tax pressure with a high rate of investment, mostly private.** Between 2014 and 2022, tax revenues averaged 14% of GDP, the lowest level in LAC and much lower than the regional average of 21% (OECD, 2024). The low tax collection is due to both reduced tax rates and inefficiencies in collection. This limits the financial capacity of the public sector to implement redistributive policies and sustain public investment. In contrast, and partly thanks to this fiscal model, Panama has been highly receptive to private investment. Gross Fixed Capital Formation (GFCF), mostly private, averaged 35% of GDP from 2014 to 2022, standing out both regionally (19% in LAC) and globally (22% on average in OECD member countries).

2.4 **However, Panama's growth is sensitive to external shocks due to its exposure to global trade flows and extreme weather events.** The real economy significantly depends on global trade flows through the Canal.[7] In terms of external balance, Panama records persistent current account deficits (5.5% of GDP in 2014–2023), which have been covered by foreign direct investment, averaging 5.3% of GDP from 2014 to 2023. Since 1904, Panama has adopted the dollar as its official currency, improving predictability for economic agents. Furthermore, the country faces increasing risks due to climatic phenomena such as droughts, which

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3 The sum of exports and imports accounted for 100% of GDP in 2023, compared to an average of 62% in LAC.

4 The growth of the services sector around Canal activities spurred strong demand for non-residential construction. For over a decade, non-residential construction grew at an annual average of over 20% (CID Harvard, 2017).

5 GDP grew 15.3% in 2021, 10.8% in 2022, and 7.4% in 2023, surpassing pre-pandemic rates.

6 GDP per capita in current dollars in 2023 (WB, 2024). In 2023, only two IDB borrowing countries (Bahamas and Guyana) had a higher GDP per capita than Panama.

7 The transport sector accounted for 39.5% of Panama's exports in 2022 (MEF, 2023a).

are becoming more frequent and intense. These have already caused significant consequences for agriculture (with direct impacts on crops), energy generation (where almost 50% of installed capacity is hydroelectric), and water availability for the operation of the Canal (which depends on freshwater stored in reservoirs). At the end of 2023, the Canal had to restrict transits due to the worst drought in 75 years, reducing transits by 21% in fiscal year 2024 compared to 2023. Finally, it is estimated that at least 6% of the country's population lives under the risk of displacement due to rising sea levels.

2.5 **In this context, Panama has maintained a prudent fiscal policy, which has allowed stable access to external financing, but public debt has grown significantly after the pandemic.** During the 2010–2019 decade, the gross debt of the non-financial public sector remained relatively stable, averaging 38% of GDP, and the primary balance was near equilibrium (an average deficit of 0.3% during the period).[8] In response to the crisis caused by the pandemic, the debt rose to 65% of GDP in 2020 and remains at 62% in 2024. Since then, two of the three major rating agencies have downgraded the country's sovereign debt to the lowest level within investment grade.[9] Despite the increase in debt and perceived risk, Panama continues to access capital markets under favorable conditions.[10]

B. Social Development

2.6 **Growth has contributed to reducing poverty over the past decades, though deep inequalities persist.** After more than two decades of sustained reduction, the monetary poverty rate fell from 33.8% in 2003 to 14.3% in 2023 (ECLAC, 2024). Despite these advances, access to economic progress opportunities continues to disadvantage the poorest segments of the population, who face higher unemployment rates (11% among the poorest vs. 6.3% in the general population) and elevated labor informality (92% among the poorest vs. 48% overall) (Panamá Sin Pobreza, 2024). Panama remains the third most unequal country in the region, behind only Brazil and Colombia.[11] The country has cash transfer programs for vulnerable groups, but challenges persist in targeting these programs, related to updating the socioeconomic information of beneficiaries.

2.7 **Economic growth has also enabled the emergence of a significant urban middle class, with a growing demand for quality services.** About 68% of the country's 4.1 million inhabitants live in urban areas, primarily in the Panama City region (INEC, 2024). It is estimated that at least one-third of the population belongs

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8 The primary deficit of the Non-Financial Public Sector (NFPS) grew to 7.6% in 2020 due to the pandemic's effects. The deficit decreased in subsequent years, reaching 0.38% of GDP in 2023. The total deficit of 2.95% at the end of 2023 was in line with the Social Fiscal Responsibility Law.

9 Panama's credit rating dropped two levels in each agency, from Baa1 in 2019 to Baa3 in 2024 according to Moody's, and from BBB+ in 2019 to BBB- in 2024 according to S&P. Additionally, in March 2024, Fitch Ratings downgraded Panama's sovereign rating to BB+ (no longer at 'investment grade' level). The impact of the recent closure of *Minera Panamá*, the largest open-pit mine in Central America, on economic activity and revenue collection was considered in these decisions.

10 In 2023, the Government issued a Global Bond in the international market maturing in 2036, with a yield of 6.976% (compared to 6.15% for ordinary capital loans from the IDB and 4.71% for the 10-year U.S. bond), and another maturing in 2054, with a yield of 7.45% (compared to 3.73% for the 30-year U.S. bond), according to a statement from the Ministry of Economy and Finance (MEF, 2023a).

11 The Gini index dropped from 51.8 in 2019 to 48.9 in 2023, but this has not been sufficient to change Panama's relative position in the region.

to the middle class.[12] This group, though heterogeneous, demands services such as education, transportation, and social protection. However, the perception of deficiencies in the quality of public services drives the middle class' demand towards private services, weakening their willingness to contribute taxes for the public provision of these services.

2.8 **Poverty disproportionately affects the rural population and, especially, indigenous communities, who also face significant disparities in access to basic services.** The poverty rate among the rural population (around 30% of the total population) is nearly double the national average, and among the indigenous population (17% of the total population), it is more than double, with 64% of people in indigenous territories living in poverty (World Bank (WB), 2025; Census, 2023; MEF, 2022). In terms of health, rural areas, particularly indigenous territories, have a limited basic healthcare network with low capacity to resolve issues due to insufficient infrastructure and personnel.[13] Regarding water and sanitation, almost 100% of the urban population has access to improved water sources and 92% uses improved basic sanitation facilities, while in rural areas, these proportions drop to 83% and 66%, respectively (OLAS, 2025). In electricity, national coverage exceeds 90%, but in *comarcas* (regions) like Guna Yala and Ngäbe Buglé, less than 10% of the population has access to the electrical grid (SNE, 2022).

2.9 **Challenges in the quality and equity of the education system affect both the potential of the middle class and the economic integration of vulnerable populations.** Regarding learning quality, Panama ranked 67th out of 81 countries in the 2022 PISA tests, with no significant performance improvements since the country first participated in 2009 (OECD, 2023). Deficiencies in school infrastructure and lack of resources are concentrated in rural and indigenous areas, impacting participation, teaching quality, and student learning outcomes in these regions (WB, 2023).[14] Additionally, despite a high average school enrollment rate, disparities persist based on socioeconomic status, with an enrollment rate of 77.6% among poor adolescents aged 12 to 18, compared to 93% in the middle class (AMPYME, 2022).

12 The OECD classifies middle-class households as those with incomes between 75% and 200% of the national median. According to the 2018 Multipurpose Survey by the National Institute of Statistics and Census (*Instituto Nacional de Estadística y Censo,* INEC), households with incomes ranging from $624 to $1,664 per month fell into this category (INEC, 2024).

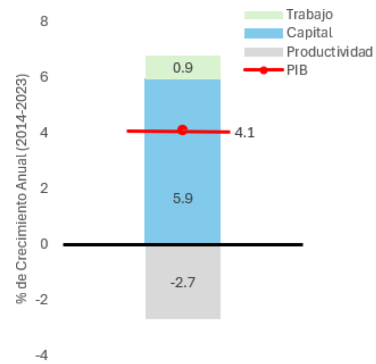
13 The Guna Yala *comarca*, with a population of 49,500, has 18 primary care units and two rural hospitals with limited capacity due to a lack of operational operating rooms. The Ngäbe Buglé *comarca*, with 236,000 inhabitants, has 88 primary care units and an incomplete hospital located in the Chiriquí Province, outside the *comarca*'s territory (DIPLAN, 2022).

14 Dropout is noted as a significant issue in indigenous *comarcas*. In Guna Yala and Ngäbe-Buglé, the decrease in school enrollment for children aged 11 to 14 exceeds 22% (UNICEF, 2022). These regions also face challenges regarding education. In the third-grade Spanish tests (CRECER 2018), students from the indigenous *comarcas* of Guna Yala, Ngäbe-Buglé, and Emberá-Wounaan scored the lowest in the country, with scores below 650 points (out of 800), compared to the average of 750 points achieved by students in other predominantly rural areas (Meduca, 2021).

C. Productive Development

2.10 **During the 2014–2023 period, growth was largely sustained by rapid physical capital accumulation, which offset net losses in economic productivity.** The primary contributor to the country's economic growth during the period was the increase in physical capital (averaging 5.9% annually). In contrast, Total Factor Productivity (TFP) had a negative contribution (-2.7%), reflecting a decades-long stagnation[15] (Figure 2.2). Beyond these averages, Panama exhibits a dual economy: highly productive sectors that generate relatively little employment coexist with low-productivity sectors, such as agriculture, which account for a large share of employment.

Figure 2.2. Contribution to annual growth



Fuente: OVE con datos de FMI (2024a) y EIA (2024).

2.11 **The labor market faces a shortage of workers with critical skills and high levels of informality that impact the economy's productivity.** A significant gap persists between the skills of the labor force and the needs of the productive sector. Beyond deficiencies in education, business investment in training is limited,[16] and vocational guidance and technical training services have low coverage and effectiveness, although the country has been working on these topics.[17] Additionally, a high level of informal employment exists. Workers in the informal sector often lack access to training, professional growth opportunities, and stable incomes, which also contributes to lower productivity.

2.12 **Structural weaknesses in public institutions affect productivity and sustainable growth.** Although the country has focused on digital transformation with the aim of improving both efficiency and transparency, it still faces challenges related to high perceptions of corruption, limited government adaptability, and low innovation and adoption of digital means, according to the World Economic Forum's Future of Growth report (WEF, 2024). Trust in the public sector is limited, with perceptions of a lack of transparency and corruption,[18] except in centers of excellence like the Panama Canal Authority, which manages the canal.[19] These limitations impact productivity, the future attraction of private capital, and the sustainability of economic growth.

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15 Total Factor Productivity (TFP) growth was positive, though modest, in the 1990s and 2000s, but it declined by 20% in the 2010s, nearly double the growth seen in the previous 40 years (IMF, 2023b).

16 The number of companies investing in technical and professional training for their workers in Panama is significantly lower (8.6%) compared to other countries in the region such as Mexico, Costa Rica, and Brazil, where over 40% of companies engage in such investments (IDB, 2024).

17 For example, the inauguration of the Higher Technical Institute in 2019, as well as its centers and specialized schools, including the Center for Educational Research and Innovation, Science and Technology (2022), the Language Center (2024) and the School of Hospitality and Tourism (2019).

18 The Corruption Control Index ranks Panama 12th in the region with a score of 58 out of 100, below both the regional average (63) and the global average (61) (ERCAS, 2023).

19 In response, the Office of the Comptroller General of the Republic has expanded its responsibilities over the past decades, including pre-approval controls over government contracts and payments—a practice that international entities have advised against. The current control and audit processes of the Comptroller's Office do not align with best practices for supreme audit institutions (SAI-PMF), but the political complexity of the issue in Panama has hindered the implementation of solutions.

2.13 **Other key factors for productivity, such as innovation and technological adoption, are also restricted.** The Global Innovation Index ranks Panama second to last among the 51 high-income countries (World Intellectual Property Organization, 2021). The total expenditure on research and development has been around 0.15% of GDP from 2014 to 2022, placing Panama well below the Latin American and Caribbean average of 0.69% from 2014 to 2020.[20] Access to funding for innovation and entrepreneurship is limited, especially for startups and small tech companies, although there are government programs to support some initiatives. Additionally, the lack of advanced management skills hampers the scalability of innovative projects.

2.14 **The scale of the financial system is remarkable, but there are still inequalities in access to finance.** Panama has consolidated itself as a global financial hub. The financial system consists of more than 50 private national and international banks, representing about 7% of GDP (Superintendency of Banks of Panama, 2022). While there is smooth access to financing in the country, its reach to MSMEs, which represent over 97% of businesses, remains limited,[21] with potential impact on their productivity. Gender gaps also persist with a lower proportion of women having access to bank accounts (43% women vs. 47% men) (Global Findex, 2022). Similar gender gaps exist in access to employment: around 52% of women participate in the labor market (vs. 75% of men), even though women have similar levels of access to education as men (INEC, 2024b).

2.15 **Similarly, Panama has established itself as a logistics hub with significant development in transport infrastructure and advances in digital connectivity, though these are also distributed unevenly.** In addition to the modernized Canal, the transportation infrastructure[22] includes an extensive road and rail logistics network, and the international airport handles an annual volume of passengers representing more than four times the local population (18 million passengers in 2023, 70% of them in transit), positioning it as one of the main hubs in Latin America and the Caribbean (Tocumen Panama, 2024). In contrast, rural areas and indigenous territories lack adequate communication routes, with roads that are either scarce or in poor condition.[23] In the digital realm, Panama is an international hub for submarine cables and has expanded its 4G and 5G networks, covering the areas inhabited by 96% of the population (ASEP, 2024b). However, gaps in the use of digital and communication technologies persist. Less than 60% of the adult

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20 As of November 2024, the World Bank had only published country-level data up to the year 2020.

21 More than 97% of businesses in the country are MSMEs; however, in December 2020, for example, less than half of the credits granted were allocated to these businesses (IDB, 2023).

22 The infrastructure sector generates a considerable amount of employment, but this is cyclical and mostly occupied by men (85% of construction jobs, according to INEC).

23 In 2023, the national budget allocated 41.2% of investment spending to projects considered of national scope, while 33.4% was dedicated exclusively to Panama City, leaving only the remaining 25% for other regions. Among the main projects in the country is the expansion of metro lines in the Panama City area (MEF, 2023b).

population is connected to the internet, and fewer than one-third have made a digital payment (WB, 2021).[24] Additionally, there are disparities between the urban areas of Panama City and Colón and the rural regions (Boumadan et al., 2024).

2.16 **Other potential drivers of economic growth face mixed prospects: tourism is recovering, mining is facing uncertainty, and agriculture continues with limited progress.** Among the service sectors, tourism stands out for its growth over the past decade. It is estimated to represent around 10% of GDP, in recovery post-pandemic (ATP, 2022). Its model has historically prioritized shopping tourism in the capital, limiting the utilization of the country's natural and cultural wealth, something that has been changing during the strategy period, driven, for example, by the restoration of Panama City's Casco Antiguo, the passage of the Agrotourism Law and local efforts to diversify the tourism offer.[25] Mining (especially copper) has become notable, growing from around 1.5% of GDP a decade ago to 3.8% of GDP in 2023 (or 5% of GDP including indirect contributions, IMF, 2024). However, it has been a topic of debate after the Supreme Court declared the contract with the operator of the *Cobre Panamá* mine unconstitutional, following months of protests that culminated in its closure. Agriculture maintained its small share of GDP at 2.4%, but it accounts for 16% of employment and faces challenges in improving productivity and environmental sustainability.

III. RELEVANCE OF THE IDB GROUP STRATEGY WITH THE COUNTRY

3.1 **This section analyzes the relevance of the strategy by considering aspects of strategic selectivity and design quality**. The *strategic selectivity* analysis examines the alignment of the strategy's objectives with the IDB Group's national and institutional priorities, as well as the strength of the argument supporting their selection and the feasibility of the IDB Group's contribution towards achieving these objectives. Regarding the *quality of the strategy's design*, the analysis examines the vertical logic of its results matrix (i.e., the logical linkage between the different levels of objectives), the selection of appropriate and measurable indicators to monitor progress, and risk management, including the relevance of the planned mitigation measures to safeguard the IDB Group's contribution to the strategy's objectives.

3.2 **The IDB Group strategy in Panama for 2021–2024 defined three priority areas: i) modernizing public management; ii) improving the delivery of basic services; and iii) reigniting and diversifying productive activity.[26]** In each area, the CS set strategic objectives (SO)—8 in total—and expected outcomes (EO)—23 in total. These SOs and EOs are collectively referred to as the CS

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24 Panama has made progress with the digitalization of government services, although challenges in implementation and coordination between sectors and levels of government persist. The country ranks 79th out of 193 in the Digital Government Development Index, and 10th among countries in the region (UN, 2024).

25 Despite its importance to GDP, tourism has historically prioritized shopping tourism, with less focus on visits centered around the country's natural and cultural heritage. According to the 2016 Tourist Expenditure Surveys by the Panama Tourism Authority (*Autoridad de Turismo de Panama,* ATP), visitors allocated 38.5% of their total expenditure to shopping, surpassing spending on hotels (30.9%), restaurants (14.0%), and entertainment (11.6%). Additionally, half of the country's accommodation offerings are concentrated in the Panama Province.

26 The 2021–2024 CS (document GN-3055), approved on June 16, 2021, was valid until June 30, 2023. Like all country strategies, its validity was automatically extended for 12 months.

objectives (Table 3.1). Additionally, the CS proposed integrating three cross-cutting themes into the IDB Group program: gender and diversity, environmental sustainability and climate change adaptation, and institutional strengthening.

Table 3.1 Priority Areas, Strategic Objectives, and Expected Outcomes of the 2021–2024 CS

Strategic Objectives (SOs)	Expected Outcomes (EOs)
Priority area: Modernizing **public management**	
SO1. Enhance the effectiveness of the tax administration	SO1 EO1.1. Increased effectiveness of enforcement
	SO1 EO1.2. Improved tax payment service
SO2. Promote the digital transformation of public administration	SO2 EO2.1. Increased proportion of formalities for citizens and businesses digitalized
Priority area: Improving the delivery of **basic services**	
SO3. Expand access to, and quality of, social protection, health, and water and sanitation services for vulnerable population groups	SO3 EO3.1. Improve access to essential health services for indigenous populations
	SO3 EO3.2. Increased coverage of immunization against COVID-19
	SO3 EO3.3. Increased urban wastewater treatment coverage
	SO3 EO3.4. Increased access to drinking water
	SO3 EO3.5. Improved efficiency and targeting of social protection programs
SO4. Improve quality and relevance in the educational system	SO4 EO4.1. Increased school attendance in early childhood
	SO4 EO4.2. Increased quality of learning in primary education
	SO4 EO4.3. Reduced school dropout rate
Priority area: Reigniting and diversifying **productive activity**	
SO5. Expand access to credit for underserved sectors	SO5 EO5.1. Improved access to credit for MSMEs
	SO5 EO5.2. Increased financial inclusion of women
SO6. Improve levels of connectivity and digital adoption	SO6 EO6.1. Increased digital connectivity in bypassed regions
SO7. Develop quality infrastructure services based on inclusion and environmental sustainability criteria	SO7 EO7.1. Improved road connectivity in rural and indigenous areas
	SO7 EO7.2. Shorter freight transportation dispatch times at the northern border
	SO7 EO7.3. Increased access to electricity service
	SO7 EO7.4. Increased share of nonconventional renewable energy sources in the energy matrix
	SO7 EO7.5. Increased female participation in infrastructure sectors
SO8. Develop services for sustainable and inclusive growth of tourism and agriculture	SO8 EO8.1. Activities linked to the tourism industry rekindled
	SO8 EO8.2. Increased number of beneficiaries of sustainable use of cultural and natural heritage
	SO8 EO8.3. Increased productivity, resilience, and sustainability of Panamanian agricultural producers
	SO8 EO8.4. Reduced greenhouse gas emissions

Source: IDB Group Country Strategy with Panama 2021–2024 (see document GN-3055).
Note: In the Country Program Document (CPD) 2024, the IDB introduced an additional expected outcome: increased R&D by regional or climate change institutions. According to the coding used by OVE, this outcome will be identified as OE8 RE8.5. and is considered valid as of January 1, 2023, according to current guidelines.

3.3 **The CS objectives were aligned with the country's development challenges and priorities[27] but placed relatively less emphasis on the key challenge of strengthening institutional quality.** In its diagnosis, the IDB Group categorized the country's development challenges into four major areas: improving competitiveness, human capital formation, institutional quality, and social and territorial

[27] The objectives were also consistent with the IDB Institutional Strategy and IDB Invest Business Plan, which aimed to reduce social inequality and increase economic productivity.

cohesion, alongside the cross-cutting challenge of environmental sustainability[28] (see Box 3.1). Meanwhile, the country's priorities were outlined in the Government Strategic Plan (PEG) 2020–2024 under five pillars: Good Governance, Rule of Law,[29] Competitive Economy that Generates Jobs, Fight Against Poverty and Inequality, and Education, Science, Technology, and Culture.[30] The 2021–2024 CS defined objectives consistent with most of these challenges and priorities but placed relatively less emphasis on the crucial challenge of strengthening institutional quality, focusing primarily on fiscal issues and digitalization.

Box 3.1. Panama's challenges according to the 2019 CDC

The 2019 CDC document identified four major challenges for Panama to sustain its growth and move towards more inclusive and sustainable development. The first challenge was *improving the competitiveness and sophistication* of its productive apparatus by increasing penetration in international markets and diversifying the economy. This required enhancements in logistics infrastructure, road infrastructure with a territorial focus, institutional quality, and leveraging sectors such as tourism, agriculture, creative industries, and the digital economy. The second challenge was *human capital formation*, which required improving the quality of education and aligning it with labor market needs. This involved investing in education with a focus on equity, improving teacher selection and training, expanding preschool education coverage, and promoting technical and vocational training. The third challenge was *strengthening institutional quality* by enhancing public management, digital governance, and territorial governance (including decentralization and local capacity to manage basic services), increasing transparency and combating corruption, and reforming the judicial system. Finally, the fourth challenge was *increasing social and territorial cohesion* by reducing inequalities between urban and rural areas, promoting greater territorial balance in economic activity and public investments, and improving living conditions for vulnerable groups, including the indigenous population. This would be pursued through social protection systems, early childhood programs, and inclusive and equitable health services. Additionally, the CDC identified the environmental challenge as a cross-cutting issue, particularly water resource management, which required improvements in water management, sanitation, solid waste management, and the protection of natural capital linked to climate resilience.

3.4 **The relevance of the CS objectives related to *public management* was diminished by their weak connection to key challenges in this area.** The CS proposed *enhancing the effectiveness of the tax administration* and *promoting the digital transformation of the State*. While both objectives were relevant to addressing the country's needs, the CS did not sufficiently justify their selection from the broader set of national challenges. These included improving public management more comprehensively, strengthening territorial governance (including decentralization and local capacity to manage basic services), and promoting transparency and the fight against corruption. The link between *improving tax administration* or *digitalization of the State* and other challenges was plausible, but either it was not articulated in the CS (e.g., the connection between digitalization and combating corruption) or was too indirect (e.g., between improvements in tax administration and the potential strengthening of local capacities).

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28 Prior to the formulation of each CS, the IDB Group prepares the Country Development Challenges (CDC) document, a diagnostic instrument that identifies development challenges, barriers to growth, and proposes solutions to address them.

29 Under the Rule of Law pillar, the PEG outlined actions related to a New Constitutional Order, Administration of Justice, Security, Disaster Risk Prevention and Management, and Migration Policy.

30 The Government of Panama's 2020–2024 Five-Year Investment Plan details the initiatives programmed under the PEG. Unlike the corresponding five-year plan for the previous CS, which proposed an ambitious investment program of nearly US$20 billion, including major projects like Metro Line 2, this plan is more limited in terms of investment. The focus is on activities to drive economic growth, increase productivity and employment, strengthen the quality of human capital, raise incomes, improve basic services, and promote new areas of growth.

3.5 **The CS objectives related to the *delivery of basic services* were relevant because they were well-aligned with the country's needs and priorities.** The CS set objectives for *improving social protection services, health, and water and sanitation for vulnerable populations,* as well as *improvements in the education system.* The objective of *improving tax collection* was also consistent with the logic of providing resources to pay for these services. The objectives were aligned with the social challenges of the country of promoting the inclusion of vulnerable populations to enable them to enable them to benefit more broadly from economic growth. The relationship with this social inclusion challenge was direct, focusing on improving access to basic health services, education, and infrastructure, as well as quality.

3.6 **The relevance of the CS objectives in the productive area was reduced because the bottlenecks identified for tackling the key challenge of boosting the country's productivity were not addressed.** The central challenge in this area is to grow the economy's productivity, which has made a negative contribution to economic growth. In this context, the CS set objectives to *improve access to credit for Micro, Small, and Medium Enterprises (MSMEs) and women, improve digital connectivity and adoption, develop infrastructure services based on inclusion and environmental sustainability criteria,* and *develop services for sustainable growth of tourism and agriculture sectors.* All these were indeed needs of the country, but it is unclear whether they prioritized the elements necessary to elevate the overall productivity of the Panamanian economy. Achieving this would have required a multidimensional approach that tackled key barriers such as informality, a robust institutional framework for financing and infrastructure development, and the productivity of large enterprises and their value chains, which account for the majority of the country's economic activity. The focus on potential growth drivers like tourism and agriculture was a step in the right direction, but it needed a more comprehensive approach that could be scaled to have nationwide effects. Finally, the CS set general objectives for improving education, including early education, but not objectives for promoting technical-vocational education, on-the-job training, or the development of vocational information systems which would have been more directly related to the challenge of increasing the skills of the population, which was a key barrier to the country's productivity growth.

3.7 **The objectives in the productive area also failed to address two key risks that intensified during the period: preserving a business environment conducive to investment and ensuring environmentally sustainable development.** The country has been successful in attracting foreign direct investment. At the time of the CS's preparation, one sector with high investment potential was mining. However, during the period, the most significant mining project was shut down amid social and legal disputes, leading to a rollback of contractual commitments with foreign investors. It is too early to assess the long-term effects of this case on future investors' perceptions of Panama, but it highlights the critical need to preserve a business environment favorable to investment as a central national objective—a goal that the IDB Group did not directly support in the CS. Additionally, both the mining sector (part of the concerns revolved around its environmental impact) and the operation of the Canal (which faced restrictions due to water resource availability) highlighted the importance of considering environmental sustainability in investments as a central objective, which was also not prioritized in the CS.

3.8 **The strategic selectivity of the CS was also weakened by the lack of a clear rationale for the selection of its objectives and how the IDB Group would contribute to them.** Although the objectives addressed the country's needs and priorities, the CS did not provide a solid, evidence-based justification for their selection.[31] Even though the objectives had a narrower scope compared to the previous period (see Box 3.2), there was no evidence that this selection was based on a thorough analysis of how the IDB Group had contributed to these objectives. Some objectives targeted longstanding challenges, such as improving the quality of education or enhancing infrastructure in rural areas and indigenous *comarcas*, a regional focus that the CS emphasized, as opposed to the previous CS which focused more on urban challenges centered in Panama City. In both cases, the CS did not sufficiently explain how the IDB Group would contribute, given the challenges previously experienced. Additionally, some objectives were new compared to the previous CS, but it was not specified how, if necessary, the IDB Group's capacities would be developed to support them. The objectives also did not reflect a division of tasks with other development actors. The CS mapped the presence of other partners and proposed coordination, but its objectives overlapped with theirs, without evidence that potential synergies and comparative advantages had been analyzed.[32]

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31 According to ICPR guidelines, *strategic selectivity* is based on two elements: the congruence and the strength of the argument for the choice of objectives. Congruence reflects whether the CS objectives are aligned with the country's development needs, national priorities, and those of the IDB Group. The strength of the argument refers to whether the choice of objectives is backed by evidence, considering factors such as the IDB Group's capabilities, previous findings on the degree of contribution towards those objectives, cooperation with other actors, and the country's context.

32 For example, the World Bank Group established the following objectives in its Country Partnership Framework (CPF) with Panama for the 2015–2021 period: supporting the improvement of logistics and connectivity; increasing the reliability of energy supply; improving the transparency of budget management; complementing social assistance with productive inclusion; improving access to water and sanitation services; strengthening resilience to natural disasters; and supporting integrated water resource management in priority areas. The IMF monitors the recommendations it provides. The most recent, from 2023, offers recommendations to Panama in five main areas: fiscal policy, financial integrity and fiscal transparency, the soundness and reforms of the financial sector, adequacy of data publication, and some structural reforms.

Box 3.2. Comparison between the objectives of the 2015–2019 and 2021–2024 CS:
The 2015–2019 CS established 3 strategic objectives (SO) with 13 expected outcomes (EOs) in 3 priority areas: (i) improving the provision of basic services to the population in poverty; (ii) strengthening the educational profile of the population; and (iii) deepening logistical services, and the efficiency and connectivity of productive infrastructure. The 2021–2024 CS continued all these objectives, although with a more limited scope in logistics, health, and education. In logistics, the focus was limited to freight transportation at the northern border; in education, tertiary education was excluded; and in health, the emphasis was on access to health services rather than on reducing mortality. Additionally, the 2021–2024 CS incorporated new areas such as digitalization in public administration and rural areas (SO2 and SO8), and the sustainable and inclusive growth of tourism and agriculture (SO8). While the 2015-2019 CS focused on targets in urban areas, the 2021-2024 CS expanded its focus to rural and indigenous areas.

3.9 **Firstly, although the design of the CS was relatively solid, it still had weaknesses in the structuring of the objectives.** The vertical logic in the CSs defines the expected theory of change, that is, *how* advancing the EO was expected to contribute to its SO, and how advancing the SO was expected to contribute to its priority areas. While this CS presented an overall solid structuring of the objectives, there were some weaknesses. In some cases, necessary expected outcomes were missing, for example, there was no EO related to quality to advance *the expansion of access to, and quality of, social protection, health, and water and sanitation services for vulnerable population groups* (SO3). Others included SOs and EOs that lacked specificity such as "promoting" the digital transformation of public administration (SO2), or *reducing Greenhouse Gas (GHG) emissions* (EO8.4), which was not specific enough to act as a lever to contribute to the corresponding strategic objective at a higher level (more details on the structuring of the objectives in Annex II).

3.10 **Secondly, the strategy had gaps in its monitoring mechanisms.** The CS results matrix included 25 Progress Indicators (PI). Of these PI, one third (7) were updated to 2023 values, while one fifth (5) were updated to 2022 values. Half of them (6) come from recurring surveys by the National Institute of Statistics and Census, which are regularly updated. However, difficulties were faced in monitoring the progress of the remaining 13 PI (52%), which affected the tracking of the CS objectives. This situation could have been anticipated during the preparation of the CS, as the baseline values of half of them (13) had not been updated for two or more years, with reference values from 2018 and, in some cases, from 2013.[33] Additionally, some PI, such as *the percentage of producers adopting more productive and sustainable practices and technologies*, did not meet the criteria required by the development effectiveness framework (DEF).[34] The CS also did not set goals for strengthening and using national monitoring and evaluation systems, which could have complemented the monitoring of the CS.

3.11 **Finally, the strategy had weaknesses in the identification and mitigation of some of the risks.** According to the Guidelines for country strategies, the analysis should focus on "*the identification of the main risk factors (...) that could hinder the achievement of the development objectives of the IDB interventions,*" and not on

33 Some indicators depended on sources that were unexpectedly discontinued (such as the World Bank's *Doing Business*), but the update of others was already known to be infrequent at the time the CS was prepared, such as the PISA tests or greenhouse gas emissions data.

34 According to the Guidelines for country strategies (document GN-2468-9), the indicators of the CS must be specific, measurable, achievable, relevant, and time-bound (SMART). Given the breadth of the dimensions contained in this indicator and the potential ambiguity of the concept of "adoption," this indicator was not sufficiently specific or time-bound.

general risks of the country (document GN-2468-9, paragraph 4.13). The CS identified four risks: (i) execution risks; (ii) fiscal and financial risks; (iii) increased social vulnerability; and (iv) natural disasters and climate change effects. To mitigate execution risks, appropriate actions were proposed, including training, consulting, and technical support from the Bank to key implementing agencies, as well as technical and financial support to strengthen the role of the Comptroller's Office. Collaboration with external agencies was also proposed to speed up implementation and generate learning. The only caveat is that no specific risks for the implementation of IDB Invest operations were identified, despite its expected role in supporting the objectives. In contrast, the CS proposed mitigating the effects of the other three risks through the implementation of the same program.[35] In addition to being focused not on the program, but on the country, it was unlikely that their potentially rapid emergence could be mitigated by the slower realization of program results.

IV. Relevance of the Country Program

4.1 **This section analyzes the relevance of the country program (CP) on the basis of its ex-ante alignment and its operational design.** The section begins by describing the operations included in the CP and analyzes the type and mix of instruments approved by the IDB and IDB Invest to support the CS objectives. Then, it assesses the feasibility of contribution, which determines the degree of alignment (strong or weak) of the CP with the CS objectives. This is done in three hierarchical steps: first at the operational level, then at the expected outcome level, and finally at the specific objectives level.[36] Finally, the relevance of incorporating the cross-cutting issues identified in the CS into the CP is discussed.

A. Description of the Country Program

4.2 **The program consisted of 123 sovereign-guaranteed (SG) operations and 38 non-sovereigns guaranteed (NSG) operations, totaling US$3.491 billion.** During the review period[37], the IDB approved US$1.186 billion in SG loans, 7% less than what was forecasted in the CS financing framework.[38] In addition, US$28.7 million in non-reimbursable instruments (grants), a contingent credit facility (CCF) of US$400 million, and two conditional credit lines for investment projects (CCLIP)

35 The CS anticipated mitigating financial and fiscal risks through work with the government on "*financial and non-financial products to support: i) fiscal sustainability (...); ii) financial transparency; iii) a technical dialogue on the situation of the Social Security Fund; iv) modernization of the financial system; and v) improving the efficiency of social protection programs*."

36 According to the Guidelines (document RE-348-10), the alignment analysis is first conducted at the operational level, analyzing the degree of logical connection and its feasibility of contributing to the EOs, considering its design and assuming that the operations are implemented as expected. This is then added at the EO level based on the ratings of all the operations aligned with each EO. Finally, it is added at the SO level, based on the ratings of the EO under each SO.

37 According to the Protocol (document RE-348-8), the review period covers from the approval of the CS (June 16, 2021) until June 30, 2024 and includes both legacy operations from previous periods, i.e., those approved before June 16, 2021, with outstanding balances to be disbursed, as well as IDB Invest operations that prepared, or were supposed to prepare according to the applicable deadlines, their Extended Supervision Report (XSR) during the analysis period.

38 The comparison with the CS financing framework is made with respect to the figures for 2022–2023 (US$440 million and US$450 million, respectively). Since the IDB Group typically approves more projects in the second half of the year, the comparison is made against full years.

were approved.[39] Meanwhile, IDB Invest approved US$346.0 million in loans or guarantees, a 13% increase compared to the previous period,[40] and US$79.3 million in short-term loans for supply chain financing (TSCF) and US$448.3 million under the trade finance facility (TFFP). In addition to these approvals (67 SG and 29 NSG loans), the CP included 58 legacy operations (55 SG and 3 NSG loans) with an outstanding balance to be disbursed at the start of the period of US$1.403 billion. It also included 6 NSG loans with an Expanded Supervision Report (XSR) during the 2021–2024 period Table 4.1 and detail in Annex X).

Table 4.1 IDB Group Country Program with Panama – June 16, 2021, to June 30, 2024

	Number of Operations			US$ Millions		
	Legacy	Approved	Total	Legacy	Approved	Total
Total	**64**	**96**	**160**	**1.402,7**	**2.088,3**	3.491,0
IDB	**55**	**67**	**122**	**1.360,3**	**1.214,7**	2.575,0
Loans	22	13	35	1,338.6	1,186	2,524.6
Investment	22	9	31	1,338.6	536	1,874.6
PBL	0	4	4	0	650	650
Donations	**33**	**51**	**84**	**21.7**	**28.7**	**50.5**
Investment	2	1	3	12.4	15	27.4
Technical Cooperation	31	50	81	9.3	13.7	23.1
Paid advisory services	0	1	1	0	0.3	0.3
*Contingent Credit Facility**	*0*	*1*	*1*	*0*	*400*	*411.4*
*Conditional Credit Line**	*0*	*2*	*2*	*0*	*41.1*	*41.1*
IDB Invest	**9**	**29**	**38**	**42.4**	**873,6**	916,0
Loans or guarantees	3	10	13	42.4	425,3	467,7
TFFP credit lines	0	9	9	0	448,3	448,3
Advisory Services**	0	10	10	0	0.5	0.5
Loans with XSR**	6	0	6	0	0	0

Source: OVE, based on IDB Group systems.
Notes: Operations approved in the CS period. The amount of legacy operations corresponds to the undisbursed balances as of JUN/16/2021. It includes operations with XSR during the period. * The approved amount of the contingent credit facility and conditional credit lines is not included in the totals, as these are lines approved with a maximum limit that can be used at the country's request, but they do not commit additional resources until used. ** This table also does not include the amounts of Advisory and loans that had an XSR during the period.

4.3 **The IDB channeled more than half of its approvals through Policy-Based Loans (PBL), whose design made it feasible for them to contribute to the objectives they targeted.** PBLs accounted for 54% of the total amount approved during the period, a percentage similar to the previous period.[41] During this period, four PBLs were approved addressing objectives related to *digital transformation of public administration* (SO2), *sustainable infrastructure* (SO7), and *tourism and agriculture* (SO8), as well as the cross-cutting theme of gender and diversity.[42] Two of these allowed for the conclusion of reform programs initiated in gender equality and the digitalization of business procedures, while the other two launched new series of reforms. According to OVE's analysis (see Box 4.1), the three PBLs addressing CS objectives had sufficient depth to generate structural changes, in line

39 The CCFs provide resources to cover immediate expenses after a natural or public health disaster. Conditional credit lines facilitate a programmatic approach to expedite the preparation and approval of sequences of loans in one or multiple sectors.

40 The NSG approvals during the previous CS (2015–2019) totaled US$305 million in long-term loans.

41 The increase in the use of PBLs was a central element of the IDB's response to the COVID-19 crisis across most of the region. However, in Panama, the proportion of PBLs remained relatively stable, representing 53% of total approvals during the 2015–2019 CS and 54% during the 2021–2024 CS.

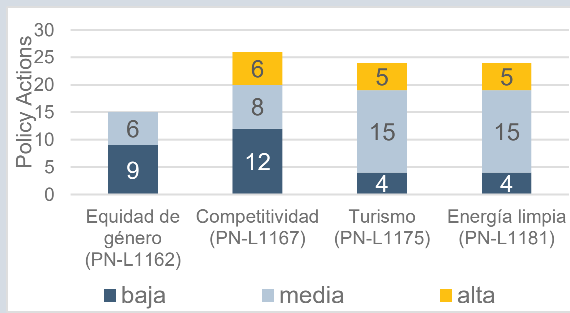
42 All were approved under the modality of Programmatic Policy-Based Loans (PBP), meaning individual operations within a reform framework to be implemented in phases.

with what is required to contribute to their respective objectives. The PBL for Competitiveness and Diversification (PN-L1167/2021) promoted the digitalization of public administration (SO2) and the development of sustainable tourism, supporting, among other initiatives, the Master Plan for Sustainable Tourism Development (SO8). This second phase of this PBL had less depth, focusing on the evaluation and implementation of strategies and standards approved in the first phase. The PBL for Tourism (PN-L1175/2022) advanced reforms to improve tourism data management and diversify offerings, including agritourism and tourism in indigenous areas (SO8). The PBL for Energy (PN-L1181/2023) drove reforms to strengthen climate action, establish a carbon market, and increase renewable energy (SO7), promoting sustainable development in tourism, agriculture, and infrastructure (SO8). In contrast, the fourth PBL, focused on gender equality (PN-L1162/2021), supported a cross-cutting theme of the country strategy with actions aimed at the implementation and supervision of an already initiated reform process, though it was unlikely to generate long-term changes on its own.

Box 4.1. Policy-Based Loans in Panama

The OVE evaluated whether the actions included in the policy matrices of the PBLs involved long-term structural changes using a depth metric previously applied in its evaluation of PBLs (document RE-582-2). In this assessment, the OVE found that loans with a higher proportion of medium or high-depth policy actions were more likely to be effective at closure. In three of the four PBLs during the period in Panama, the proportion of policy actions with medium or high depth exceeded 50% (see Figure 4.1 and details in Annex VI).

Figure 4.1: Depth of PBLs approved during the 2021–2024 CS



Source: OVE with IDB information (2024).

4.4 **Among investment instruments (INV), the use of the global credit modality increased, while the use of other modalities decreased, affecting support for the CS objectives in infrastructure and basic services**. Global Credit Operations (GCR), a modality not used during previous strategy periods, accounted for 26% of the total amount approved during the period.[43] GCRs are characterized by their rapid disbursement and streamlined pre-control process by the Comptroller's Office (see Box 5.1) compared to other INV instruments. GCRs focused on supporting *access to credit for MSMEs* (SO5).[44] The growth in GCR use coincided with a reduction in the use of specific investment loans, which represented 19% of the total approved amount (compared to 32% in the previous period), and a complete abandonment of the global of multiple works modality (GOM), whose

43 The calculation excludes Special Development Loans (SDL) for budgetary support to address the effects of a macroeconomic crisis.

44 GCRs provide funds to second-tier public institutions, which then channel these funds to first-tier financial institutions, allowing them to lend to specific types of final clients, such as MSMEs.

implementation had been complex in the past.[45] This reduction of specific investment loans and GOM reduced the support for key objectives for the country related to the *delivery of basic services* in vulnerable areas (SO3) and *infrastructure* (SO7).

4.5 **Technical Cooperation (TCP) decreased compared to the previous period and prioritized client support over support for IDB operations, despite persistent implementation challenges.** The amount of approved TCPs during the period decreased by 25% compared to the previous period (from US$18.4 million to US$13.7 million), although this represented a relative increase (from 0.6 cents per dollar approved in loans to 1.15 cents). More resources (62%) were allocated to client support and less to operational support, despite ongoing implementation challenges from previous periods.[46] This contrasts with the previous period when resources were equally divided between the two areas. In the context of significant challenges, the Bank directly handled almost all TCP execution (94%), a proportion even higher than the average in all IDB borrowing countries (80%). By executing TCPs internally, the implementation process is accelerated (bank-executed TCPs do not require approval of the Comptroller's Office), but this limits knowledge transfers to the country. To mitigate this effect, the IDB has sought to coordinate with the requesting entities to maximize the exchange of experiences, even though this important process had not been contemplated in a more systemic way in the CS itself.

4.6 **Using a combination of short-term and long-term instruments, IDB Invest increased its financial contribution to the program, primarily supporting the objective of expanding credit to MSMEs (SO5).** During this period, average annual approvals for NSG loans doubled compared to the previous CS. Long-term loan and guarantee approvals increased from an average annual amount of US$67 million between 2015 and 2020 to US$128 million annually between 2021 and 2023. These operations focused mainly on financing banking entities *to improve access to credit for underserved sectors* (SO5), particularly *MSMEs* (EO5.1), and to *rekindle the tourism sector* (EO8.1). For their part, short-term loans and guarantees represented more than half of IDB Invest's financing during the period, channeled financing through TSCF totaling US$79 million and 9 TFFP operations totaling US$448.3 million (see Box 4.2). This financing focused on the reactivation and diversification of productive activity, with an emphasis on *improving access to credit for MSMEs* (EO5.1), making this window the primary source of financing for this objective The OVE highlighted in its evaluation of IDB Invest (document RE-577) that the TFFP still had areas for improvement regarding development outcomes, mainly in expanding its coverage of SMEs and using it as an instrument for mobilization and as a gateway for IDB Invest to reach new clients. Expanding the coverage of MSMEs in Panama is a step in this direction. Ten technical

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45 GOMs finance groups of similar but physically independent works. Since not all projects are known at the time of loan approval, the borrower must specify a representative subset of subprojects before approval. During implementation, the financing of individual works depends on meeting eligibility criteria. These characteristics of GOMs are particularly challenging in the Panamanian context, due to the pre-control oversight by the Comptroller's Office.

46 Client-support TCPs played a prominent role in supporting specific objectives. These TCPs accounted for 71% of the TCP resources aligned with *expanding access to, and quality of, social protection, health, and water and sanitation for vulnerable population groups* (SO3, for $2.4 million), 76% of the TCPs aligned with *connectivity and digital adoption* (SO6, for $480 thousand), and 100% of the TCPs aligned with *access to credit in underserved sectors* (SO5, for $270 thousand).

advisory services (ADV), present in more than half of the IDB Invest loans approved during the period, aimed to provide non-financial additionality, especially on the cross-cutting themes of the CS of gender and climate change, allowing IDB Invest to differentiate itself in a highly competitive market such as Panama's. In addition, IDB Invest attracted investor funds, achieving a base mobilization of around US$438 million during the period under review.

Box 4.2. Trade Finance Facilitation Program (TFFP)
During the period, active lines were utilized under the TFFP, with total approvals amounting to US$448.3 million, aiming to promote international trade. Since 2005, the TFFP has offered short-term loans and guarantees, along with technical advisory services to banks in Latin America and the Caribbean, to facilitate their access to international trade finance markets. The expansion of the TFFP was one of IDB Invest's pandemic response tools. In the country, banks have active lines, although approvals were largely concentrated in two banks. Regarding the products used, US$114 million corresponded to loans, US$67 million to guarantees, and the remaining US$267 million were mixed approvals of loans and guarantees.

B. Program Alignment and Integration of Cross-Cutting Themes

4.7 **The country program was strongly aligned with strategic objectives in the areas of public management and basic services, while alignment in the area of productivity was mixed.**[47] In the areas of *public management and basic services* (see Table 4.2 and Annex for more details), the program had sufficient operations with the feasibility of advancing all the EOs of the four corresponding SOs. In contrast, in the priority area of *productive activity*, only the objective of digital connectivity had strong alignment, while the other SOs had one or two EOs with weak alignment, leaving the theory of change through which the CS sought to advance these SOs incomplete. Finally, only a minimal part of the CP (8 operations totaling US$2.2 million) did not align with any objective.

47 Alignment is considered "strong" when the program has both *coverage* (with relevant operations for all the EOs of the SO) and *feasibility* (advances in all the EOs of the SO could be achieved if these operations are implemented as designed). In contrast, alignment is considered "weak" when the program shows gaps in either *coverage* or *feasibility* in at least one of the EOs of the SO. The "no coverage" category applies when the CP does not deploy any operations.

Table 4.2. Alignment of the program with the 2021–2024 CS objectives

Strategic Objectives (SOs)	Alignment of Expected Outcomes[a] 🟢 = Strong 🟡 = Weak		Legacy portfolio			Approvals 2021–2024			Total
			SG	NSG	NR[a]	SG	NSG	NR[b]	
Priority area: Modernizing **public management**									
SO1. Enhance the effectiveness of the tax administration	🟢🟢	#	2		2	1		4	9
		US$M	150		0.43	20		0.71	171.14
SO2. Promote the digital transformation of public administration	🟢	#	7		5	8		9	29
		US$M	392.6		0.9	462.4		2.27	858.25
Priority area: Improving the delivery of **basic services**									
SO3. Expand access to, and quality of, social protection, health, and water and sanitation services for vulnerable population groups	🟢🟢🟢🟢🟢	#	9		10	4	3	11	37
		US$M	1,150.4		7.26	780	135	3.12	2,075.84
SO4. Improve quality and relevance in the educational system	🟢🟢🟢	#	6		3	2		5	16
		US$M	297.47		10.2	65		1.69	374.38
Priority area: Reigniting and diversifying **productive activity**									
SO5. Expand access to credit for underserved sectors	🟢🟡	#	2	4	3	4	16	2	31
		US$M	165	30	0.8	790	515.74	0.27	1,501.81
SO6. Improve levels of connectivity and digital adoption	🟢	#	1		1	5	1	3	11
		US$M	8.47		0.24	326.1	100	0.63	435.44
SO7. Develop quality infrastructure services based on inclusion and environmental sustainability criteria	🟢🟢🟢🟡🟡	#	5	1	7	2	7	11	33
		US$M	376.9		1.58	760	150.2	4.8	1,293.51
SO8. Develop services for sustainable and inclusive growth of tourism and agriculture[c]	🟢🟢🟢🟡	#	5	1	10	5	3	7	31
		US$M	462.18	24.7	6.48	1,111	71.32	3.52	1,679.2
Total[d]		#	22	6	31	17	25	39	148
		US$M	1,338.6	42.35	21.8	1,612.4	785.9	11.9	3,815.2

Source: OVE, with data from IDB 2024 and IDB Invest 2024.
Notes: [a] Each circle reflects an expected outcome, in the same order as they appear in the CS. [b] NR includes all non-reimbursable operations. [c]SO8 does not include the alignments corresponding to EO8.5: increased R&D by regional or climate change institutions, which was incorporated near the end of the Strategy period. [d] The table includes repetitions in cases where the same operation was aligned with more than one SO, but the overall total of operations and amounts eliminates this duplication.

4.8 **The program's alignment with the objectives was generally strong, thanks to three elements: the presence of investment projects of sufficient scope, the use of complementary technical cooperation, and a design clearly focused on the target populations.** For example, to *strengthen tax administration* (SO1), the Customs Logistics Integration and Support for the Digital Transformation of Tax Administration programs were of sufficient size to generate the expected changes. Support for these objectives often included complementary technical cooperation, which reinforced the investment loans. This was observed, for example, in the *quality and relevance of education* objective (SO4), where TCPs complemented investment loans such as the Program to Improve Efficiency and Quality in the Education Sector (PN-L1143/2017). The design of operations that aimed to have a direct impact on the target populations also contributed to better alignment. For example, this was the case in *basic services* (SO3), where the social inclusion and development programs (PN-L1105/2015 and PN-L1177/2023) focused on target populations that included early childhood, poor households, women, and indigenous communities.

4.9 **The program's alignment was weak for only four EOs because the operations supporting these objectives had an indirect focus or limited scope.** Weaknesses in *focus* occurred when the program could only contribute indirectly through operations that pursued other objectives. For example, in the case of *expand access to credit for underserved sectors* (SO5), the focus of most of the program's operations was not to achieve *increased financial inclusion of women*, as stated in EO5.2. Instead, the interventions were generic with some gender component or indicator. Weaknesses in *scope* occurred when the program had a limited scope relative to the ambition of the objective. For example, for *reducing GHG emissions in tourism and agriculture* (EO8.4), there was only one technical cooperation (TCP), which had low feasibility of contributing to such a broad EO.[48]

4.10 **The CS cross-cutting themes were integrated as expected across the portfolio.** Overall, 61% of the 160 operations integrated the cross-cutting theme of institutional strengthening, 58% that of gender and diversity, and 41% integrated that of climate change. When analyzed by SO, there was consistency with implicit expectations regarding the integration of these themes. For example, virtually all operations aligned with *strengthening tax administration* (SO1), *digitalizing public administration* (SO2), and *digital connectivity* (SO6) integrated the theme of institutional strengthening. Similarly, most of the operations aligned with *basic services* (SO3) and *education* (SO4) integrated gender and diversity. Finally, most of the operations aligned with the objective of *developing inclusive and sustainable infrastructure* (SO7) and *promoting tourism and agriculture in an inclusive and sustainable manner* (SO8) integrated the issue of climate change. While these are examples of expected integration, the adoption of cross-cutting issues was not limited to these areas alone (see Annex VIII).

4.11 **One of the objectives of the CS was to increase vaccination against COVID-19 (SO3), but the IDB Group's response to the pandemic encompassed a much broader range of actions.** The CS was approved more than a year after the onset of the pandemic, so the pandemic was already part of the context in which the objectives were set. Only one of the objectives was directly related to the response to the pandemic through support for COVID-19 vaccination. The program supported this with an investment operation (PN-L1170/2021) that helped vaccinate 18% of the population. But the IDB Group's support went beyond that, demonstrating flexibility. The IDB restructured two existing operations, allocating more than US$130 million for cash transfer programs and support for people living in extreme poverty, and for the adaptation and reopening of children's centers closed due to the pandemic,[49] helping to *expand access to social protection services for vulnerable population groups* (SO3) and *increase school attendance in early childhood* (EO4.1). It also modified three additional operations (without reformulation) to finance contingency plans for aqueducts, education and virus

48 For all SOs, there were operations that were aligned with the objective, but not through their corresponding EOs. This indicates that not all EOs necessary to contribute to the SO, to which the CP would have been aligned, were included in the CS. An example is the Program to Support Productive Development through Human Capital (PN-L1153/2018), which focused on reducing the gap between the skills demanded in the labor market and those offered by the workforce by strengthening technical and technological education, which was aligned with the objective of *improving the quality of the education system* (SO4), but not through its EOs, which focused on early childhood, basic and secondary education.

49 The Sanitation Program for the Districts of Arraiján and La Chorrera (PN-L1121/2016) was reformulated to allocate resources to cash transfer programs such as "Red de Oportunidades", "120 a los 65" and "Bono Alimentario", "Ángel Guardián" and "Vale Digital", aligning directly with SO3 but not through their respective EOs. The Social Inclusion and Development Program (PN-L1105/2015) was reformulated to redirect approximately US$13 million to income support for people in extreme poverty and the reopening of children's centers, aligning to SO3 and SO4 of the CS.

containment.[50] In addition, 20 operations were approved that integrated the pandemic response into their design, most of which were implemented during the period under review, covering initiatives such as distance learning, job creation, economic protection, support to MSMEs, tourism financing and reactivation of the economy. Furthermore, a US$400 million Contingent Credit Facility (CCF) was approved as a preventive instrument in the event of natural disasters and public health emergencies, within the framework of a comprehensive financial risk management strategy. As a whole, this response to COVID-19 directly and indirectly supported several CS objectives, contributing to the *increased immunization coverage against COVID-19* (EO3.2), *expanded access to social protection for vulnerable population groups* (SO3), and *increased early childhood school attendance* (EO4.1).

V. Country Program Implementation

5.1 **This section examines program implementation by considering the predictability of programming, its execution and performance analysis, and progress in using and strengthening national systems.** The analysis of execution includes the strength of annual programming to anticipate new operations, the pace of disbursements, and the timing and cost of implementing the operations. These are compared with the projections contained in the CS, previous periods and comparable countries. Next, the main reasons for delays in program execution and the measures taken by management to address execution problems are identified, and the improvement and use of national systems is analyzed against the expectations defined in the CS. Finally, progress is analyzed with respect to the recommendations made by OVE in the previous country evaluation.

5.2 **The IDB program had good predictability, reflecting good dialogue with counterparts in the country.** Of the 13 SG loan operations approved during the period[51], 11 (85%) were identified in the Country Program Documents (CPDs) each year,[52] which is above the typical range observed in other countries (60–80%). However, three operations and two planned investment grants did not materialize, including a US$150 million PBL[53] in support of *strengthening the tax administration* (SO1) and a US$20 million investment loan for the *health* sector (SO3). In terms of amounts, most of the investment loans were approved without major changes, with three operations approved for larger amounts than

50 Operation PN-L1148/2017 financed the emergency plan of the Institute of National Aqueducts and Sewers (IDAAN); Operation PN-L1143/2017 provided up to US$20 million for emergency operations of the Ministry of Education (MEDUCA); and Operation PN-L1115/2015 provided more than US$2.5 million in financing for rapid response teams to contain the virus.

51 OVE includes PBLs, Loans for Specific Projects (ESP), and Global Credit Programs (GCR) as operations.

52 In line with current guidelines, the IDB Group prepared a CPD each November to anticipate operations to be approved in the following calendar year.

53 The loan was advanced in two CPDs: first for US$50 million and then for US$150 million.

anticipated, absorbing the amount earmarked for the PBL that did not materialize.[54] In addition, six operations not foreseen in the CPDs were approved, three of which were in response to the COVID-19 crisis.[55] In contrast, technical cooperation operations exhibited less predictability, using total resources similar to those anticipated (US$11.9 million versus US$11.8 million projected), but in different operations.[56] With regard to NSG loans, the only operation planned in the CPDs for the period was approved, as well as nine loans not foreseen in the CPDs, reflecting the great dynamism of these operations, whose shorter maturity cycles make them less likely to be anticipated, even a few months before their approval.

5.3 **The cancellations were minimal and did not significantly affect the scope of the program, but the reformulations, while demonstrating the Bank's flexibility and adaptability, reduced its ability to contribute to certain objectives.** Of the total amount of the CP, 3% was canceled, slightly affecting support to the *infrastructure, education, digitalization* and *social services* objectives (SO2, SO3, SO4 and SO7).[57] Most of the operations affected by these cancellations continued to have a medium or high contribution to their objectives.[58] The Bank demonstrated its ability to adapt by redirecting resources from two legacy operations to support vulnerable populations affected by the COVID-19 pandemic. As a result, the two reformulated operations redirected 30% and 82%, respectively, of their original amounts to the pandemic response. In the water and sanitation loan (PN-L1121/2016), 13 of the 14 planned outputs that would increase wastewater collection and treatment capacity in the districts of Arraiján and La Chorrera were eliminated, which significantly affected the scope of the CP for the objective of improving access to *basic services* (SO3) but made it possible to focus resources on providing cash transfers to vulnerable populations affected by the health crisis.

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54 The MSME Guarantee Fund loan (PN-L1174/2023) was advanced for US$40 million and approved for US$150 million, increasing the number of MSME beneficiaries; the Energy Transition Support loan (PN-L1181/2023) was advanced for US$150 million and approved for US$200 million without increasing the size of the operation; the Innovation loan (PN-L1183/2023) was advanced for US$20 million and approved for US$25 million, allowing for the inclusion of activities related to the expansion of the Scientific Research Institute. The first two operations were key to advancing the objectives of *financial inclusion* (SO5) and *sustainable infrastructure* (SO7), while the last operation had a weak alignment with the CS objectives.

55 The three projects approved in response to the COVID-19 crisis were: Immediate Public Health Response to Contain and Control Coronavirus and Mitigate its Impact on Services (PN-L1170/2021), Contingent Loan for Natural Disasters and Public Health Emergencies (PN-O0008/2022), and Global Credit Program for Sustainable Economy Recovery (PN-L1179/2022). The other three unanticipated projects were PN-J0001/2021, PN-O0010/2023 and PN-O0011/2023.

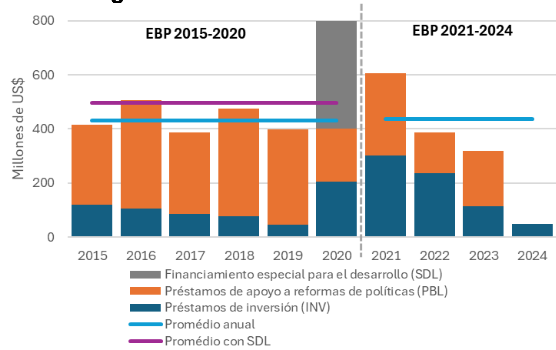
56 Out of a total of 43 approved TCPs, 58% were anticipated in the CPD.

57 There were cancellations of more than US$1 million in seven operations: two rural electrification projects (PN-L1155/2019 and PN-L1095/2014), water and basic sanitation (PN-L1150/2018), citizen security (PN-X1011/2013), fight against poverty (PN-L1105/2015), digital government (PN-L1114/2016), and innovation (PN-L1117/2016).

58 Only three of these seven operations showed a low contribution: one in health (PN-L1117/2016) and two in infrastructure (PN-L1155/2019 and PN-L1150/2018).

For its part, in the Social Inclusion and Development loan (PN-L1105/2015), the reformulation reduced the scope of support to improve the *education system* (SO4) and *expand access to basic services* (SO3)[59] to facilitate the reopening of children's centers.

Figure 5.1. SG loan disbursements



Source: OVE, with data from IDB, 2022.
Note: Based on disbursement data as of June 2024. The average excludes 2024 because the year was not yet complete.

5.4 **Investment loans significantly increased their execution rate and share of total SG disbursements.** Average annual IDB disbursements reached US$439 million in 2021–2023,[60] close to the forecast in the CS (US$459 million) and the annual average of US$431 million in the previous period (see Figure 5.1).[61] Although investment loan approvals declined by 19% compared to the previous period, on average, their annual disbursements doubled compared to the previous period. This led to an increase in the share of investment loan disbursements in total SG from 22% to 52%, which contrasted with the higher concentration of disbursements through PBL in the previous period. This created space to address Panama's development challenges, which require direct investment in infrastructure and basic services, but it was also due to the use of the Global Credit Investment (GCR) modality, characterized by its rapid disbursement in support of MSME financing and accounting for a quarter of INV disbursements in 2021–2023.[62]

5.5 **NSG disbursements nearly doubled compared to the previous period, driven mainly by increased use of the TFFP program.** During 2021–2023, average annual disbursements reached US$231.6 million[63] (see Figure 5.2), a significant increase from US$86.1 million in the 2015–2020 period. Short-term financing through TFFPs and production chains played a critical role, accounting for 62% of total NSG disbursements and nearly tripling from the previous period. Long-term loans, including senior and subordinated loans, also grew, rising from an annual average of US$49.2 million in the previous period to US$87 million, an increase of 77%. This growth was associated with the use of innovative financial instruments (e.g., revolving credit purchase mechanisms, warehousing facilities, risk sharing,

59 In the Social Inclusion loan (PN-L1105/2015), one of the 29 outputs was eliminated and the scope of eight others was reduced, forcing the adjustment of four outputs; in the case of the Arraiján and La Chorrera Sanitation Program (PN-L1121/2016), the only remaining output was a package of studies and designs with a low feasibility of contribution.

60 Data for 2024 are excluded to avoid seasonality bias in the averages, as this year was still in progress at the time this ICPR was prepared.

61 The average for the previous period is high, partly due to a Special Development Loan (SDL) of US$ 400 million approved in 2020 which provided budget support to address the effects of a macroeconomic crisis. Including this operation, average annual disbursements would be close to US$500 million.

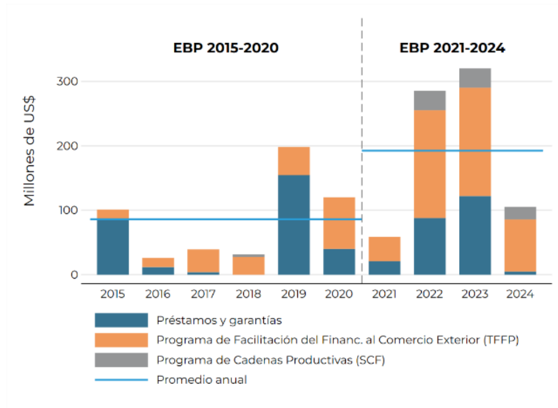
62 Of the total disbursements of investment loans during the period, 21% were specific investment loans, 24% were GCR disbursements, and the remaining 5% were GOM loans. It is important to note that the GCR disbursements are due to two operations that financed MSMEs through financial intermediaries and were executed in three years, in contrast to the average execution time for investment loans in Panama, which is 6.6 years.

63 As usual, the CS did not estimate a financing framework for NSG operations.

and bridge-to-bond) in line with the OVE recommendation to expand the provision of value-added services to the private sector and the CS priority area of *reigniting and diversifying productive activity*.

5.6 **Preparation times for SG loans have improved, but implementation bottlenecks remain.** Preparation times for PBLs decreased from 12 to 11 months, still below the CID average (15 months). For investment projects approved during the period, preparation time decreased from 12 to 10 months, below the IDB average (16 months). However, INVs continue to face significant delays in implementation. Although the time from Board approval to first disbursement was significantly reduced from 31 months for INVs completed in the previous period to 11 months in this period, the execution time from first disbursement to operational completion of the project increased from 59 months to 68 months.

Figure 5.2. Disbursement and issuance of NSG guarantees



Source: OVE, with data from and IDB Invest 2024.

5.7 **Program implementation was affected by implementation challenges that persist from previous periods, especially those related to the Comptroller's Office; other challenges were related to COVID, budget allocation and weaknesses of some executors.** The main obstacles included organizational, administrative and fiduciary aspects, the latter being historically problematic in Panama, as reflected in the previous CPE. The countersignature procedures of the Comptroller's Office, which affect both the approval of agreements and payments made during project implementation,[64] remain the main challenge (see Box 5.1). Difficulties in budget allocations were also identified as critical bottlenecks, especially in election years, when the country's legal framework stipulates exceptional safeguards that suspend bidding processes, procurement, public contracting and any new spending initiatives. Likewise low institutional capacity and high staff turnover in some executing agencies exacerbated these challenges, especially in underdeveloped regions. Finally, COVID-19 had a significant impact on CP implementation, affecting at least 26 operations and support to all objectives, particularly *basic services* (SO3), *sustainable tourism and agriculture* (SO8), and *education* (SO4). The Bank adopted various approaches to mitigate implementation challenges, such as simplifying project design, reducing loan amounts, increasing support, and directly implementing almost all TCPs. Nevertheless, the structural improvement of processes, including those related to the Comptroller's Office, remains a serious challenge to solve.

64 For each loan, the Comptroller's Office must countersign each agreement derived from the acquisitions made and each payment associated with such contracts. According to Management, the Comptroller's Office takes an average of 7 months to countersign the agreements and 2 months to countersign the payments.

Box 5.1. The Office of the Comptroller General of the Republic and its impact on implementation

The Office of the Comptroller General of the Republic, whose main legislation dates back to 1941, plays a crucial role in the accountability of the public sector in Panama. Over time, its responsibilities have expanded to include ex ante control of government contracts, expenditures and payments.

Panama is one of the few countries in the region that maintains this ex-ante control, a practice not recommended by the International Organization of Supreme Audit Institutions (INTOSAI). This control results in complex administrative procedures that negatively affect the timely use of resources and the execution of IDB projects. The main problems include: (i) lengthy and unpredictable reviews of individual contracts; (ii) approvals that often extend into the following fiscal year, requiring new budget approval; and (iii) additional delays due to the need to reintroduce contracts into the annual budget.

The last Country Program Evaluation (CPE) recommended that this bottleneck be addressed (document RE-547). The IDB has sought improvements through initiatives such as: (i) high-level meetings (ii) technical support, digital solutions, and exchanges between the Comptroller's Office and the IDB, including working groups to anticipate critical contracts; (iii) training and workshops on audit, acquisition, and fiduciary issues; and (iv) proposals for an institutional capacity diagnostic of the Comptroller's Office. However, progress has been limited. The independence of the institution and the political complexity of the issue have made it difficult to implement effective solutions, leaving this obstacle as a persistent challenge for project execution in Panama.

5.8 **Limited progress in the use of national systems exacerbated implementation problems.** Although the IDB made efforts to strengthen national systems through diagnostics and training, progress was partial, and the objectives set out in the CS were not fully achieved. For example, the Comptroller's Office chose not to be evaluated under the SAI-PMF methodology, which hindered potential improvements in control and audit processes. Furthermore, despite achievements in areas such as the use of the accounting and reporting subsystem and the single treasury account, these advances did not translate into tangible benefits for the implementation of IDB projects. The lack of relevant information in the reports generated by these systems and stagnation in other key areas of the national systems perpetuated inefficiencies in the portfolio management and execution processes. This situation contributed to exacerbating bottlenecks and delays in the implementation of Bank projects.[65]

5.9 **Regarding the five recommendations formulated in the previous Country Program Evaluation (CPE), all of them continue to be relevant (see Annex IV).** The CPE (document RE-547) recommended strengthening the integrated approach in rural and indigenous areas (recommendation 1) and systematically document lessons learned from working with these communities (recommendation 2). The 2021–2024 CS focused three of its 23 EOs on rural and indigenous areas (something that had not been considered in the previous CS)[66] and has generated lessons learned in project completion reports (PCRs) and technical notes. However, the CP addressing expected outcome in rural and indigenous communities lacked the necessary scope to achieve what was proposed.[67] The CPE also called

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65 In addition, the CS proposed to strengthen the country's environmental and social systems, improving coordination, data management and access to information. However, no detailed information was provided on progress during the evaluation period.

66 These were: *Improve access to essential health services for indigenous populations* (EO3.1), *Expand digital connectivity in underdeveloped regions* (EO6.1), and *Improve road connectivity in rural and indigenous areas* (EO7.1).

67 For two expected outcomes, there was no program of sufficient scope (EO6.1 and EO7.1). The remaining one (EO3.1) was covered by important operations at the national level and thus benefited the indigenous population only tangentially, as described in Chapter VI on Contribution.

for improved project implementation (recommendation 3). The IDB continued to take measures similar to those taken in the previous period (including training for executing agencies with low institutional capacity), but the operations continued to face challenges similar to those identified in the previous CPE. In addition, the CPE emphasized the need to systematically address sustainability in the operations (recommendation 4). In response, the IDB approved loans and TCPs that supported institutional strengthening and measures to ensure the maintenance of infrastructure projects, but results have yet to be seen.[68] The rationale for this recommendation is still valid, however, as challenges related to the institutional capacity of counterparts have not yet been overcome. Finally, the CPE called for expanding value-added service offerings to the private sector (recommendation 5). IDB Invest succeeded in expanding the range of financial instruments available to the country. In addition, efforts to achieve complementarity between the IDB and IDB Invest in support of MSMEs were identified.[69]

VI. CONTRIBUTION OF THE COUNTRY PROGRAM TO THE OBJECTIVES

6.1 **This section presents the contribution of the IDB Group program to the strategy's objectives.** The analysis covers all CP operations and is based on internal and external sources, including database analysis, project progress and completion reports, and interviews.[70] The analysis is conducted in a sequential and hierarchical manner, from operations to EOs and then from EOs to SOs, following the methodology of the ICPR Guidelines (Box 6.1). In terms of the structure of this section, we first summarize the contribution of the country program to SOs and EOs, detailing the main explanatory drivers of the contribution, i.e., the common factors that explain higher or lower CP contributions. Then, the CP contribution to each SO is broken down, with a subsection devoted to each priority area.

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68 According to the Guidelines, the ICPRs do not cover analysis of the sustainability of CP outcomes.

69 The IDB Group coordinated efforts to support the MSME sector in Panama, with IDB Invest focusing on lending to larger financial intermediaries and IDB focusing on microfinance institutions and small banks. Both windows collaborated in the creation of the Risk Sharing Facility for the tourism sector, which combined public and private funds, but results have yet to be seen.

70 The analysis presented in this section is a general summary of the detailed analysis contained in the Annex. While the paragraphs of the main document present general conclusions and examples, the Annex presents the details of the specific analysis for each operation.

Box 6.1. Contribution Analysis

According to the ICPR Guidelines, the contribution analysis is performed in three steps, following the hierarchy of objectives defined in the country strategy (CS):

(1) **Analysis at the operation level:** Each operation's contribution to the objectives of the strategy is analyzed and assigned a high, medium, or low contribution rating based on evidence of achievement of the goals of its objective-related indicators or on additional evidence of contribution to the objective (e.g., impact evaluations). In addition, it is determined whether the operation had characteristics that made it unreasonable to expect a high contribution, such as indirect alignment with the objective or recent approval. This information is used to avoid penalizing the contribution in the next steps of aggregation at the expected outcome or strategic objective level.

(2) **Analysis at the expected outcome level:** An aggregate contribution rating is assigned to each EO based on the average of the contribution ratings (high, medium, or low) of the operations aligned with that EO. Based on the identification made in the previous step, the only operations considered are those that have already demonstrated a contribution or for which a contribution can reasonably be expected, excluding those that do not meet these criteria, such as operations that are too recent.

(3) **Analysis at the strategic objective level:** A rating is assigned to each strategic objective (SO) based on the contribution ratings of the EOs under that objective and calculated as an average of the ratings obtained at the level of each EO. In cases where there are operations aligned to the SO but not through their EO, this contribution is also taken into account in the weighting as if it were an additional EO. In addition, OVE takes into account qualitative factors such as the relative importance of the EO within the SO in its final assessment. Contribution is assessed as "high" if there is reliable evidence that the aligned program has made progress towards all EOs of the SO. A "medium" contribution means that there were weaknesses in progress towards some of the EOs of the SO, or in the evidence of progress towards some of the EOs of the SO. A "low" contribution means that there were weaknesses in progress toward most of the EOs of the SO or in the evidence of progress toward most of the EOs of the SO.

Source: ICPR Guidelines (document RE-348-10).

6.2 **The Program in Panama had a medium or high contribution to three strategic objectives and a low contribution to the other five.** The best performing objectives were to *promote the digital transformation of public administration* (SO2), which achieved a high contribution, and to *improve quality and relevance in the education system* (SO4) and *expand access to credit for underserved sectors* (SO5), both with a medium contribution. In contrast, the five objectives with a low contribution were to *enhance the effectiveness of the tax administration* (SO1), *expand access to, and quality of, social protection, health, and water and sanitation services for vulnerable population groups* (SO3), *improve levels of connectivity and digital adoption* (SO6), *develop quality infrastructure services based on inclusion and environmental sustainability criteria* (SO7), and to *develop services for sustainable and inclusive growth of tourism and agriculture* (SO8).

Table 6.1. Country program contribution to SOs and EOs

Strategic Objectives (SOs)	Contribution	Expected Outcome
	● = High ● = Medium ● = Low	
Public management		
SO1. Enhance the effectiveness of the tax administration	Low	●●
SO2. Promote the digital transformation of public administration	High	●
Basic services		
SO3. Expand access to, and quality of, social protection, health, and water and sanitation services for vulnerable population groups	Low	●●●●●
SO4. Improve quality and relevance in the educational system	Medium	●●●
Productive activity		
SO5. Expand access to credit for underserved sectors	Medium	●●
SO6. Improve levels of connectivity and digital adoption	Low	●
SO7. Develop quality infrastructure services based on inclusion and environmental sustainability criteria	Low	●●●●●
SO8. Develop services for sustainable and inclusive growth of tourism and agriculture	Low	●●●●

Source: OVE.
Notes: EO with ● = High Contribution, ● = Medium Contribution, ● = Low Contribution. Each circle in the third column of the SO represents an EO, arranged according to Table 3.1 (e.g., the two circles in the third column of SO1 represent EO1.1 and EO1.2, respectively). SO8 sought to include possible contributions to EO8.5: Increased R&D by regional or dedicated climate change institutions, incorporated in the Strategy in the CPD 2024. However, the related portfolio is still very young; in particular, PN-L1183 had not yet disbursed.

6.3 **The program's best contributions were associated with three factors: alignment, long-term focus, and multisectoral approach.** The CP made better contributions when: (i) there was an alignment between the scope of the objective and the CP dimension supporting it, as was the case with *immunization against COVID-19* (EO3.2) or *road connectivity in rural and indigenous areas* (EO7.1); (ii) a long-term focus was maintained on the objectives, which helped to overcome implementation problems, as was the case with *increased proportion of formalities for citizens and businesses digitalized* (EO2.1) or *increased school attendance in early childhood* (EO4.1); or (iii) a multisectoral approach, either by involving both the public and private windows of the IDB Group, as in *access to credit for MSMEs* (EO5.1) or *rekindling tourism* (EO8.1), or by involving different government sectors, as in the case of *reduced school dropout rates* (EO4.3).

6.4 **The low contribution of the program was associated with four factors: weak alignment, low seniority, lack of evidence and implementation delays. First, on average, 63% of operations aligned with an EO already had weak alignment by design (Table I.6.1 in Annex VII).**[71] Weak alignment—that is, low feasibility of CP contribution—mainly affected support for financial inclusion and digital connectivity (SO5 and SO6). Second, 27% of the operations were not old enough to expect results at the end of this ICPR.[72] The lack of CP seniority particularly affected digital transformation, education, financial inclusion, infrastructure, and

71 This is not a problem per se, as these operations directly pursued other CS objectives, but it does detract from potential support for the other objectives with which they had a more indirect relationship. The alignment of each operation can occur with multiple EOs and includes TCP operations. Nearly two-thirds of the CP alignments identified by OVE had low feasibility of contribution (weak).

72 Operations that are less than halfway through their original expected duration and with less than 50% of their amount disbursed (ICPR Guidelines, document RE-348-10). A quarter of the alignments identified were projects with this condition.

agriculture and tourism (SO2, SO4, SO5, SO7, and SO8). Third, 21% of operations did not report—or provide evidence of contribution through other means such as evaluations—even though they had a good degree of execution. The limited evidence of contribution to CS objectives was more prevalent in CPs supporting the provision of sustainable services, education, tourism and agriculture (SO3, SO4 and SO8). Finally, 23% of the operations did not contribute, even though they were old, due to delays in execution. Implementation problems (including bottlenecks in the Comptroller's Office and low capacity of executing agencies) mainly affected CP support in tax administration, digital transformation and infrastructure (SO1, SO2 and SO7). The remainder of this section summarizes the program's contribution to the objectives by priority area (for details, see Annex VII).

Table 6.2. Factors that affected the program's contribution

Strategic Objective	Alignment	Long-term Focus	Multisectoral Approach	Weak Alignment	Low Seniority	Lack of Evidence	Implementation Issues
Public management							
SO1. Enhance the effectiveness of the tax administration							−
SO2. Promote the digital transformation of public administration		+			−		−
Basic services							
SO3. Expand access to, and quality of, social protection, health, and water and sanitation services for vulnerable population groups	+			−		−	−
SO4. Improve quality and relevance in the educational system		+	+		−	−	−
Productive activity							
SO5. Expand access to credit for underserved sectors			+	−	−		
SO6. Improve levels of connectivity and digital adoption				−			−
SO7. Develop quality infrastructure services based on inclusion and environmental sustainability criteria	+				−	−	−
SO8. Develop services for sustainable and inclusive growth of tourism and agriculture			+	−	−	−	

Source: OVE.

Priority Area 1: Modernizing public management

SO1: Enhance the effectiveness of the tax administration

6.5 **The program's contribution to *enhancing the effectiveness of tax administration* (SO1) was low due to delays in the two main related operations.** The Customs Logistics Integration Program (PN-L1107/2018) sought to *increase the* *effectiveness of enforcement* (EO1.1) by improving tax and parafiscal control processes, but as of June 2024 it had disbursed only 20.7% of its resources and reported no results. The Program to Support the Digital Transformation of the Tax Administration in Panama (PN-L1161/2020) also aimed to *increase the effectiveness of enforcement* (EO1.1) and *improve tax payment services* (EO1.2) through a comprehensive taxpayer service model that included digital tools, management improvements, and tax education programs, but as of June 2024 it had disbursed only 21.3% of its resources and reported no results. Staff turnover and low capacity of executing agencies in procurement and project management with external resources, delays in the Comptroller's Office, and budget allocation friction in the Ministry of Economy and Finance (MEF) explain these delays. In addition, four TCPs developed studies and plans related to this objective, but their contribution will depend on the implementation of their associated investment loans.[73]

SO2: Promote the digital transformation of public administration

6.6 **The program's contribution to *promoting the digital transformation of public administration* (SO2) was high, driven by a sequence of actions with a long-term focus.** An investment loan approved in 2016, the Panama Online Program (PN-L1114/2016), achieved 91% of its goals to increase the percentage of public administration procedures available online. In turn, the conditions of a PBL approved in 2021, the Economic Diversification and Competitiveness Promotion Program II (PN-L1167/2021), promoted the simplification and digitalization of key procedures for citizens and businesses, such as obtaining construction permits in municipalities or digital signatures in public institutions. Five TCPs complemented support for this objective, notably those aimed at modernizing the postal sector (PN-T1266/2020), digital transformation of the justice system (PN-T1273/2021), leveraging trade and investment opportunities (PN-T1299/2022), and improving tax efficiency and digital innovation (PN-T1245/2020). The focus on digital transformation continues, with newer programs still without results due to their low level of execution: Digital Panama (PN-L1171/2022) and Digital Transformation of the Justice System (PN-O0010/2023 and PN-L1180/2023).

<u>Priority Area 2: Improving the delivery of basic services</u>

SO3: Expand access to, and quality of, social protection, health, and water and sanitation services for vulnerable population groups

6.7 **The weak alignment of the program with the objective of *improving access to basic health services for indigenous populations* (EO3.1), as well as delays and lack of evidence of achievements, explain the low contribution to this objective.** Reducing the gaps in access to health services between more prosperous areas and traditionally excluded areas, such as the indigenous *comarcas*, is one of the country's main challenges. Two of the five aligned loans did so in a strong way, but only one of them contributed to the EO. This IDB Invest loan supported a company with a line of credit of up to US$10 million for the construction of hospitals in regions with high levels of poverty. The two hospitals were inaugurated in 2022 and 2024, respectively, increasing access to health services in

[73] Of note are the TCP for Improvement of Fiscal Efficiency and Digital Innovation for Panama (PN-T1245/2020), which sought to strengthen the Internal Revenue Service (DGI), and the TCP for Improving the Efficiency of Expenditures and Collection through a Fiscal Ecosystem (PN-T1284/2021), which focused on studying tax pressure and proposing solutions to improve revenue management.

the regions. The other loan with strong alignment (PN-L1115/2015), which aimed to improve the coverage and quality of health services in indigenous *comarcas*, was extended to 2025 due to implementation problems, without outcomes reported until now. The other loans and TCPs did not contribute, mainly because they were national projects that could only tangentially benefit indigenous populations.[74]

6.8 **In contrast, the program's contribution to *increasing immunization coverage against COVID-19* (EO3.2) was medium, driven by an investment operation that facilitated access to vaccines.** The COVID-19 response operation (PN-L1170/2021) aimed to interrupt the transmission chain through vaccine administration with support from MINSA/Gavi (COVAX facility) and bilateral agreements. It also aimed to improve case detection and follow-up. The operation achieved 70% progress in the indicator on the number of people vaccinated against COVID-19.[75] On the other hand, the indicators related to diagnostic and detection capacities showed no progress. The operation's progress reports indicate that implementation problems were mainly due to weaknesses in the executing unit.

6.9 **The program's contribution to *increasing urban wastewater treatment coverage* (EO3.3) was medium, while its contribution to *increasing access to drinking water* (EO3.4) was low, due to reformulations and delays in the implementation of the corresponding operations.** These two EOs were important given the need to reduce inequalities in access to basic services in the country. The core components of the Panama City and Bay Sanitation Program (PN-L1109/2015) were implemented, including a wastewater treatment plant and complementary works to the sewerage system serving at least 700 thousand people, which helped improve wastewater collection services. The CP included two other investment loans with the potential to contribute to expanding the coverage of this service: one was initially aimed at increasing the coverage of wastewater treatment but was reformulated in 2020 to provide cash transfers to people living in poverty, as well as to vulnerable populations affected by COVID-19 that did not appear in the lists of existing transfer programs (PN-L1121/2016). For the other investment loan, the products related to the expansion of the sewerage system were canceled (PN-L1093/2013). The latter loan contributed to the objective of increasing access to water by connecting more than 57,000 households in the central and western provinces of the country. Finally, although it financed water and sewerage systems, the Program of Comprehensive Urban Development of Cities with Tourism Potential (PN-L1154/2019) still has not reported progress on key outputs. All loans aligned with this objective faced implementation challenges, including weaknesses of the executing agencies, delays due to the Comptroller's Office and the pandemic, and lack of budget. In other cases, there is no evidence that the outputs delivered produced the expected outcome.

6.10 **The program's contribution to *improving the efficiency and targeting of social protection programs* (EO3.5) was low, as there is no evidence that the implementation of the Beneficiary Registry contributed to reducing inclusion and exclusion errors in the programs.** Although it was possible to implement the Beneficiary Integrated Informatics Platform (PIIB), one of the main products of the Social Inclusion and Development Program (PN-L1105/2015), the data

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74 This is the case of the loans Innovation for Social Inclusion and Productivity (PN-L1117/2016), Support for Gender Equality Policies II (PN-L1162/2021) and Response to COVID-19 (PN-L1170/2021).

75 A total of 773,710 people have been vaccinated, compared to the planned target of 1,125,000 people.

associated with the number of non-poor beneficiaries (filtering) of social programs and recertified beneficiaries have not yet been reported.[76] Therefore, there is no evidence that the program has contributed to improving the efficiency and targeting of these programs. Furthermore, the second phase of this program (PN-L1177/2023) is not yet mature enough to produce outcomes. Meanwhile, an investment loan (PN-L1160/2020) and a TCP (PN-T1241/2020) sought to identify, characterize, and assist persons with disabilities, but so far, no progress has been reported on the results due to difficulties in allocating the project budget. Finally, a TCP digitalized and automated processes within MIDES, which helped improve its management of the various social protection programs under its responsibility.

SO4: Improve quality and relevance in the educational system

6.11 **The program's contribution to *increasing school attendance in early childhood* (EO4.1) was medium, driven by the strengthening of Comprehensive Early Childhood Care Centers (CAIPIs) and the development of guidelines and quality standards at the national level.** As part of the Inclusion and Social Development Program (PN-L1105/2015), 3 new CAIPIs were built, 17 were rehabilitated, and 38 were upgraded. In addition, 10 quality standards and guidelines for CAIPIs were developed, going beyond the provision of infrastructure. However, the scope of the program was not sufficient to meet the ambitious target, as only 1,200 children (approximately 0.3% of the 0–4-year-old population) participated in the community modality. However, the second phase of the program (PN-L1177/2023), which recently started disbursement, has the potential to increase the contribution to this objective. Additionally, a TCP (PN-T1244/2021) complemented these loans by financing the design and implementation of a computer system for the management and monitoring of CAIPIs, as well as the training of teachers through a diploma program.[77]

6.12 **The program's contribution to *increasing the quality of learning in basic education* (EO4.2) was low due to delays in implementation and a lack of evidence of outcomes achieved.** One of Panama's main development challenges is to improve the quality and relevance of education in order to increase productivity. However, all loans with a feasible contribution to this EO experienced implementation delays and a lack of evidence of outcomes, mainly due to delays caused by COVID-19 and weaknesses in the executing agencies. The Program to Improve Efficiency and Quality in the Education Sector (PN-L1143/2017) and its associated TCPs (PN-T1274/2021 and PN-T1325/2023) sought to strengthen the sector's performance, but despite disbursing 81% of the funds, there is no evidence yet of its contribution to the improving the quality of learning in basic education program. The Innovation in School Infrastructure Loan (PN-L1072/2012) helped increase retention rates, but education coverage declined in two of the three regions, suggesting a limited contribution to improving learning.[78] In contrast, a TCP (PN-T1224/2021) showed positive results in math learning in the Ngäbe indigenous *comarca* through a randomized controlled trial (RCT), leading to the expansion of

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76 Implementation reports attribute implementation problems to inadequate budget allocations, high staff turnover, lengthy preliminary review procedures, and the pandemic.

77 The programs were completed by 93% of the teachers enrolled in the two diploma courses associated with this TCP.

78 While coverage declined in two of the three treated regions, enrollment increased in the intervention schools. Therefore, the decline in coverage may be due to other factors unrelated to the program, such as demographic changes or changes in enrollment in schools outside the intervention.

the program to the entire *comarca*, with results not yet available regarding this expansion.

6.13 **The program's contribution to *reducing school dropout rates* (EO 4.3) was medium, thanks to a long-term and multisectoral focus that sought to innovate both in school infrastructure and in the prevention of security and violence problems, which helped to increase retention rates.** The four investment loans aligned with this EO faced implementation challenges,[79] and three of them have no evidence of their contribution. The Innovation in School Infrastructure Loan (PN-L1072/2012) increased school retention in the *comarcas* of Ngäbe-Buglé and Guna Yala and Panama City, contributing to a reduction in dropout rates. Retention rates increased from 86.3% in 2010 to 98.4% in 2021 in the province of Panama, from 90.9% to 95.3% in Ngäbe-Buglé Comarca, and from 82% to 96.5% in Guna Yala Comarca. For its part, the Expansion of the Comprehensive Security of Panama Program (PN-X1011/2013) contributed to this objective thanks to its long-term focus and multisectoral approach, as it implemented strategies to reduce the involvement of adolescents in violent and criminal acts by keeping them in the educational system. An impact evaluation shows significant effects on variables correlated with school dropout rates. In addition, monitoring reports show reductions in dropout rates, but only in the 36 schools that benefited from the program.

Priority Area 3: Reigniting and diversifying productive activity

SO5: Expand access to credit for underserved sectors

6.14 **The program had a high contribution to *improving access to credit for MSMEs* (EO5.1), highlighting the multisectoral approach that included both the IDB and IDB Invest.** Eight operations contributed to this objective, including two investment loans, one TCP, and five NSG operations. Two Global Credit Program loans (PN-L1164/2020 and PN-L1165/2021) of US$150 million each were provided at a critical time during the pandemic, when low liquidity threatened the survival of businesses. These funds quickly reached nearly 9% of Panama's MSMEs[80] and contributed to the reactivation of more than 5,200 businesses by 2022 through 31 financial intermediaries with a presence in most parts of the country. The TCP to Support the Development of a Guarantee Fund in Panama (PN-T1289/2021) was critical in structuring the creation of the Panama Guarantee Fund (FGP) and facilitating approval of the loan for the Creation and Development of the Panama Guarantee Fund (PN-L1174/2023), which is pending disbursement. With regard to NSG operations, there have been eight loans to financial intermediaries, of which two report significant portfolio growth, highlighting the 94% increase in the value of the SME loan portfolio of a local banking entity, from 2014 to 2018, exceeding the proposed targets. The other six operations did not contribute or did not report information in this regard. In addition, two short-term TFFP loans achieved real growth in their MSME-targeted trade portfolios.

6.15 **The contribution to *increased financial inclusion of women* (EO5.2) was low because there was no program within the scope of the objective.** None of the

79 This is the case of the Innovation in School Infrastructure (PN-L1072/2012), Inclusion and Social Development (PN-L1105/2015), Improving Efficiency and Quality in the Education Sector (PN-L1143/2017), and Social Inclusion of Persons with Disabilities (PN-L1160/2020) programs.

80 Estimates of the number of MSMEs in the country vary significantly. Official estimates from the Micro, Small and Medium Enterprise Authority (AMPYME), based on INEC data, indicate that there are at least 59,000 MSMEs in the country.

IDB operations contributed to the objective because they had only an indirect focus on enhancing the financial inclusion of women. On the other hand, IDB Invest attempted to contribute through three loans. First, a gender-focused social bond was issued to finance women-led SMEs is showing results. However, the two remaining loans show no evidence of contribution: one of them was unable to segment its portfolio of women-led SMEs, which prevented an assessment of its contribution, and the second halved its portfolio of women-led SMEs due to a change in priorities following a merger with another bank.

SO6: Increase digital adoption and connectivity in bypassed regions

6.16 ***The contribution to increasing digital adoption and connectivity in bypassed regions* (SO6) was low because the operations are too recent or there is no evidence of their contribution.** This EO was particularly relevant, given the challenge of closing the gaps in access to services in the country, particularly those that impact the productivity of citizens and businesses. The Panama Online Program (PN-L1114/2016) was the only operation aligned with the objective that had significant disbursements. However, the component focused on providing access to online services to low-income populations did not report outcomes and was limited in scope. For example, although the program implemented a strategy to disseminate the use of digital services and managed to reach 18,000 people in its digital literacy program, this figure is insufficient considering that one million Panamanians are still not using the Internet in 2024. In addition, there is no evidence that these activities have been concentrated in the regions of the country most in need.

SO7: Develop quality infrastructure services based on inclusion and environmental sustainability criteria

6.17 **The contribution to *improving road connectivity in rural and indigenous areas* (EO7.1) was medium, thanks to the long-term focus on interventions in the central and western regions of the country.** The loan for Support to the Development of Territorial Connectivity of Panama's Central and Western Regions (PN-L1147/2018) was the only one with a high feasibility of contributing to the EO. The other aligned operation was a TCP to support the identification and implementation of projects in this sector. Under the senior loan, 125 km of rural roads and one bridge were constructed and became operational, representing a 3% and 4% improvement in the road network in the two regions, respectively. This suggests an improvement in road connectivity in these areas, although there is no evidence of progress on specific connectivity indicators.

6.18 **With regard to *shorter freight transportation dispatch times at the northern border* (EO7.2), the program's contribution was low, as the aligned operations did not make significant progress due to implementation issues.** The loan to modernize one of the country's border crossings (PN-L1107/2018) faced several obstacles. It was affected by anti-mining protests and road blockades in 2023, in addition to bottlenecks in the Comptroller's Office and difficulties in budget allocation by the MEF. At the time of this review, the operation had only disbursed less than 50% of the funds. As the border crossing is still under construction, it has not been able to improve dispatch times as expected.

6.19 **The program's contribution to *increasing access to electricity service* (EO7.3) was low, due to a combination of lack of maturity of some operations and implementation issues.** The Sustainable Rural Electrification Program in Panama (PN-L1095/2014) contributed to the connection of more than 6,000 households, reaching 60% of the established target. The other aligned operations had mixed results: the Energy Transition Support PBL (PN-L1181/2023) met the proposed policy measures, but it will take time for regulatory changes[81] to take effect, so there is no evidence yet of its contribution. The Universal Energy Access Program (PN-L1155/2019) has not yet connected any households due to delays caused by COVID-19, bidding issues, and capacity constraints of the executing agency. In contrast, one NSG voucher has connected more households than planned, but the quality of service has deteriorated, achieving only 50% average progress on all four outcome indicators.

6.20 **The contribution to *increasing the share of renewable energy in the energy matrix* (EO7.4) was low, mainly due to the lack of maturity of the related operations.** None of the nine operations related to the objective provide sufficient evidence to confirm their contribution to the EO, either due to lack of maturity or lack of information. The Global Credit Program for Sustainable Economy Recovery (PN-L1179/2022) and the Energy Transition Support PBL (PN-L1181/2023) were recently approved (2022 and 2023), so there is no evidence yet on their contribution to the objective. On the other hand, the relatively low number of renewable energy projects in IDB Invest's portfolio is attributed to the lack of suitable projects in the pipeline and the strong competition among financiers in the sector.

6.21 **The program's contribution to *increasing female participation in infrastructure sectors* (EO7.5) was low, due to the lack of focus and maturity of the aligned program.** An Energy Transition Support PBL (PN-L1181/2023), which aimed to increase the proportion of companies with gender policies in the energy sector, does not yet have information on results. It will likely take time for policy actions to translate into tangible results.[82] Similarly, a TCP supporting the creation of a new energy transition curriculum in Panama (PN-T1311/2022) was successful in developing the curriculum, but as classes have not yet started, it is not possible to determine the extent to which the operation will increase female participation in

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81 Some of the most important policy actions of this PBL are approval of the Universal Access Strategy; approval of the Roadmap for Institutional Strengthening of the Electricity Sector; and approval of the amendment to the legal and regulatory framework of the electricity sector.

82 The most important policy actions of this PBL include the approval of the “Nexus Roadmap, Women and Energy" and the design and implementation of a training program for indigenous women in the installation of solar panels.

the sector. Nine other operations aligned with this EO show no evidence of contributing to increasing female participation in infrastructure, and many of them did not include indicators to measure outcomes in this area.

6.22 **The Panama Canal Expansion Project, supported by IDB Invest, had a medium contribution to the *development of sustainable infrastructure* (SO7), although not through the expected outcomes defined in the CS.** This project (PN-L1032/2008), which was completed in 2013, was included in the ICPR because its XSR was prepared during the period covered by the CS. The project (in which the IDB participated as one of the financiers) facilitated an increase in the transit of larger vessels, expanding transport capacity by about 40%. It also incorporated water conservation mechanisms, contributing to the objective of having climate resilient infrastructure and sustainability of results. Thus, it contributed to SO7, although not through any of the EOs defined in the CS. The second loan (PN-L1150/2018) that could have contributed had difficulties with a change of executing agency, a reduction of the amount and a delay in the budget allocation, so it had not yet started its disbursement.

SO8: Develop services for sustainable and inclusive growth of tourism and agriculture

6.23 **Thanks to the multisectoral approach that included IDB and IDB Invest operations, the contribution to the *rekindling of the tourism sector* (EO8.1) and the *improvement of cultural and natural capital* (EO8.2) was medium.** The IDB project Support for the Conservation and Management of Cultural and Natural Heritage (PN-L1146/2017) achieved the restoration and reopening of the San Lorenzo Fortifications and the Customs Building in Portobelo, exceeding expectations in terms of visitor numbers and protecting the country's cultural capital.[83] An IDB Invest project supported the recovery of the tourism sector in Panama by increasing the number and volume of loans granted to businesses in the sector that had difficulty accessing credit due to the deterioration of their risk profiles as a result of the COVID-19 pandemic. The restoration of a hotel was completed, increasing the attractiveness of the cultural capital of the old town (EO8.2) and supporting the rekindling of tourism in the area (EO8.1), meeting the planned targets, for example, in terms of number of guests.[84] The two series of PBLs under these EOs, one focusing on culture (PN-L1167/2021) and the other on tourism (PN-L1175/2022), were fully disbursed and met the policy measures, but there is still no evidence of their outcomes. Other operations made little progress, as in the case of the Urban Development of Cities with Tourism Potential loan (PN-L1154/2019).

6.24 **The program's contribution to *increasing the productivity, resilience, and sustainability of Panamanian agricultural producers* (EO8.3) was low because it lacked a multidimensional approach to operations to achieve the objective's ambition.** Consolidating agriculture as one of the new engines of development is a relevant challenge for the country. Although access to credit for the sector has been facilitated, this alone is not sufficient to contribute to such a broad objective, which includes improvements in the sector’s productivity, resilience and

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83 However, the removal of these sites from the United Nations Educational, Scientific and Cultural Organization (UNESCO) List of World Heritage in Danger has not yet been achieved.

84 The performance indicators (number of guests, occupancy rate, value and percentage of purchases from national suppliers and jobs created) show that the hotel has achieved its objectives, reaching on average 99% of the objectives set.

sustainability. Two operations that provided loans to MSMEs (PN-L1164/2020 and PN-L1165/2021) primarily supported the agro-retail and service sectors. Although a detailed breakdown by sector is not available, it is estimated that they supported a total of more than 4,100 MSMEs and contributed to the recovery of more than 16,500 jobs. One TCP for indigenous coffee producers (PN-T1261/2020) completed the planned workshops and inputs, but its scope is limited and there is no information on results. In addition, five operations are not yet sufficiently mature to contribute to the objective, including the Sustainable and Inclusive Agricultural Innovation (PN-L1166/2021) and Global Credit for Sustainable Economic Recovery (PN-L1179/2022) programs.

6.25 **The program's contribution to *reducing GHG emissions* (EO8.4) was low due to a lack of program focus on the stated objective and difficulties in measuring contributions.** Few operations addressed the reduction of GHG emissions in the tourism or agricultural sector.[85] The CP was linked to this EO exclusively through technical cooperation, such that the scope of the CP was not commensurate with the ambition of the objective. Particularly noteworthy are the support for strategies to decarbonize public transport (PN-T1329/2023) and the promotion of methodologies to measure the climate impact of SENACYT projects (PN-T1288/2021). However, in some cases, there was a lack of relevant information to measure the contribution of operations to reducing GHG emissions.

VII. CONCLUSIONS

7.1 **Panama has made remarkable progress thanks to its high growth, but this has not been sustained by productivity gains; it is exposed to external shocks and still excludes almost a third of the population.** The country has adopted a model that combines a low tax burden (14% of GDP, the lowest in LAC) with a high rate of investment (gross fixed capital formation averaged 35% of GDP from 2014 to 2022, versus 19% in LAC). This exceptional level of investment has driven growth that has quadrupled that of LAC over the last decade, despite net losses in the productivity of the economy. Growth has helped reduce poverty and created a large middle class, but it has left behind almost a third of the population, mostly in rural and indigenous areas, where they suffer from gaps in access to basic services and opportunities. The Panamanian economy maintains its duality: showing a dynamic part that depends on the commercial and financial flows of the Canal; and another that fails to increase its productivity, with barriers such as informality, a context that discourages innovation, and a lack of human capital formation. Both the Canal (which depends on water availability) and the country's other economic activities (such as tourism or agriculture) are increasingly exposed to climate change. More recently, the cancellation of the concession for the largest mining project (partly because of its environmental impact) underscores the importance of maintaining conditions to continue attracting the investment that has driven the country's growth.

7.2 **In this context, the IDB Group's Bank Country Strategy with Panama (CS) set objectives that were generally congruent with the country's challenges and priorities, but its relevance was limited because it did not focus on some of**

85 According to the CS logic, GHG emission reductions are sought in the context of tourism and agriculture because only this can contribute to the objective of *supporting the sustainable growth of tourism and agriculture* (SO8). Emission reductions in other contexts, such as energy, do not contribute.

the main constraints to the country's development, nor did it argue how the IDB Group would contribute to resolving them. The CS set objectives in three priority areas: i) modernizing public management; ii) improving the delivery of basic services; and iii) reigniting and diversifying productive activity. These objectives addressed the challenges identified by the IDB Group and were generally consistent with the government's Strategic Plan. However, in the area of *public management*, they placed less emphasis on strengthening institutional quality and focused only on fiscal and digitalization issues. In the area of *basic services*, the objectives addressed the key challenge of providing basic services in vulnerable areas (although an important part of this program was later redirected to address the effects of the pandemic). In the *productive* area, the objectives did not address the bottlenecks identified to tackle the key challenge of increasing the country's productivity, such as reducing informality, strengthening the institutional framework to facilitate financing and infrastructure development, and facilitating the articulation of the value chains of large enterprises, which account for most of the country's economic activity. Furthermore, the objectives did not contemplate the formation of human capital aimed at strengthening labor skills but rather did so indirectly through improvements in early education and the quality of the educational system. Instead, they focused on MSMEs or gender gaps, without the CS arguing how these measures could address the key challenge of raising the country's productivity. The CS design also had shortcomings in its definition and structure of the objectives, progress indicators that could not be updated, and the identification of general rather than specific risks that could affect the program's contribution, including recurrent delays in implementation due to the role of the Comptroller's Office.

7.3 **The IDB Group's Country Program (CP) managed to align with most of the CS objectives, but gaps in its focus and scope limited the feasibility of its contribution, especially in the productive sector.** In the areas of public management and basic services, the CP had sufficient operations with the feasibility to advance all expected outcomes (EO) of the four corresponding strategic objectives (SO). In contrast, in the productive area, only the digital connectivity objective had a program with strong alignment, while the other SOs had one or two EOs with weak alignment, leaving the theory of change through which the CP sought to advance these SOs incomplete. Weaknesses in *focus* occurred when the program could only contribute indirectly through operations that pursued other objectives. Weaknesses in *scope*, in turn, occurred when the program had a limited scope relative to the ambition of the objectives set in the CS.

7.4 **The IDB program was in line with expectations, while IDB Invest doubled its financial contribution compared to the previous period, but the mix of instruments used detracted from the contribution to key CS objectives.** The IDB approved 93% of the amount anticipated in the CS and maintained a stable use of Policy Reform Support Loans (PBLs), which accounted for about 54% of approvals for the period. In contrast, investment loans (INVs) were increasingly channeled through global credit operations (GCRs) in support of MSMEs, whose role in meeting the challenge of raising the productivity of the economy was unclear, but whose execution was characterized by rapid disbursement and expedited processing by the Comptroller's Office. At the same time, the global of multiple works modality was no longer used and the use of specific investment loans was strongly reduced, reducing support for key objectives such as the delivery of basic services in vulnerable areas and infrastructure. IDB Invest doubled its financing thanks to a significant increase in short-term operations with banks through the TFFP, as well as a 13% increase over the previous period in long-term operations in support of infrastructure and tourism, through which IDB Invest was able to provide financial innovation. TFFP operations played a countercyclical role, but their role in addressing the key challenge of raising productivity is unclear.

7.5 **The IDB's effective dialogue with the Government of Panama allowed for good programming and flexibility in the face of unanticipated needs, but support for objectives requiring long-term support was affected by reformulations due to the pandemic and ongoing implementation challenges.** Annual programming exercises identified operations with a good degree of predictability. Cancellations of operations were limited and did not affect the scope of the program. In contrast, pandemic reformulations redirected more than US$130 million from education and basic services to cash transfers and school reopening, demonstrating flexibility but diverting resources from critical objectives that are complex to implement and require long maturity times. Structural challenges persisted in the implementation of the IDB's investment program, related to administrative processes that were not aligned with international practices in the Office of the Comptroller General of the Republic, as well as restrictions in budget allocation by the government and high staff turnover in executing agencies. Despite IDB's efforts to mitigate these obstacles by simplifying project designs and directly implementing technical cooperation, barriers remain that limit the progress of the CP, especially in the most underdeveloped areas of the country. Reduced progress in strengthening and using national systems has exacerbated these challenges.

7.6 **Despite these challenges, the program made significant contributions to three strategic objectives (SOs), which it supported with a long-term focus, maintaining consistency between the ambition of the objectives and the program, and where it deployed multisectoral support.** The program was able to contribute to the SO of *promoting the digital transformation of public administration*, supporting the digitalization of 91% of the 450 government procedures identified and promoting the simplification and digitalization of procedures in public institutions. The program also contributed to the SO of improving *quality and relevance in the education system*, with long-term and multisectoral support (e.g., integrating elements of citizen security for school retention) that created or improved 58 Early Childhood Comprehensive Care Centers and developed guidelines and educational quality standards at the national level. Similarly, the program had the scale and public-private collaboration to successfully contribute to the SO of *expanding access to credit for underserved sectors.* Two Global Credit Program loans totaling US$300 million reached about 9% of Panama's MSMEs at a critical point during the pandemic. Several IDB Invest loans also contributed to this objective, in conjunction with increases in the relevant portfolios of local banks.

7.7 **In contrast, the program had lower contributions to the remaining five strategic objectives (SOs) due to a combination of alignment weaknesses, lack of operational maturity, implementation delays, and lack of evidence of contribution.** More than half of the objectives had low contributions related to ex ante program alignment weaknesses that affected the feasibility of contribution even if the program had been implemented as expected. These weaknesses mostly affected the productive sector and were due either to an indirect focus of operations on the objectives or to the fact that they were limited in scope compared to the ambition of the objectives. Partly because the program included not only operations carried over from previous periods, but also newer operations approved during the period, more than a quarter of them were not mature enough to make an expected contribution. This mainly affected support for infrastructure, tourism and agriculture objectives. On the other hand, about one fifth of the operations, although old, did not contribute to their objectives due to delays in their execution. Finally, about another fifth of operations had progressed in terms of outputs, but there was no evidence of their contribution to CS objectives, mainly due to short-comings in their monitoring and evaluation.

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