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**ESTRATEGIA DE ALIANZA CON EL PAÍS PARA LA
REPÚBLICA DE PANAMÁ**

**AÑOS FISCALES
2008 - 2010**

30 de octubre de 2007

**Departamento de Centroamérica y Panamá
Región de América Latina y el Caribe
Banco Internacional de Reconstrucción y Fomento**

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EQUIVALENTES DE MONEDAS

Unidad de Moneda = Balboa

1 Dólar EE.UU. = 1 Balboa

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ABREVIATURAS Y ACRÓNIMOS

AAA	Actividades Analíticas y de Asesoría
ACIJ	Agencia de Cooperación Internacional del Japón
ACP	Autoridad del Canal de Panamá
AF	Año Fiscal
AFP	Administración de las Finanzas Públicas
AIF	Asociación Internacional de Fomento
ANAM	Autoridad Nacional del Ambiente
APP	Asociación Público-Privado
APR	Asociación de Productores Rurales
AT	Asistencia Técnica
ATTT	Autoridad Nacional del Tránsito y Transporte Terrestre
BID	Banco Interamericano de Desarrollo
BIRF	Banco Internacional de Reconstrucción y Fomento
BM	Banco Mundial
BNT	Barrera no Tarifaria
CAS	Country Assistance Strategy (Estrategia de Asistencia de País)
CAF	Corporación Andina de Fomento
CBMAP	Corredor Biológico Mesoamericano del Atlántico Panameño
CFAPAR	Country Financial Accountability and Procurement Assessment Report (Informe de Rendición de Cuentas de País y Evaluación de Compras)
CFI	Corporación Financiera Internacional
CGR	Contraloría General de la República
CPPR	Country Portfolio Performance Review (Análisis del Desempeño de la Cartera del País)
CSS	Caja del Seguro Social
DCP	Dirección de Compras Públicas
DEC	Dirección de Estadística y Censo
DEO	Departamento de Evaluación de Operaciones
DFID	UK Department for International Development (Departamento para el Desarrollo Internacional del Reino Unido)
DGCP	Dirección General de Contrataciones Públicas
DPL	Development Policy Lending (Préstamos de Políticas de Desarrollo)
EAP	Estrategia de Alianza con el País
EE.UU.	Estados Unidos
ENV	Encuesta de Nivel de Vida
ESW	Economic and Social Work (Trabajo Económico y Sectorial)
FMAM	Fondo para el Medio Ambiente Mundial
FSL	Fixed-spread loan (préstamo de margen fijo)

GOP	Gobierno de Panamá
ICA	Investment Climate Assessment (Evaluación del Clima de Inversiones)
ICR	Implementation Completion Report (Informe de Culminación de Implementación)
INB	Ingreso Nacional Bruto
ISDA	International Swaps and Derivatives Association (Asociación Internacional de Swaps y Derivados)
LAC	Latinoamérica y el Caribe
MECOVI	Mejoramiento de las Encuestas de Hogares y la Medición de Condiciones de Vida
MEDUCA	Ministerio de Educación
MEF	Ministerio de Economía y Finanzas
MEP	Memorando Económico del País
MIDA	Ministerio de Desarrollo Agropecuario
MIDES	Ministerio de Desarrollo Social
MINSA	Ministerio de Salud
MP	Municipio de Panamá
NEI	Nota de Estrategia Interina AF06 – AF07
OCDE	Organización para la Cooperación y el Desarrollo Económico
ODM	Objetivos de Desarrollo del Milenio
OMGI	Organismo Multilateral de Garantía de Inversiones
PA	Poverty Assessment (Evaluación de la Pobreza)
PEFA	Public Expenditure and Financial Accountability (Programa de Gastos Públicos y Rendición de Cuentas Financieras)
PIB	Producto Interno Bruto
PNUD	Programa de las Naciones Unidas para el Desarrollo
PPIAF	Public-Private Infrastructure Advisory Facility (Agencia de Asesoría de Infraestructura Pública – Privada)
PRONAT	Programa Nacional de Administración de Tierras
PYMES	Pequeña y Mediana Empresa
QAG	Quality Assurance Group (Grupo de Aseguramiento de la Calidad)
R & D	Research and Development (Investigación y Desarrollo)
RDO	Programa Red de Oportunidades
SIAFPA	Sistema de Administración Financiera de Panamá
SIG	Sistema de Información Gerencial
SINAP	Sistema Nacional de Áreas Protegidas
SPIG	Secretaría Presidencial para la Innovación Gubernamental
TFSCB	Trust Fund for Statistical Building (Fondo Fiduciario para el Desarrollo de la Capacidad Estadística)
TLC	Tratado de Libre Comercio
TMC	Programa de Transferencia Monetaria Condicionada
USAID	United States Agency for International Development (Agencia de los Estados Unidos para el Desarrollo Internacional)
UE	Unión Europea

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**ESTRATEGIA DE ALIANZA CON EL PAÍS
PARA LA
REPÚBLICA DE PANAMA**

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RESUMEN EJECUTIVO

En los últimos años, la economía de Panamá ha experimentado un crecimiento económico significativo. En los próximos seis a siete años, se espera que dicho crecimiento se mantenga en aumento y pujante con el proyecto de expansión del Canal de Panamá y el acuerdo de un Tratado de Libre Comercio con los Estados Unidos, lo que representa una oportunidad histórica para Panamá en el avance de la reducción de la pobreza y desigualdad. Sin embargo, para ampliar la lista de beneficiarios potenciales, se requiere crear políticas complementarias que en un futuro aumenten la competitividad del sector privado y el acceso a la educación, a la tecnología e innovación y al capital. Los retos para fortalecer a los pobres son cada vez mayores. En el año 2003, el 90% de los panameños que viven en las áreas indígenas se encontraban en condiciones de extrema pobreza, una cifra que sigue en aumento. Por lo general, la forma tradicional de brindar asistencia social a las poblaciones aisladas es a través de los subsidios universales, los cuales requieren un replanteamiento y mayor eficiencia en la gestión de los gastos públicos.

La Visión Estratégica presentada por la administración de Martín Torrijos (2004 – 2009), está respondiendo a los retos de desarrollo de Panamá. Las reformas al sistema fiscal y de pensión, ambas aprobadas en el año 2005, forman parte de una ambiciosa estrategia de desarrollo que se enfoca en la disciplina fiscal, la transparencia y una mayor eficiencia que garantiza una base económica sólida, acelera el crecimiento económico guiado por las exportaciones, crea más trabajos y reduce la pobreza. Para disminuir la pobreza en un 20 por ciento, el gobierno de Torrijos ha dirigido sus esfuerzos en la inversión de capital humano (incluyendo el desarrollo de programas para modernizar la educación y las capacitaciones) e introdujo un programa piloto de Transferencia Monetaria Condicionada (TMC), el cual busca la continua expansión de la educación pre-escolar, cuidados primarios de la salud y nutrición, y una infraestructura básica, especialmente en las áreas pobres e indígenas.

El Banco fue uno de los principales socios de desarrollo de Panamá durante gran parte de los años 90, un período en el que el país hizo constantes progresos en las reformas estructurales para abrirse a la economía, mejorar la competencia y modernizar el Estado. Sin embargo, la participación del Banco cayó dramáticamente entre los años 2000 a 2004 y mucho de la Estrategia de Asistencia al País (AF99-01) se quedó sin implementar. La relación entre el Banco y Panamá ha sido nuevamente consolidada a través de un programa de actividades que fueron acordadas en la Nota de Estrategia Interina para la República de Panamá (AF06-07), en donde el desempeño de la cartera se ha recuperado, se han retomado las inversiones en los proyectos que estaban pendientes y el trabajo analítico ha contribuido a fortalecer el diálogo de políticas.

La Estrategia de Alianza con el País (AF08-10), tiene como objetivo proporcionar una asistencia selectiva e impulsada por la demanda, que profundiza las relaciones entre el Banco Mundial y Panamá; y a la vez, brinda asistencia al gobierno para lograr sus metas de pobreza y desigualdad durante los dos últimos años de su gestión. Además, la EAP puede proporcionar al próximo gobierno (2009 - 2014) asistencia de apoyo inmediato. La EAP se enfoca en cuatro objetivos que están alineados con los pilares y metas de la Visión Estratégica de Panamá 2004 - 2009 (ver Tabla 1).

La EAP tiene una fuerte orientación a los resultados. Seguirá apoyando a Panamá con el desarrollo de un sistema nacional de estadísticas, y en relación a eso, identificará y dará seguimiento a los resultados específicos que el programa del Banco Mundial está presto a apoyar. De igual forma, la EAP se enfatiza en el desarrollo de las capacidades de los ministerios, en coordinación con el Banco Interamericano de Desarrollo, (BID). Ambas organizaciones, en coordinación con el gobierno, están trabajando para regularizar los procedimientos de cuyos sistemas serán fortalecidos.

Tabla 1: Visión Estratégica de Panamá 2004-2009			
Pilar I Reducir la Pobreza y la Desigualdad	Pilar II Impulsar el Crecimiento Económico y el Empleo	Pilar III y V Reforma de las Finanzas Públicas y la Modernización del Estado	Pilar IV Desarrollo del Capital Humano
Objetivos amplios a los que la EAP contribuirá			
Reducir la pobreza, especialmente entre los pobres rurales y grupos indígenas	Promover un crecimiento económico de amplia base	Establecer sistemas e instituciones modernas en la Administración de las Finanzas Públicas, AFP	Mejorar la salud, nutrición y logros académicos de la población de escasos recursos

La EAP incluye una cartera de préstamos de US\$390 y US\$465 millones para AF 08. El nuevo financiamiento será dividido principalmente entre préstamos de política de desarrollo y siete nuevos proyectos de inversión enfocados en la pobreza. Dada la amplitud del trabajo analítico llevado a cabo bajo la NEI, la EAP construye un análisis sectorial profundo, incluyendo temas de salud y educación, en programas de préstamo financiados como parte del enfoque en el desarrollo de capacidades locales. El programa también incluye tres reportes analíticos. Las Notas de Políticas serán preparadas como herramienta de apoyo para discusiones de políticas en las elecciones nacionales de mayo 2009.

CFI continuará enfocándose en los sectores financieros e infraestructura; proyectos que promueven el crecimiento, alineados con el segundo objetivo de la EAP (promoviendo el crecimiento económico de amplia base). También buscará oportunidades donde pueda añadir un valor social y ambiental en la industria de la extracción. CFI mantendrá su enfoque en operadores a nivel regional.

A pesar de que las vulnerabilidades macroeconómicas en Panamá han disminuido desde la presentación de la Junta de la NEI – el crecimiento se ha acelerado, la deuda ha caído proporcionalmente al PIB, y los balances fiscales han mejorado – la visión a mediano plazo no está completamente sin riesgos. Como se ha elaborado en la EAP, la estrategia toma en cuenta los riesgos potenciales en tres áreas: económica, política y desempeño de la cartera.

Tema Propuesto para Discusión de la Junta

- **¿Considera que la aplicación de la “Estrategia para Países de Mediano Ingreso” del Banco Mundial en esta EAP es una respuesta estratégica apropiada para el GOP; considerando su Visión de Estrategia de Desarrollo, prospectos económicos y las áreas en las que el Gobierno ha solicitado el apoyo del Banco?**

I. Contexto de País y Retos de Desarrollo

1. En los últimos años la economía de Panamá ha experimentado un crecimiento económico significativo, con un promedio por encima del 7.5 por ciento entre los años 2004-2006. Estas ganancias, combinadas con los prospectos de crecimiento favorables del país, presentan una oportunidad histórica para Panamá, impulsando la reducción de la persistente pobreza y desigualdad. El Gobierno actual, liderado por el Presidente Martín Torrijos (2004-2009), está trabajando fuertemente para enfrentar esos retos. Además de plantear políticas dirigidas a ampliar la base de actividad económica – incluyendo la apertura de los mercados de comercio, reduciendo las barreras reglamentarias a la competencia, promoviendo la innovación y dando a los campesinos rurales las herramientas para competir – el gobierno se está moviendo en un número de frentes para aumentar la efectividad de la asistencia social. Ha iniciado un Programa de Transferencia Monetaria Condicionada, *Red de Oportunidades*, cuyo objetivo es romper el ciclo de pobreza generacional en los grupos más pobres del país. Al mismo tiempo, está expandiendo la educación pre-escolar y los cuidados básicos de la salud, para que los niños pobres estén mejor preparados para integrarse a las escuelas primarias; y está trabajando para remover las barreras que les evitan completar la escuela secundaria. El Gobierno también está progresando en la modernización de los sistemas e instituciones que no han cumplido con la entrega eficiente de los programas públicos, la infraestructura y los servicios que son necesarios tanto para ayudar a ampliar la base de la actividad económica, como para redistribución eficiente de los beneficios. Entre otras iniciativas, el Presidente está supervisando un fondo de US\$50 millones al año, provenientes de las ganancias del Canal, el cual está proporcionando la infraestructura básica para las comunidades – agua, calles e inclusive escuelas – de acuerdo con sus preferencias indicadas.

2. Con una población de aproximadamente 3.5 millones, un canal mundialmente reconocido, un moderno centro financiero y un PIB per cápita que lo coloca como una nación de ingreso medio-alto, Panamá es un país de contrastes. Perpetuado por desigualdades educativas dramáticas¹, más de un tercio de la población de Panamá estaba viviendo en condiciones de pobreza en el año 2003, y un 16 por ciento en extrema pobreza – evidencia de una alta desigualdad. Las presiones de la pobreza también han estado amenazando progresivamente los activos ambientales de Panamá, considerado como uno de los países con más diversidad biológica en el mundo. Más del 12 por ciento del territorio del país se ubica dentro del Sistema Nacional de Áreas Protegidas. Sin embargo, las presiones de la pobreza han empujado al pobre a explotar los recursos naturales del Corredor Biológico Mesoamericano de manera insostenible. El impacto del reciente crecimiento de los niveles de pobreza y el éxito de los esfuerzos para ayudar, garantizan que los beneficios económicos sean ampliamente compartidos y serán medidos de forma comprensiva por la Encuesta de Nivel de Vida, ENV, del año 2008. Lo que ya se sabe es que el desempleo ha caído históricamente a un nivel bajo² y las recomendaciones políticas del gobierno están alineadas con lo que se ha propuesto trabajar para combatir la pobreza y la desigualdad en otros lugares.

¹ Mientras que los adultos panameños no pobres (25 años o más) promedian 10 años de escolaridad en el año 2003, los adultos panameños pobres promedian solamente arriba de 5 años y los adultos panameños indígenas promedian escasamente 3 años.

² El desempleo se reduce de 11 por ciento en el año 2003 a 7 por ciento en el año 2006.

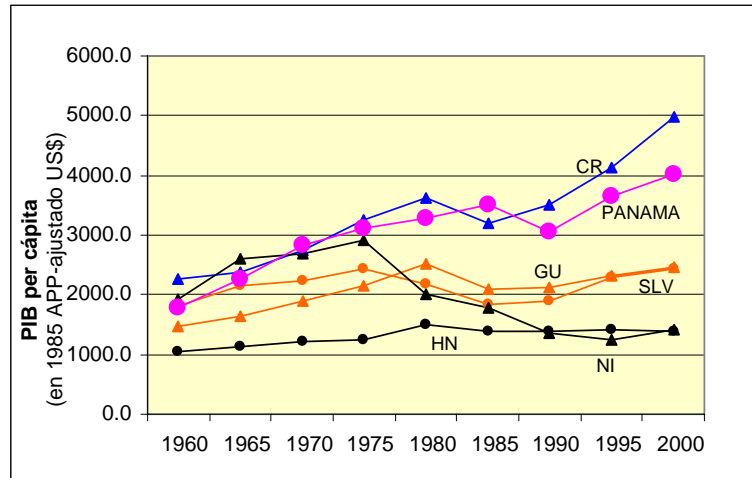
Dinámicas de Crecimiento

3. Panamá tradicionalmente ha estado clasificada entre las economías de más rápido crecimiento en América Latina y América Central, con fuertes enlaces a los mercados de EE.UU. y a las dinámicas del comercio mundial (ver figura 1a). Sin embargo, el desarrollo económico de Panamá también ha sido caracterizado por un alto grado de inequidad (ver Figura 1b) el cual fue exacerbado por las políticas de proteccionismo y deformación, incluyendo subsidios universales generosos aplicados en los años 70.³ Estas medidas introdujeron ineficiencias estructurales que limitaron las ganancias productivas, y señalaron que el crecimiento benefició principalmente a los sectores de servicios que poseen capital intensivo. Esto ha colocado a la mayoría de las oportunidades económicas fuera del alcance de los miembros de la sociedad con menos oportunidades; los pobres del país, incluyendo aquellos que viven en comunidades indígenas.

4. Siguiendo una debacle política y económica que culminó con la expulsión del General Manuel Noriega al final del año 1989, el crecimiento económico rebotó a principios de los años 90, mientras que la disciplina macroeconómica fue restaurada. La administración de Pérez Balladares (1994-1999) comenzó agresivamente a atacar las debilidades estructurales. Procedió a dismantlar el laberinto existente de las barreras comerciales y controles de precios e implementó un programa de privatización de largo alcance acompañado de una legislación de libre competencia y protección al consumidor. El momento de la reforma se estancó entre la desaceleración global de los años 2001-2002 y el ambiente político dividido dentro de Panamá. El progreso desde entonces ha sido rejuvenecido bajo la administración de Torrijos, 2004-2009, acompañado de un fuerte crecimiento renovado.

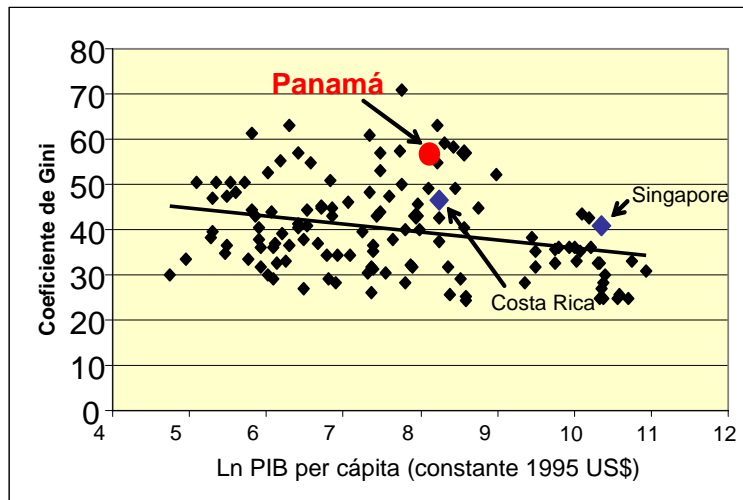
5. En octubre del año 2006, los panameños votaron en un referéndum nacional de forma abrumadora en apoyo a la expansión del Canal de Panamá a través de la creación de un tercer

Figura 1.a. Panamá: Fuerte Crecimiento Histórico



Fuente: Banco Mundial (2002)

Figura 1.b. Desigualdad



Fuente: Banco Mundial (2002)

³ Ver Panamá: Una Economía Dual en Transición, Banco Mundial, 20 de julio, 1995.

juego de esclusas. La inversión total de la expansión del Canal, excluyendo aquellas actividades auxiliares, representa alrededor del 30 por ciento del PIB, repartidos entre seis o siete años. Se espera que esta empresa proporcione mayor empuje al crecimiento económico (ver Cuadro 1) con beneficios directos acumulados, principalmente en los sectores de servicios dinámicos, tradicionales de la economía.

6. En junio del año 2007, Panamá y los EE.UU. firmaron un tratado de libre comercio. Combinado con los avances pasados, la implementación de este tratado podría limitar el alcance para aplicar las políticas de proteccionismo que han exacerbado los problemas de dualidad en el pasado. Sin embargo, los beneficios de un tratado de libre comercio no se acumulan automáticamente en todos los segmentos de la economía, especialmente en aquellos que han tenido un acceso limitado a la oportunidad económica en el pasado. Las políticas complementarias que impulsan, más la competitividad dentro del sector privado, serán necesarias para ampliar la base de los potenciales beneficiarios. Dichas políticas incluyen medidas adicionales para reducir los procesos burocráticos y otros límites reglamentarios, que continúan limitando las barreras para la competencia doméstica, mejorar las destrezas de la fuerza laboral, y otras medidas para reducir barreras al empleo formal y aumentar la productividad del sector privado a través de inversiones en innovación y adopción de tecnología (ver Cuadro 2).

Cuadro 1. El Canal de Panamá

Construido en 1914, el Canal de Panamá es la puerta de entrada para más de 140 rutas marítimas a nivel mundial, pero para mantener su importante capacidad global se debe expandir. Cada año más de 12,000 barcos (alrededor de 30 por día) transitan el Canal de 80km de largo llevando las operaciones a cerca del límite de su capacidad. El Canal es tan significativo para los embarques internacionales que los barcos de contenedores, al menos hasta hace poco, eran construidos para encajar en sus dimensiones, conocidos como el estándar Panamax. No obstante, el crecimiento reciente en el comercio mundial, coloca una mayor demanda en los barcos de contenedores y ha llevado al desarrollo de los barcos Post-Panamax que son actualmente muy grandes para transitar el Canal.

La “economía del Canal”, incluyendo los efectos del derrame de aguas, es enormemente importante para la economía panameña contribuyendo alrededor de un quinto del PIB y el empleo. Ampliamente definido, el sistema del Canal consiste de actividades directas relacionadas con la operación del Canal, actividades indirectas incluyendo servicios a los barcos de contenedor en tránsito y actividades inducidas, tales como la Zona Libre de Colón o los puertos, que son un resultado de la existencia del Canal. Estas tres generaron el 14 por ciento del PIB de Panamá en 1999 y fueron responsables del dos por ciento del empleo de acuerdo con los cálculos realizados por la Autoridad del Canal de Panamá (ACP). El sistema del Canal también tiene un efecto de derrame sustancial sobre el resto de la economía (conocido como el efecto multiplicador).⁴ La ACP estimó que este efecto multiplicador añadió un 4 por ciento adicional al PIB y 18 por ciento del empleo. El Canal también ha sido una de las fuentes más importantes de ingresos para el gobierno (29 por ciento del total) y contribuyó con 41 por ciento de las exportaciones.⁵

Dada las restricciones de capacidad del Canal, su importancia económica y esperado crecimiento en el comercio mundial, los estudios de factibilidad comisionados por la ACP concluyeron que la expansión del Canal es económicamente sensible. El proyecto llamado el “tercer juego de esclusas” fue abrumadoramente endosado en un referéndum nacional llevado a cabo en octubre 2006. Un costo estimado de más de US\$5 billones (casi un tercio del PIB), el proyecto expandirá la capacidad del canal a través de tres componentes: (1) la construcción de dos nuevos juegos de esclusas, uno en cada lado, el Atlántico y el Pacífico; (2) la excavación de los canales de acceso a las nuevas esclusas y el ensanche de los canales de navegación existentes, y; (3) elevar un poco el nivel de operaciones del Lago Gatún. Como resultado de estas medidas, la capacidad será doblada, y permitirá el paso de los barcos Post-

⁴ El efecto multiplicador se refiere a una dinámica en la cual el ingreso y empleo generados por las actividades relacionadas con el Canal aumentan la demanda de bienes y servicios producidos en otros lugares de la economía.

⁵ ACP e Intracorp, 2006, Estudio de Impacto Económico del Canal de Panamá a Nivel Nacional, Volumen 1

Panamax. El proyecto, que será completado en el año 2014, será financiado en parte por los ingresos del peaje y en parte por préstamos de la ACP.⁶

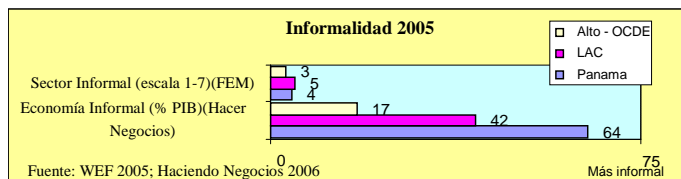
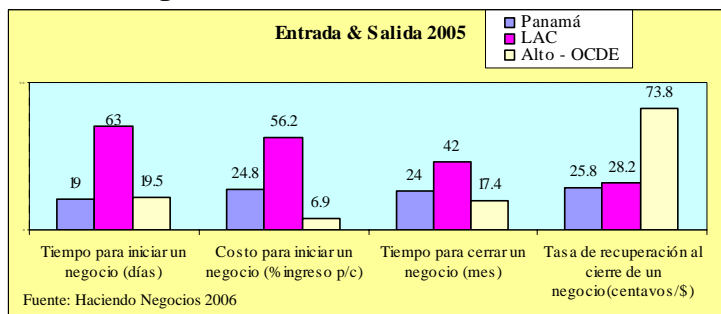
Se espera que la expansión tenga un fuerte impacto positivo sobre el crecimiento y empleo y también dará una ventaja considerable al comercio internacional y a la industria marítima. Los estimados de la ACP sugieren que el PIB podrá crecer tanto como uno punto por ciento más por año, en promedio, sobre los siguientes veinte años debido al proyecto. La ACP también espera que el empleo aumente considerablemente por cerca de 45,000 en 2010 y 252,000 en 2025. Estimados independientes del FMI sugieren un impacto en el empleo más modesto de alrededor de 20,500 en 2010 y 44,000 en 2025.

Fuente: ACP e Intracorp, 2006, *Estudio del Impacto Económico del Canal de Panamá a Nivel Nacional*, Volumen 1

⁶ El 26 de abril de 2007, el Gabinete aprobó un aumento en los peajes del Canal. La nueva estructura tarifaria implica un aumento nominal del diez por ciento por año en promedio sobre los siguientes tres años. El aumento más alto de lo esperado refleja un asertivo intento por la ACP de capturar el valor económico completo ofrecido por el Canal. Un mayor ingreso por tarifas reduciría los requisitos de préstamos de la ACP para financiar el proyecto de expansión del Canal.

Cuadro 2. Ambiente de Negocios de Panamá

En varios aspectos del ambiente de negocios, Panamá se desempeña relativamente bien desde una perspectiva internacional. De acuerdo con la base de datos *Haciendo Negocios (Doing Business Report)*, es relativamente rápido y barato comenzar un negocio en Panamá, y el país tiene buenos indicadores en licencias, pagos de impuestos, comercio a través de sus bordes y registrando propiedades. En muchas de estas áreas, Panamá está clasificada más cerca del promedio OCDE que aquellos de América Latina y el Caribe (LAC), incluyendo una profundidad financiera.



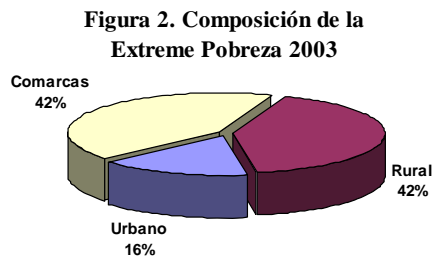
Con respecto a las regulaciones laborales, Panamá exhibe costos no-salariales (impuestos y contribuciones de seguro social) que son menores que aquellas del promedio de país en LAC, así como regulaciones más flexibles para horas laborales y costos de despido más bajos. Sin embargo, las regulaciones de despidos son restrictivas por los estándares internacionales y los salarios mínimos son altos, relativo al valor promedio añadido por trabajador. Más aún, la eficiencia del sistema judicial de Panamá es relativamente baja, al menos en términos de los costos monetarios y el tiempo requerido para hacer cumplir los contratos comerciales. Estos costos de transacción podrán contribuir a la alta actividad económica informal de Panamá (64 por ciento del PIB, 47 por ciento del empleo no agrícola). Otros potenciales culpables de los altos niveles de informalidad observados en Panamá están asociados con la gobernabilidad y los temas del marco reglamentario. Así, Panamá tiene una calificación un poco por debajo del promedio LAC en control de la corrupción, efectividad del gobierno, calidad reglamentaria y estabilidad política (Kaufman et al. 2006). No sorprende que, de acuerdo con el Foro de Economía Mundial (WEF) los tres factores más problemáticos para hacer negocios en Panamá son la corrupción, una ineficiente burocracia gubernamental y las regulaciones del mercado laboral restrictivas.

La falta de destrezas dentro de la fuerza laboral es también considerada un impedimento. Menos escolaridad no parece ser el culpable: los trabajadores panameños son más educados que sus colegas de LAC, con 8.6 años de escolaridad promedio en el año 2000, comparado con 6.1 años promedio en LAC y más graduados universitarios. Sin embargo, los panameños están atrasados en el uso de la tecnología. En el año 2004, la tasa de uso de las computadoras personales era del 55 por ciento por debajo del promedio de LAC, el uso de Internet estaba rezagado con 17 por ciento y los niveles de penetración de teléfono fijo y móvil también estaban por debajo del promedio de la región. El gasto de investigación y desarrollo (R&D), un Proxy para innovación de país, también estaba por debajo del promedio. En el año 2002, Panamá gastó 0.38 por ciento del PIB en R&D, mucho menos que el 0.57 por ciento para LAC y 2.5 por ciento en OCDE.

Pobreza y Desigualdad

7. A pesar de las ventajas de ubicación de Panamá, su estructura económica dual ha contribuido históricamente a la persistente pobreza y la alta desigualdad. Con el apoyo del Banco Mundial, Panamá llevó a cabo dos Encuestas de Nivel de Vida, ENV, uno en el año 1997 y el segundo en el año 2003.⁷ En ese período, los altos niveles de pobreza general, medidos por el consumo individual, se movió poco (de 37.3 por ciento a 36.8 por ciento), mientras que la pobreza extrema declinó de 18.8 por ciento a 16.6 por ciento. Afortunadamente, estos pobres resultados no son

⁷ El LSMS es una encuesta basada en la población que recolecta información sobre indicadores detallados de los patrones de consumo y el bienestar de los miembros del hogar. Es estadísticamente representativo para poblaciones que viven en áreas urbanas y rurales no indígenas e indígenas.



buenos indicadores del progreso en la reducción de la pobreza. El ENV 2003 fue llevado a cabo justo cuando Panamá estaba comenzando a emerger de un bajón económico de dos años.⁸ De mayor interés son los sorprendentes cambios en la composición de los pobres de Panamá durante esos años. En el año 1997, el 56 por ciento de la población en extrema pobreza, vivían en áreas rurales no indígenas, mientras que el 35 por ciento vivían en áreas indígenas y solamente 9 por ciento en áreas rurales.

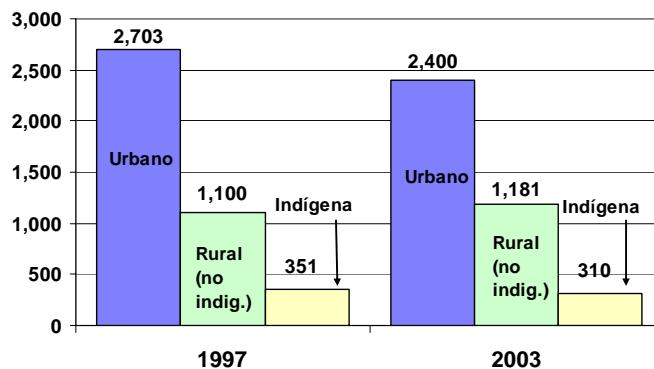
En el año 2003, la porción que vivía en extrema pobreza en áreas rurales no indígenas e indígenas estaba idéntica, es decir, un 42 por ciento para cada grupo. En el mismo período, la porción de extrema pobreza que vive en áreas rurales casi que se duplicó a 16 por ciento, debido por lo menos en parte a la migración de áreas rurales a urbanas. Con el encanto del proyecto de expansión del Canal de Panamá, la migración a la Ciudad de Panamá bien puede aumentar; 57 por ciento de los pobres tienen menos de 20 años y el 36 por ciento son adultos de edad laboral (20-60).

8. En el año 2003, gran parte de los panameños en las áreas indígenas eran pobres (98.4 por ciento), con un impactante 90 por ciento viviendo en extrema pobreza.⁹ La pobreza era mucho

más profunda entre aquellos que vivían en áreas indígenas. Debido a que los niveles de consumo son tan bajos entre los indígenas, tomará un aumento mucho mayor para levantar el promedio por persona que vive en un área indígena fuera de la pobreza, comparado con lo que tomaría mover a una persona urbana o rural no indígena por encima de la línea de extrema pobreza. En esencia, lo que está emergiendo es una estructura de bienestar personal de tres partes

amarrada a una estructura económica de tres facetas en Panamá: aquellos con acceso al dinámico sector de servicios (residentes urbanos), aquellos que dependen de sectores menos competitivos, de menor crecimiento como la agricultura (residentes rurales no indígenas) y aquellos quienes están geográficamente aislados de las actividades económicas (residentes de las comarcas). Aún cuando se logran progresos en el aumento del dinamismo de los sectores que previamente se habían quedado atrás por el

Figura 3. Medida de Consumo per cápita anual US\$



⁸ De acuerdo con los datos nacionales del registro de Panamá, el PIB per capita creció a una tasa anual de 1.5% mientras que el consumo, medido por la encuesta de hogares cayó por 0.7%. Dichas diferencias entre los datos nacionales de cuentas y los resultados de la encuesta de hogares son comunes mientras que los instrumentos están midiendo cosas diferentes y ambos están sujetos a error. Para mayor discusión, vea la Evaluación de Pobreza que sigue.

⁹ Los indígenas en Panamá representan menos del 10 por ciento de la población, los cuales pertenecen a siete grupos de tamaño variado. Los tres más numerosos han obtenido comarcas semi-autónomas demarcadas: Ngobe-Bugle cerca de la frontera con Costa Rica, Kuna en la Comarca Kuna Yala, y Embera-Wounan en el Darién, cerca de la frontera con Colombia. Otros grupos étnicos importantes incluyen a las personas descendientes de los colonizadores españoles y afro-panameños, aunque los estimados ponen a estos herederos mixtos entre un 85 y 90 por ciento.

proteccionismo y la rigidez reglamentaria, aquellos que viven en áreas de comarcas indígenas aisladas, pueden todavía quedarse atrás.

9. Panamá hizo progresos en la reducción de desigualdad de consumos entre los años 1997 y 2003. El coeficiente Gini de consumo declinó de 48.5 a 46.9¹⁰, pero se mantuvo sobre el promedio para América Latina y estaba alto para las normas globales, especialmente entre los países con niveles de riqueza similares. Las diferencias en los índices de consumo entre varios grupos de panameños también estaban todavía generalizadas en el año 2003. La población que vive en las áreas rurales no indígenas consumió menos de la mitad de su contraparte urbana, mientras que aquellas que viven en áreas indígenas consumieron nueve veces menos (ver Figura 3). Estas diferencias económicas son reflejadas en otros indicadores sociales. Un poco más de un quinto de todos los niños panameños estaban crónicamente desnutridos en el año 2003, con el nivel llegando a la mitad para los niños indígenas. En educación, mientras que el logro educativo para la población de 25 años o más era 8.6 años a nivel nacional, era solamente 3.7 años y 3.1 años entre los extremadamente pobres y para aquellos que viven en áreas indígenas. Las tasas de matrícula en primaria están aumentando entre los pobres para cerrar la brecha con los que no son pobres, pero menos de un tercio de los niños en extrema pobreza estaban matriculados en escuelas secundaria en el año 2003, comparado con la mitad de los niños pobres y 85 por ciento de los niños que no son pobres. Las tendencias y las disparidades en los indicadores sociales son reflejadas en el progreso y probabilidad de que los Objetivos de Desarrollo del Milenio de Panamá se logren (ver Cuadro 3).

Cuadro 3. Panamá: Progreso y Prospectos para el Logro de los ODM

Panamá está haciendo un buen progreso hacia lograr los ODM en la educación, agua y saneamiento, y las tendencias a largo plazo para la reducción de la pobreza. La extrema pobreza fue disminuida casi a la mitad entre los años 1991 y 2002, acercándose al objetivo de los ODM. La tendencia de los indicadores la pobreza de los ENV desde el año 1997 al 2003 era menos tranquilizadora (la extrema pobreza disminuyó del 18.8% al 16.6% sobre esos cinco años, utilizando una línea de pobreza basada en el consumo nacional), pero es probable que el auge económico reciente esté recuperando el ritmo de la reducción de pobreza otra vez.

La matrícula neta primaria aumentó de 92% en el año 1997 a 93.9% en 2003, y la tasa de niñas a niños era del 95% para la educación primaria y 105% para secundaria. Al ritmo con las metas ODM, más gente tiene acceso a una fuente de agua mejorada (88% en 2004, subió de 79% en 1990) y mejoró la sanidad (53% en 2000, subió de 44% en 1990). Los prospectos también se ven prometedores para las metas ODM en una degradación de bosques en la medida en que las tendencias están entre las más bajas en la región: el área total de bosques disminuyó solamente de 58.8% en 1990 a 57.7% en 2005.

Sin embargo, Panamá no ha podido ser exitosa en hacer suficiente progreso en los indicadores de salud. El porcentaje de niños panameños crónicamente desnutridos creció de 14% en 1997 a 21% en 2003 (y a más de 50% en áreas indígenas). La mortalidad maternal por 100,000 nacimientos vivos también creció en Panamá de 55 en 1990 a 160 en 2000. Panamá pudo lograr cerca de un 30% de disminución en la mortalidad de niños e infantes de 1990 a 2004, pero el ritmo para lograrlo quedó atrás del promedio de 40% de la reducción que se vio en toda América Latina y el Caribe.

¹⁰ El coeficiente Gini es una medida de desigualdad en la distribución de ingresos. Está definido como una tasa con valores entre 0 y 1 donde 0 corresponde a una igualdad perfecta de ingresos (por ejemplo, todo el mundo tiene el mismo ingreso) y 1 corresponde a una desigualdad perfecta de ingresos (por ejemplo, una persona tiene todo el ingreso, mientras que todos los demás tienen un ingreso de cero).

Gasto Público y Asistencia Social

10. Las ineficiencias del gasto público en Panamá han ayudado a perpetuar la desigualdad y necesitará más atención del país para capturar mayormente los potenciales beneficios de un comercio más libre. La persistente desigualdad de Panamá y la profunda pobreza entre muchos de los extremadamente pobres reclama un rol más fuerte del Estado para la redistribución. Además, el sector privado depende del Estado para proporcionar y mantener la infraestructura, educar la fuerza laboral, apoyar la innovación y regular eficientemente – todos estos factores son importantes para mantener la competitividad doméstica. Para Panamá no es sólo cuestión de gastar en programas sociales, sino de invertir bien en lo que se gasta. Panamá gasta 17 por ciento del PIB en los sectores sociales, por encima del promedio de América Latina de 14 por ciento, pero los resultados no son commensurados con el nivel de inversión, apuntando a ineficiencia. En áreas de disposiciones de infraestructura, los retos más importantes son la negligencia en el manejo de los activos públicos; débiles políticas de precios y recuperación de costos; y lo inadecuado de los gastos de mantenimiento en todos los activos administrados por el estado.

11. Debido al uso de herramientas y sistemas obsoletos para la planificación estratégica, asignación de recursos y el monitoreo, el impacto en los gastos de tipo social, de infraestructura y agricultura se ha visto limitada. Por ejemplo, los indicadores de educación y salud de Panamá son relativamente buenos para la cantidad de desembolsos destinados a estos sectores, esos mismos resultados del sector social pueden ser logrados a un costo significativamente menor siguiendo las mejores prácticas aplicadas en otros países. Además de las herramientas para un uso más estratégico de los fondos, la Rendición de Cuentas Financieras del País y el Reporte de Evaluación de Compras (CFAPAR) 2007, señala que las mejores prácticas necesitan modernizar la gestión en las finanzas públicas y los procesos de compra. Las ineficiencias de estos, han contribuido a los elevados costos en todos los reportes de gastos del gobierno.

12. Finalmente, un papel de redistribución más fuerte solamente puede ser logrado con un mejor enfoque hacia la asistencia social. Panamá gasta cerca del 1% del PIB anualmente en subsidios universales, incluyendo subsidios de precios para la electricidad, gas para cocinar y agua potable, privilegios que la mayoría de la población pobre no disfruta. Al mismo tiempo, algunos programas sociales sistemáticamente estaban enfocados en el sector pobre. Los defectos de un débil enfoque son observados a lo largo de grandes disparidades de ingresos – grupos entre los indicadores del sector social discutidos en el párrafo 9. En la medida en que se avanza el programa de transferencia de fondos de Panamá (Red de Oportunidades) y los niños extremadamente pobres se mantienen más saludables y completan la educación primaria en mayores números, se necesitará mayor atención para culminar la educación secundaria, donde los retos son aún mayores. Mientras que el 60 y el 35 por ciento de los nuevos adultos urbanos y rurales completaron la escuela secundaria en el año 2003, solamente el 10 por ciento de los indígenas en la misma cohorte pudieron lograrlo. Panamá, entonces, tiene la oportunidad de lograr intervenciones del sector público más efectivas desarrollando y empleando herramientas para usos más estratégicos de los recursos públicos, la modernización de las instituciones y prácticas de administración financiera pública; y enfocándose en la asistencia social.

Resumen de los Retos de Desarrollo

13. Como se documentó en el reciente Reporte Principal del Banco Mundial para América Latina y el Caribe, *Reducción de la Pobreza y Crecimiento: Círculos Virtuosos y Viciosos, a un largo plazo* todas las políticas de pro-crecimiento serán conducidas a un bajo nivel de pobreza, sin embargo, a corto plazo cuando las severas desigualdades no son atacadas, el pobre se beneficiará menos, o no se beneficiará del todo. Además, el reporte encontró que los altos niveles de pobreza son una carga constante para el crecimiento. Los resultados de otro reporte reciente, *Crecimiento Económico en los años 90* (Banco Mundial, 2006), coinciden con que las experiencias de crecimiento más exitosas tienen cuatro elementos en común: rápida acumulación de capital, asignación eficiente de los recursos, un progreso tecnológico y *beneficios de crecimiento compartidos*. De acuerdo con la *Evaluación de Pobreza de Panamá: Hacia la Reducción Efectiva de la Pobreza (PA 2007)*, estos resultados generales son aplicables a Panamá. Como se discutirá en la siguiente sección bajo la “perspectiva económica a mediano plazo”, la expansión del Canal y los prospectos de un TLC deben impulsar el crecimiento económico para los siguientes años. Mientras que no se puede garantizar un fuerte crecimiento económico en Panamá y los esfuerzos continuos para realizar las proyecciones de crecimiento serán necesarios, la “distribución desigual de beneficios de crecimiento” de Panamá sobresale como el mayor reto de desarrollo para el país. Tal y como un pequeño agricultor lo expuso durante las consultas informales con los empleados del Banco, “hay dos Panamá: el Canal y nosotros”. Todos los panameños, esperan participar y beneficiarse del esperado crecimiento económico generado por el Canal y los tratados de libre comercio, mientras que el pobre necesitará mayor acceso a los recursos de todo tipo: como tierra y capital, al igual que entrenamiento, acceso a los mercados, riesgos compartidos y, quizás lo más importante, niños más saludables y mejor educados.

14. Como se describe en la siguiente sección, un mayor enfoque de la actual administración está desmantelando la división entre aquellos que se han beneficiado del “sistema del Canal” y aquellos que han sido parte del otro Panamá. La administración ve esto como un elemento crítico de su contrato social con la nación para expandir el Canal: Si los fondos invertidos en el Canal son cerca de un tercio del PIB, se debe aplicar un esfuerzo equivalente para mejorar las condiciones del sector pobre de Panamá.

II. Estrategia de Gobierno y Perspectiva Económica

15. La Visión Estratégica articulada por la Administración Torrijos (2004-2009) responde a los retos de desarrollo de Panamá y le da una atención renovada a la reducción de la pobreza. El presidente Martín Torrijos asumió la jefatura en septiembre del año 2004 con un fuerte mandato político, llevando a la coalición de su partido una mayoría en la Asamblea Legislativa. Después de seis meses de haber asumido el poder, el gobierno garantizó la aprobación de un paquete de reformas fiscales y la reforma a las pensiones, políticamente difíciles¹¹. Estas medidas forman parte de una estrategia de desarrollo ambiciosa a mediano plazo, *Visión Estratégica de Desarrollo Económico y Empleo Hacia el 2009*, que fue revelada por las Autoridades a inicios del año 2005 (ver Cuadro 4). Construyendo en el proceso de reformas estructurales que fue suspendido después del año 1999, esta estrategia enfatiza la disciplina fiscal, transparencia (ver Cuadro 5) y una mayor eficiencia como elementos para garantizar una base económica sólida, acelerando el crecimiento económico liderado por las exportaciones, creando más trabajos y

Cuadro 4. Visión Estratégica de Desarrollo Económico y Empleo hacia 2009 del GOP

La Visión Estratégica está compuesta de cinco pilares:

Pilar I – Reducir la Pobreza y la Desigualdad de Ingresos comprende cuatro dimensiones: estimular el crecimiento y expandir las oportunidades de empleo, especialmente para los jóvenes; desarrollar el capital humano del pobre; ser pionero de un programa piloto de transferencia monetaria condicionada (*Red de Oportunidades*) que junta los esfuerzos para mejorar la educación, la salud, nutrición y tener acceso a infraestructura básica, enfocada en las áreas más pobres; e invertir en actividades productivas de las áreas rurales, incluyendo la seguridad de la tenencia de tierras.

Pilar II – Impulsar el Crecimiento Económico y el Empleo se enfoca en esfuerzos para abrir la economía a la competencia internacional y promover el crecimiento liderado por las exportaciones, incluyendo a través de tratados de libre comercio, desarrollo de infraestructura de exportaciones (camino, puertos, etc.), renovación de distorsiones e incentivos injustos del sector, y enfocar las inversiones complementarias en la expansión del Canal, la irrigación y el transporte urbano.

Pilar III – Reforma de las Finanzas Públicas incluyen acciones para reducir la deuda pública, lograr la sostenibilidad fiscal y modernizar la administración de las finanzas públicas, incluyendo la reforma fiscal y de pensiones, medidas para mejorar la exactitud y transparencia del sistema contable nacional, la modernización de las compras y la administración de impuestos y las mejoras en la administración del presupuesto.

Pilar IV – Desarrollo del Capital Humano busca mejorar la competitividad de la fuerza laboral de Panamá y reducir la desigualdad a través de inversiones en educación y salud. Las iniciativas apoyarán una reforma al currículo nacional, una expansión de la cobertura de la educación pre-escolar y secundaria, un entrenamiento efectivo de los trabajadores, programas de salud preventiva y ocupacional y una infraestructura de salud, agua y saneamiento expandida en las áreas rurales e indígenas.

Pilar V – Reforma y Modernización del Estado apoya las actividades para ayudar al sector público y a las instituciones públicas a que sean mejores facilitadores del desarrollo a nivel nacional. Se tomarán medidas para reducir la corrupción, mejorar la participación privada en la infraestructura, mejorar la competencia en los sectores de electricidad y transporte y promoverán la descentralización en la entrega de los servicios básicos.

¹¹ Estas medidas fueron apoyadas por el Préstamo de Políticas de Finanzas Públicas y Desarrollo Institucional AF07 (\$60 millones).

reducir la pobreza a un quinto durante su término y ha priorizado las inversiones en capital humano (incluyendo un gran esfuerzo para modernizar la educación y el entrenamiento) y la asistencia social (incluyendo la introducción de un programa piloto enfocado en la transferencia monetaria condicionada y cuidado primario de la salud, especialmente en áreas pobres e indígenas) como contraste de sus esfuerzos.

Cuadro 5. El GOP está Aumentando la Transparencia y la Rendición de Cuentas para Reducir la Corrupción y Mejorar la Eficiencia del Sector Público

Durante su discurso inaugural (septiembre del año 2004) el Presidente Torrijos anunció que la lucha contra la corrupción sería una prioridad durante su período y desde el inicio de su administración reconoció la necesidad de fortalecer las bases de las instituciones públicas y garantizar la transparencia para crear un ambiente de crecimiento económico que podría eventualmente mover a Panamá a un estatus de país desarrollado. Esta prioridad está reflejada en el Pilar V de la Visión Estratégica del Gobierno: Reforma y Modernización del Estado, que incluye un programa multi-facético para mejorar la transparencia y luchar contra la corrupción de las instituciones y finanzas públicas. Este programa llama al fortalecimiento de la ética pública; la integración de principios de transparencia de buena gobernabilidad; integridad y rendición de cuentas en operaciones públicas (a través de la administración financiera y la modernización de compras), y la simplificación de procedimientos clave de negocios. Las medidas específicas tomadas por el Gobierno en cada una de estas áreas son:

Para **fortalecer la transparencia en las operaciones del gobierno y crear una cultura de servicio civil más abierta** el gobierno ha: (i) abolido las regulaciones de la Ley de Transparencia que impuso restricciones en vez de facilitar el acceso público a la información; (ii) aprobado una ley para ratificar la Convención de las Naciones Unidas Contra la Corrupción, (iii) creado el Consejo Nacional Anticorrupción, y su Secretaría Ejecutiva, como un cuerpo asesor del Órgano Ejecutivo sobre estrategias del sector público relacionadas con una buena gobernabilidad, transparencia, ética y anticorrupción; (iv) emitido regulaciones estableciendo los principios generales para la estandarización de códigos de ética dentro del gobierno central, y la adopción de dichos códigos en un número de entidades públicas; (v) establecido un programa de divulgación financiera para los empleados del sector público; y (vi) presentado un borrador de ley para proteger a los denunciantes.

Para mejorar **la transparencia fiscal y la rendición de cuentas en la administración pública financiera**, el gobierno ha introducido varias medidas: (i) actualización de los sistemas de información fiscal (e-Impuestos) y fomentando la presentación en línea de las declaraciones de impuestos sobre la renta, junto con una campaña de crear conciencia y programas de entrenamiento a usuarios; (ii) emisión oportuna y la publicación de documentación de presupuestos, reportes de ejecución de presupuestos, estados financieros, información sobre deudas y planilla, y otros datos fiscales; (iii) reducción de la acción y tiempo tomados para pagar los gastos acumulados, y (iv) la implementación de un documento de seguimiento y sistema de administración (SIGUEME) para mejorar la rendición de cuentas y el desempeño de las transacciones financieras.

Los pasos para **modernizar las compras públicas** incluyen: (i) la emisión e implementación de Leyes de Compras mejoradas y regulaciones; (ii) un mandato más fuerte y apoyo a la Dirección General de Crédito Público (DGCP) en el contexto de un esfuerzo de coordinación interinstitucional; y (iii) el despliegue de un nuevo sistema de e-compras (Panamá compra) que promueve la transparencia y la competencia en las compras públicas (todas las notificaciones del gobierno central están ahora siendo publicadas en el sistema).

Para **reducir la burocracia en los negocios** y retener las oportunidades para compañías privadas apretadas, el gobierno ha buscado lo siguiente: (i) la creación y operación de la Secretaría Presidencial para la Innovación Gubernamental (SPIG), (ii) el despliegue de un portal de Internet “Panamá Tramita” donde se proporciona información sobre todos los procedimientos administrativos del gobierno identificados por SPIG; (iii) la implementación de cinco tiendas electrónicas-de-una sola parada o portales interinstitucional de Internet, donde los procedimientos administrativos prioritarios pueden ser llevados a cabo y la información sobre el estado de esos procedimientos que todavía no están disponibles en línea puede ser obtenida; (iv) la creación del mecanismo, a través de “Panamá Tramita”, para permitir a los usuarios de los servicios del gobierno que presenten sus quejas; y (v) el paso de la ley “Panamá Emprende” que simplifica los procedimientos para iniciar nuevos negocios.

Perspectiva Económica a Mediano Plazo

16. La economía de Panamá emergió de un declive en el año 2003 y ha estado en auge desde entonces, con tasas de crecimiento promedio por encima de 7.5 por ciento durante los años 2004 y 2006 (ver Tabla 2). Este auge fue liderado por las exportaciones de productos y servicios, que se beneficiaron de una recuperación a nivel mundial del comercio durante este período, y ha estado acompañado por un fuerte consumo privado y demanda de inversiones. Desde la perspectiva de un sector, la recuperación económica fue liderada por la construcción, el transporte y las actividades comerciales, y más recientemente, por una incipiente recuperación de la intermediación financiera. Dos sectores que no han exhibido signos significativos de recuperación desde el año 2002 son la agricultura (excluyendo la pesca) y la manufactura.

Tabla 2: Marco Macroeconómico de Panamá a Mediano Plazo
(en % de PIB, a menos que se anote lo contrario)

	2003	2004	2005	2006	2007	2008	2009	2010
	-----Actual-----				-----Proyección-----			
Tasa de crecimiento de PIB (%)	4.2	7.5	6.9	8.1	8.5	8.8	7.9	7.1
Tasa de Inflación (% , final del año)	1.4	0.5	2.9	2.5	3.7	3.6	3.8	3.9
Inversión Interna Bruta	17.1	16.6	16.8	18.4	22.1	24.3	26.8	28.6
Ahorro Nacional Bruto	20.2	16.7	18.8	17.5	18.0	19.1	19.2	19.1
Desempleo (%)	11.4	9.7	8.1	6.8	n/a	n/a	n/a	n/a
<u>Indicadores Clave del Sector Público No-Financiero</u>								
Ingresos (excluyendo la ACP)	22.3	21.1	22.3	25.3	25.6	24.6	24.5	24.3
Gastos (excluyendo la ACP)	27.0	26.0	24.9	24.8	25.1	24.9	24.9	24.6
Balance General, excl. ACP	-4.7	-4.9	-2.6	0.5	0.5	-1.2	-0.4	-0.3
Balance Primario, excl. ACP	-0.3	-0.7	1.8	4.9	4.7	3.5	3.2	2.7
<u>Indicadores del Sector Externo y la Deuda Pública</u>								
Exportaciones de Mercancía (FOB)*	7.7	8.1	8.3	8.6	8.1	7.7	7.4	7.2
Importaciones de Mercancía (FOB)*	19.0	19.6	20.5	21.7	23.1	24.7	27.4	29.7
Balance de Cuenta Corriente	-3.9	-7.6	-5.0	-2.2	-5.6	-6.7	-9.1	-11.0
Deuda Pública Total	67.0	70.4	66.1	57.5	51.7	46.3	41.9	38.0
Deuda Externa del Sector Público	50.3	50.9	49.1	45.5	44.2	39.8	36.8	33.8

*Excluye la Zona Libre de Colón

Fuentes: Reporte del FMI y cálculos del BM

17. Durante la fase inicial de este auge, los balances fiscales exhibieron una tendencia de deterioro. El déficit fiscal general del sector público llegó a un alarmante 4.9 por ciento del PIB en el año 2004 y aumentó la deuda pública de Panamá a 66.1 por ciento del PIB, trayendo nuevas

preocupaciones sobre la sostenibilidad de la futura deuda del país.¹² Esta disminución reflejaba principalmente un deterioro en las finanzas del gobierno central y de la Caja de Seguro Social (CSS), y era principalmente debido a la disminución de ingresos. Afortunadamente, una corrección fiscal mayor se llevó a cabo en el año 2005, reduciendo el déficit fiscal general a 2.6 por ciento en el año 2005 y un balance fiscal primario positivo en el año 2006. Mientras que parte de este ajuste fiscal reflejó un aumento en los ingresos, inducido por un fuerte movimiento económico crecimiento, una considerable parte fue debido al cambio en los parámetros de políticas, en la medida en que la administración de Torrijos se movió rápidamente para restaurar la estabilidad fiscal (a través de medidas de reformas fiscales y pensiones)¹³ y reintrodujo una agenda de amplias reformas.

18. El crecimiento económico en el año 2007 está proyectado en 8.5 por ciento, impulsado por el continuo auge en los sectores de la construcción, el comercio y el turismo, y alimentado por entradas significativas de capital. En la medida en que el dinamismo actual del Mercado de bienes raíces decaiga, las actividades de inversión asociadas con la expansión del Canal de Panamá se espera que tomen el control como el principal impulso económico, junto con las nuevas inversiones privadas en las actividades complementarias. Los primeros análisis de los antecedentes comisionados por la Autoridad del Canal de Panamá estimaron que la expansión del Canal aumentaría el crecimiento económico en un punto porcentual por arriba sobre los próximos 25 años. En paralelo, el tratado de libre comercio con los EE.UU. gradualmente comenzaría a ejercer un efecto en términos de motivar el desarrollo de las exportaciones y las inversiones extranjeras en actividades productivas. Basados en estos desarrollos, el crecimiento del PIB se proyecta que promedie alrededor del 8.1 por ciento hasta el año 2010 (ver Tabla 1) – con una trayectoria que llega a su pico en el año 2008, y cayendo gradualmente en adelante alcanzando el 7.1 por ciento en el año 2010. Aún así, el enfoque a mediano plazo todavía está sujeto a riesgos importantes según se explica en los párrafos 50-55.

19. Un análisis de la sostenibilidad de la deuda es llevado a cabo a principios del año 2006 bajo proyecciones de crecimiento bastante conservadoras, a mediano plazo ha concluido que la deuda pública consolidada de Panamá, que se mantuvo en 66.1 por ciento del PIB a finales del 2005 (una disminución del 70.4 por ciento en 2004) es sostenible (en el sentido de colocar la rata de la deuda pública en una trayectoria constante en declive) si el gobierno puede mantener un exceso fiscal primario de 1.6 por ciento del PIB. Bajo la estructura macroeconómica actual, con un crecimiento bien por encima del 4 por ciento utilizado en las simulaciones de la línea base y con el exceso primario bien por encima del 1.6 por ciento, los indicadores de la deuda de Panamá están proyectadas para declinar mucho más rápido de lo que inicialmente se había estimado. Estas proyecciones positivas son ampliamente compartidas por el personal del FMI en el último reporte de consultoría del Artículo IV (enero 2007), que estimó que con el marco de políticas actual, la consolidación de la deuda pública caería cerca del 55 por ciento del PIB en el año 2011 (46.5 por ciento excluyendo la deuda estimada de la ACP). (Ver Anexo 2 para mayores detalles).

¹² Considerando que casi toda esta deuda está en términos del mercado, Panamá ocupa el primer lugar de los países más endeudados de América Latina.

¹³ Los ingresos de impuestos aumentaron en 31% en 2006, o mucho más rápido que el crecimiento del PIB, reflejando el impacto de las reformas fiscales de 2005 y las mejoras en la administración de impuestos. Las reformas de pensiones, a su vez, detuvieron el deterioro fiscal de la Caja de Seguro Social, que reportó un pequeño excedente en 2006 y cuyas finanzas están proyectadas para mejorar más en los próximos años.

20. Una pregunta que se hace frecuentemente en este contexto es si la calificación de la deuda soberana de Panamá será afectada adversamente por el proyecto de expansión del Canal propuesto, no debería serlo. Las autoridades han excluido los balances de la Autoridad del Canal de Panamá (ACP) de las cuentas fiscales del sector público y han indicado que no tienen intención de proporcionar garantías soberanas por ninguna deuda que pueda ser emitida por la ACP para financiar parte del proyecto de expansión del Canal.¹⁴

¹⁴ Sin embargo, uno no puede descartar la posibilidad de que en un peor escenario hipotético se puede llamar una garantía gubernamental implícita dada la importancia estratégica del Canal para la economía de Panamá. Mientras que esto podría potencialmente crear una fuente de vulnerabilidad fiscal, la falta de una reacción de capital perceptible al anuncio del gobierno en junio del año 2006 de las intenciones de proceder con el proyecto de expansión del Canal, sugiere que los mercados ven cualquier aumento potencial en la vulnerabilidad fiscal como negligencia. La ACP ha establecido un registro de seguimiento amplio de las operaciones sólidas y negocios rentables, y los estimados indican que los excesos netos generados actualmente de las operaciones del Canal (neto de los peajes y dividendos transferidos al gobierno central) son suficientes para servir el aumento de la deuda de la ACP que se ha visto actualmente bajo el proyecto de la expansión del Canal.

III. Alianza Banco Mundial - Panamá

21. El Banco fue uno de los principales socios de desarrollo de Panamá durante gran parte de los años noventa, un período en el que el país tuvo avances sostenibles sobre las reformas estructurales para abrir la economía y mejorar la competencia, fortalecer la sostenibilidad fiscal y modernizar el Estado. Sin embargo, el compromiso del Banco cayó dramáticamente entre los años 2000 y 2004 ya que el gobierno se apartó del Banco y dejó muchas de las actividades plasmadas en la Estrategia de Asistencia del País (AF99-01) sin implementar. La sociedad se ha rejuvenecido exitosamente a través del programa de actividades que fueron acordadas en la *Nota de Estrategia Interina para la República de Panamá* (NEI AY06-07) (ver Cuadro 6).

Cuadro 6. La Alianza Banco Mundial - Panamá fue Reconstruida a través de una Estrategia Interina de Dos Años

La última Estrategia de Asistencia al País (CAS, por sus siglas en inglés) para Panamá, que cubre el AF99-01, fue discutida en la Junta en octubre de 1998. Las elecciones nacionales se llevaron a cabo en Mayo de 1999. En la siguiente administración (septiembre 1999 – agosto 2004), el crecimiento económico y las reformas de políticas disminuyeron y el GOP buscó mucho más mercados de capital para financiamientos, dejando mucho del CAS sin implementar. La implementación de proyectos en curso languideció y el diálogo de políticas con el Banco se redujo a unas pocas áreas de préstamos activos con una disminución en la atención de preocupaciones relevantes. A finales del AF05, la cartera del Banco Mundial en Panamá se había reducido a solamente tres operaciones de las cuales aproximadamente \$60 millones quedaban por desembolsar.

Una nueva administración liderada por el presidente Martín Torrijos llegó al poder el 1 de septiembre de 2004 y a principios de 2005 estableció su visión estratégica de desarrollo de cinco pilares (Ver Cuadro 4). En respuesta a los intereses de la nueva administración en los servicios del Banco Mundial, un programa de 24 meses impulsado por la demanda, fue acordado como Nota de Estrategia Interina (AF 06-07). La NEI ha probado ser un instrumento valioso para reconstruir la alianza Banco Mundial - Panamá. Esta le permitió al Banco responder rápidamente a los intereses renovados de Panamá en los servicios del Banco y el enfoque de la NEI en los trabajos analíticos ha dado una sólida y bienvenida base tanto para el diálogo de políticas como para la preparación de su Alianza Estratégica con el País basada en resultados.

22. La NEI puso en práctica la estrategia emergente del Banco Mundial para los Países de Ingresos Medios; ya que fue impulsada por las prioridades y aspectos seleccionados del Gobierno de Panamá, apoyados por la estrategia de desarrollo de la nueva administración. El programa de 24 meses, proporcionó asistencia técnica y reportes de diagnóstico analíticos para generar conocimiento y una política de diálogo más robusta enfocada en áreas de reducción de la pobreza y mayor eficiencia en el gasto público, los cuales ayudaron a informar otras actividades, incluyendo un préstamo para el desarrollo de políticas, tres proyectos de inversión enfocados en la pobreza y varios programas de operaciones de préstamos actuales (el Anexo 2 elabora áreas de participación del Banco). El Banco determinó que sería prematuro para éste asociar el modesto nivel de actividades propuestas en la NEI con los objetivos de desarrollo a mediano plazo de amplio rango del gobierno. Así, la NEI indicó que su éxito sería juzgado en términos de lo “oportuno del trabajo analítico y la calidad de la entrada del préstamo proporcionado, la relevancia de los servicios del Banco a la estrategia de desarrollo y formulación de políticas del Gobierno, el desempeño de la cartera del Banco, y los intereses del gobierno en una continua sociedad con el Banco.” (p. 21 de la NEI).

23. El éxito de la NEI ha sido revisado en vista del criterio en el que está establecido. La calidad, lo oportuno, la relevancia estratégica de los reportes analíticos de la NEI fueron evaluadas por el Grupo de Garantía de Calidad (QAG) del Banco Mundial a través de la “Evaluación AAA del

País” que fue completada en abril del año 2007.¹⁵ Los tres proyectos de inversión fueron preparados. Ninguno ha sido formalmente revisado por “calidad en la entrada” por QAG, pero, todos recibieron altas marcas en calidad de las revisiones internas y también de las contrapartes del gobierno. El desempeño de la cartera ha sido evaluado utilizando indicadores estándar, incluyendo calificaciones del proyecto y el desempeño del desembolso. Desde la perspectiva del gobierno, la NEI ha contribuido con algunas de sus políticas más importantes e iniciativas de programas. Esta sección revisa el progreso hecho bajo la NEI, discute lo que funcionó bien y que trabajó menos bien, explora lecciones y la ventaja comparativa del Banco y nota las otras sociedades de desarrollo que apoyan a Panamá.

24. Las actividades de la NEI han sido elementos clave de apoyo y programas de la estrategia de cinco pilares del Gobierno de Panamá para ayudar a lograr sus objetivos de reducción de pobreza y desigualdad. La Tabla 3 destaca los avances recientes del programa del gobierno al cual los préstamos apoyados por el Banco Mundial y las actividades que no son de préstamos han contribuido. (El Anexo 2 elabora los retos del sector, la respuesta del Gobierno y las contribuciones del Banco).

Tabla 3: Avances Destacados de los Programas del Gobierno que Contribuyen al NEI
Visión Estratégica de Panamá 2004-2009

Pilar I Reducir la Pobreza y la Desigualdad	Pilar II Impulsar el Crecimiento Económico y el Empleo	Pilar III y V Reforma de las Finanzas Públicas y la Modernización del Estado	Pilar IV Desarrollo del Capital Humano
Programa y Avances Destacados en Políticas a las cuales el Banco Mundial ha Contribuido			
<ul style="list-style-type: none"> • Mapas de pobreza actualizados y utilizados para enfocar la asistencia social • Programas CCT bien enfocados lanzados bajo la <i>Red de Oportunidades</i> • La regularización de tierras rurales avanzó: 6,300 propiedades rurales en Chiriquí, Veraguas, y Bocas del Toro fueron encuestadas, y dos áreas indígenas consolidadas • Áreas protegidas formalizadas y la administración mejorada • Crecimiento de la orientación a la exportación para el apoyo de la productividad rural 	<ul style="list-style-type: none"> • Tratados de libre comercio negociados con los EE.UU. y también con Chile, Taiwán, Singapur • Mejoras significativas hechas en las bases de datos de estadísticas macroeconómicas y sistemas de información para patentes, marcas de fábrica y regulaciones técnicas • Desarrollo de la política de transporte urbano 	<ul style="list-style-type: none"> • Déficit NFSP por debajo del 1% del PIB en el año 2006 • Deuda pública consolidada por debajo del 58% en el año 2006 • Disponibilidad mejorada para la información pública en el desempeño fiscal • Reducción significativa en los acumulados en circulación al final del año fiscal del gasto del gobierno central • Introducción de un marco presupuestario a mediano plazo • Aprobación de la Ley 22 que moderniza las prácticas de compras • 90% de las oficinas públicas publican las actividades de compras en PanamaCompras (el sistema transparente de e-compras) 	<ul style="list-style-type: none"> • Cobertura del Pre-escolar expandida del 31% en 2004 a 55% en el año 2005 a través de la expansión de enfoques no formales • Acceso a la educación primaria y secundaria expandido en áreas rurales pobres e indígenas a través de becas y programas de educación a distancia • Educación intercultural bilingüe avanzó para los tres principales grupos indígenas (Kuna, Emberá y Ngobe)

¹⁵ La Evaluación cubre desde el AF02 hasta mediados del AF07. Cubrió cinco tareas, incluyendo 4 de 5 piezas de trabajo analítico que fueron incluidas en la NEI (el Memorando Económico del País /Evaluación de Clima de Inversión fue excluido ya que todavía estaba en una etapa temprana de preparación). La evaluación se llevó a cabo en dos fases, en Washington y en el campo utilizando cuestionarios estandarizados.

Indicadores de Buen Desempeño

25. El desempeño de proyectos bajo implementación mejoraron significativamente durante el período de la NEI. Se puede dar crédito a los equipos del Banco Mundial y del gobierno por actuar sobre las lecciones que fueron identificadas en la NEI (ver Tabla 4). Los desembolsos llegaron a su punto más alto de todos los tiempos¹⁶ mientras que las contrapartes del GOP trabajaron con el Banco para descubrir las fuentes de retrasos en compras y procesos administrativos financieros, concurrente con la atención priorizada del gobierno para mejorar la transparencia y eficiencia de estos sistemas. Los temas sistemáticos descubiertos al nivel del proyecto se alimentaron de vuelta a las discusiones de políticas con el gobierno, así como el CFAPAR comprensivo que fue preparado en conjunto por el Banco Mundial y el BID. Los cuellos de botella y las ineficiencias fueron manejados simultáneamente en el proyecto y a nivel de políticas. Los préstamos están creciendo nuevamente. La cartera creció de tres a siete proyectos el 31 de julio de 2007 con compromisos sin desembolsar de US\$134 millones.¹⁷

Tabla 4: Acciones Tomadas de Lecciones Identificadas en la NEI (AF06-07)

Lecciones Identificadas en la NEI¹⁸	Acciones Tomadas
Distribución de fondos de contraparte, generalmente que hacen falta o son inconsistentes, deben ser adecuados y confiables para garantizar que los proyectos son implementados bajo los calendarios acordados	<ul style="list-style-type: none"> ✓ Parámetros de Financiamiento de País adoptados ✓ Las reformas fiscales del GOP y el auge económico han eliminado las restricciones de fondos de la contraparte
Abrumadoras y extensas compras internas y/o procedimientos de autorización de pagos deben ser desglosados y/o factorizados en los planes del proyecto	<ul style="list-style-type: none"> ✓ La atención del GOP a temas de PMF sistemáticos ha mejorado el ambiente operativo ✓ La supervisión intensiva ha ayudado a identificar y a atacar los cuellos de botella internos, alimentando de vuelta la discusión de la reforma PMF ✓ La sociedad con el Contralor General está ayudando a mejorar la eficiencia de la revisión ex-ante
Los equipos del BM deben mejorar la planificación para enfrentar la rotación de personal y la asociada falta de familiaridad con los proyectos individuales y los procedimientos del Banco	<ul style="list-style-type: none"> ✓ El entrenamiento sistemático en los procedimientos del BM han mejorado el desempeño
Para mejorar el impacto y resultados del proyecto, los proyectos se deben enfocar en temas amplios del sector y considerar enfoques amplios del sector	<ul style="list-style-type: none"> ✓ El diálogo de políticas mejoradas a través de AAA ha traído temas amplios del sector a la mesa y estos están siendo tomados en cuenta en el diseño de proyectos

¹⁶ La tasa de desembolsos para proyectos de inversión creció más del doble, es decir, de un 10% en el AF 2005 a más del 30% en el AF 2007.

¹⁷ Administración de Tierras, Educación Básica 2, Reformas de Políticas Públicas AT, Productividad Rural (FMAM), Productividad Rural (BIRF), Protección Social y Suministro de Agua y Saneamiento en Comunidades de Bajos Ingresos.

¹⁸ Las lecciones surgieron de las evaluaciones de proyectos del Departamento de Evaluación de Operaciones del Banco Mundial (desde entonces llamado Grupo de Evaluación Independiente), Revisiones de Desempeño de la Cartera del País y los Reportes de Culminación de Implementación.

26. El programa tiene relevancia estratégica; los reportes analíticos fueron de alta calidad y su impacto en políticas se mejoró por su coherencia estratégica. La Evaluación AAA de País del QAG para Panamá dio marcas altas al trabajo analítico de la NEI para la “relevancia estratégica” y la “coherencia e integración”.¹⁹ Los temas comunes e interrelacionados fueron bien integrados y presentaron una coherencia e integración significativas al programa general de la NEI. Además, varias actividades fueron clasificadas altamente satisfactorias para la “calidad interna” e “impacto probable” y la “calidad interna” general e “impacto probable” del programa fueron juzgados como satisfactorios. El QAG notó el rol central que jugaron los reportes analíticos en darle forma a las operaciones de préstamos, incluyendo el apuntalar el diálogo de políticas para el DPL. El QAG también elogia la asistencia técnica significativa que tuvo lugar durante la preparación de varios reportes que contribuyeron con el diseño de los programas que emergieron y la legislación, incluyendo la *Red de Oportunidades* y la ley de compras, entre otros.

27. Al final del día, el éxito de la NEI es mejor juzgado por el interés del gobierno en continuar su sociedad con el Banco. El gobierno ha solicitado que el programa continúe, que los préstamos anuales sean aumentados y que el Banco expanda su presencia abriendo su oficina de representación en Panamá. En particular, el gobierno ha alabado la receptividad del Banco a los programas y estrategias del país y la asistencia analítica y técnica del Banco.

Indicadores de Bajo Desempeño

28. Conocimiento generado de las actividades apoyadas por el Banco Mundial no fue bien diseminado fuera de los círculos del gobierno durante el período de la NEI. “Consultas, participación y diseminación” recibieron las marcas más bajas del QAG, obteniendo solamente una calificación “moderadamente satisfactoria”. El equipo del Banco concuerda en que mientras que la mayoría de los aspectos de la NEI excedieron las expectativas, la estrategia de consulta NEI se quedó corta. Dicho esto, el potencial para una mayor diseminación en el futuro es prometedor. Durante las consultas sobre este nuevo EAP, las autoridades indicaron su interés en la publicación de todos los reportes de la NEI completados a septiembre de 2007.

Socios de Desarrollo

29. En años recientes, el Banco Interamericano de Desarrollo (BID) y las Agencias de las Naciones Unidas han sido los socios de desarrollo más activos de Panamá, complementados por un apoyo modesto, enfocado, de unas cuantas agencias de ayuda bilateral (ver Anexo 3). La sociedad de Panamá con el BID representa el paquete de asistencia de donantes más grande, con una cartera activo a principios del año 2007 que comprendía 28 préstamos con compromisos de EE.UU. US\$865 millones de los cuales EE.UU. US\$403 millones no fueron desembolsados. El BID está activo en múltiples sectores para ayudar a impulsar la competitividad del país, el desarrollo humano y el capital productivo, y fortalecer la gobernabilidad y la transparencia, incluyendo ayudar a construir instituciones modernas de administración financiera pública. Las actividades apoyadas por el Programa de Desarrollo de las Naciones Unidas para el Desarrollo (PNUD) en Panamá está enfocado en el gobierno democrático, la reducción de la pobreza, la

¹⁹ Estas dos dimensiones están calificadas como “altamente satisfactorias” con una marca de 1 en una escala de 5 puntos.

energía y el medio ambiente, la administración de crisis y en el HIV/SIDA. La Corporación Andina de Fomento (CAF) ha dirigido su apoyo a los proyectos de infraestructura de carreteras, incluyendo un préstamo de EE.UU. US\$80 millones en el año 2005 para ampliar la carretera entre Arraiján y Chorrera y la rehabilitación de una porción de la carretera Transistmica. La asistencia bilateral ha sido más modesta. Recientes contribuciones de la Agencia de Cooperación Internacional de Japón (ACIJ) y la Agencia de los Estados Unidos para el Desarrollo Internacional (USAID), han apoyado el desarrollo agrícola, mejorado el monitoreo de la calidad del agua, la conservación de reservas de agua, programas de anticorrupción, libre comercio y comunidades indígenas. Desde 2001, la Unión Europea (UE) también ha proporcionado una ayuda limitada para el fortalecimiento de la economía de Panamá, la promoción de las instituciones democráticas y el apoyo al desarrollo social.

Cuadro 7. Lecciones y Recomendaciones del QAG

La Evaluación AAA de País por el QAG identificó algunas lecciones, las cuales pueden ser agrupadas en tres puntos básicos:

- ✓ La necesidad de una relación a largo plazo con el cliente. El Banco debe sostener su presencia en el país a través de las AAA, inclusive en periodos de baja participación y que involucren reducciones cíclicas en las demandas de financiamiento. De esta manera, el Banco estará preparado para proporcionar una asistencia financiera inmediata, cuando se necesite.
- ✓ Comprometerse con un cliente como Panamá requiere de un balance entre pericias técnicas y habilidades diplomáticas para evitar una impresión de “imponer soluciones” que puedan alejar al cliente. El diálogo con Panamá debe ser visto como un diálogo equitativo, teniendo en cuenta las opiniones y prioridades del país. La estrategia de alianza y los programas pueden requerir de visitas periódicas para mantener su relevancia.
- ✓ Los reportes deben incluir dos páginas de resumen ejecutivos en las conclusiones y recomendaciones para hacerlos más accesibles a los ministros y otros funcionarios políticos.

En base a sus extensivas consultas en el país y evaluando el programa de AAA del Banco, QAG propone las siguientes prioridades de trabajo analítico para esta nueva EAP: (a) un análisis de requisitos de desarrollo urbano para el Área Metropolitana de la Ciudad de Panamá, particularmente relacionadas al desarrollado ordenado de la ciudad y su relación con los pobres del sector urbano; (b) trabajo sectorial y analítico para identificar soluciones necesarias de fortalecimiento en la calidad de la educación; (c) trabajo sectorial y analítico para identificar las mejores opciones en los servicios de salud de la Caja del Seguro Social y el Ministerio de Salud; y (d) preparación de un paquete de Notas Políticas para el próximo gobierno en el año 2009.

30. El Banco Mundial, junto con el Banco Interamericano de Desarrollo y el Programa de las Naciones Unidas para el Desarrollo, han empleado un conjunto de enfoques para complementar y colaborar los unos con los otros. Por ejemplo, el BID y el Banco están apoyando el Programa Nacional de Administración de Tierras de Panamá (PRONAT) a través de proyectos de administración de tierra conjuntos que operan desde la misma unidad de coordinación del gobierno bajo los estándares técnicos comunes. Ambas instituciones están apoyando la titulación y regularización de tierras, pero en áreas geográficas distintas. Además, el BID está más involucrado en los temas de políticas de tierras en las grandes ciudades urbanas y el Banco más en las políticas de tierras en áreas rurales y protegidas. Otra área de estrecha colaboración ha sido el apoyo a la *Red de Oportunidades*, donde el Banco y el BID están proporcionando financiamientos paralelos utilizando sistemas armonizados fiduciarios, de compras, de monitoreo y evaluación. Las misiones de preparación conjuntas llevan a realinear de forma integrada sinérgicamente las operaciones de salud y educación actuales del BID. El Banco y el BID

conjuntamente prepararon el CFAPAR 2007 con asistencia técnica proporcionada por ambas agencias bajo los préstamos AT actuales (cada uno cubriendo diferentes agencias beneficiarias). Para la Evaluación de la Pobreza 2007, el Banco trabajó estrechamente con el PNUD para armonizar las recomendaciones de políticas y metodologías e indicadores de evaluación de pobreza.

31. El FMI lleva a cabo revisiones del Artículo IV en un ciclo de un año. La última revisión fue discutida por la Junta del Fondo el 16 de febrero del año 2007. El FMI proporcionó comentarios sobre los borradores de las revisiones de los reportes analíticos y del Préstamo para Políticas de Finanzas Públicas y de Desarrollo Institucional (AF 07).

Potencial de Valor Agregado del Banco Mundial

32. El Banco tiene potencial de añadir valor en Panamá, basado en su participación histórica en áreas sectoriales particulares en el país y también de su conocimiento y experiencia en la región y globalmente. El Banco tiene una fuerte reputación por la calidad y relevancia del trabajo analítico y la asistencia técnica, además, ha establecido un registro de seguimiento fuerte de supervisión proactiva, el cual ha apoyado el desarrollo de la capacidad local. La Tabla 5 identifica las áreas sectoriales en las que el Banco ha apoyado a Panamá de manera significativa entre los años 1990-2006 (existen áreas donde el Banco reporta una experiencia significativa de otros países), y también lista importantes áreas de desarrollo donde esta organización ha ganado experiencia trabajando, pero no ha tenido experiencias de primera mano en Panamá.

Tabla 5: Áreas de Potencial Valor Agregado del Banco Mundial

Áreas de participación del Banco en Panamá 1990 hasta mediados-2007	Áreas en las que el Banco ha ganado una experiencia relevante en otros países
Análisis y monitoreo de pobreza	
Política de salud pública, administración de hospitales, servicios de salud preventiva rural y agua y saneamiento rural	Servicios de nutrición para áreas remotas
Asistencia social por transferencia condicional de efectivo	Entrenamiento de trabajadores y calidad y cobertura de la educación secundaria
Política de educación nacional, calidad y cobertura de la educación primaria, educación bilingüe, pre-escolar no-formal	
Políticas de transporte urbano y administración del sector y rehabilitación y mantenimiento de calles urbanas e inter-urbanas	Líneas de buses de transporte público dedicadas
Administración del medio ambiente y los recursos naturales, incluyendo la conservación de la biodiversidad	Evaluación ambiental del país
Políticas de tenencia de tierras para áreas rurales, titulación y administración de tierras, incluyendo las áreas protegidas, proyectos de sustento impulsados por la comunidad en áreas rurales, competitividad rural	Turismo sostenible y acceso a tierras
Estabilidad macroeconómica, protección de deuda, comercio más abierto y competitividad mejorada, privatización de servicios públicos	Administración de deuda
Modernización de los sistemas e instituciones de administración financiera públicos	

Consultas

33. Panamá involucra procesos democráticos en el desarrollo de las políticas públicas. Además de las elecciones democráticas – que indican la preferencia del pueblo panameño por algún candidato o partido político determinado– el Gobierno hace uso de varios medios de consulta para desarrollar reformas de políticas y llegar a acuerdos. Por mencionar algunos ejemplos recientes como: las negociaciones multi-partidarias llevadas a cabo para concluir las reformas de pensión, el referéndum nacional sobre el Canal de Panamá y la Concertación Nacional para el Desarrollo.²⁰ El EAP fue elaborada mediante un estrecho diálogo con las autoridades panameñas en un período aproximadamente de seis meses, incluyendo visitas, intercambio de correspondencia y revisiones de borradores de documentos. El programa está compuesto de actividades solicitadas por el gobierno, tomando en cuenta los recursos administrativos del Banco y la importancia de mantener la coherencia e integración estratégica del programa (que mejora su valor para Panamá).

34. Las consultas formales de la EAP se llevaron a cabo en Panamá, entre el 28 y el 29 de junio del año 2007. Estas incluyeron consultas con varias partes interesadas y reuniones con autoridades del Gobierno (ver Anexo 5). Es de notar que, las autoridades explicaron que la actual administración planea concluir todos los esfuerzos importantes de políticas a finales de diciembre del año 2008 (para permitir un período de toma de interés y preparación para la transición de la nueva administración que debería iniciar su período el 1 de julio del año 2009 después de las elecciones que se realizarán en mayo del mismo año). Como tal, ellos solicitaron que las series EAP también incluyeran una opción para un DPL de seguimiento con la administración entrante, ellos notaron que cualquier acción de políticas que pueda ser tomada por la administración entrante no puede ser predeterminada por la administración actual.

²⁰ El foro de Diálogo Nacional para el Desarrollo (facilitado por el PNUD) entre el gobierno y diversos sectores de la sociedad panameña, incluyendo representantes de los pueblos indígenas, está enfocado en acordar una estrategia a largo plazo para el desarrollo económico y la erradicación de la pobreza. Centrado a esta estrategia es la priorización del uso de ingresos adicionales generados por la expansión del Canal de Panamá después de su culminación esperada en el año 2014. Ver Anexo 5 para más detalles.

IV. Estrategia de Alianza Banco Mundial – Panamá (AF08-10)

35. La Estrategia de Alianza con el País tiene como objetivo proporcionar una asistencia selectiva, impulsada por la demanda que profundiza la relación Banco Mundial – Panamá, y ayuda al gobierno a lograr sus metas de reducción de pobreza y desigualdad. La EAP apoya cuatro objetivos que apunta principalmente al apoyo de dos facetas menos desarrolladas -de las tres facetas de la economía de Panamá- y están alineadas con los pilares y metas de la Visión Estratégica de Panamá 2004 – 2009 (ver tabla 6). De acuerdo a la solicitud del GOP, el Banco proporcionará la asistencia técnica, financiera, analítica y de desarrollo de capacidades para políticas y programas específicos del gobierno que contribuyen con los objetivos de la alianza. El

Tabla 6: Los Objetivos del Programa EAP y Áreas de Acción Seleccionadas

Visión Estratégica de Panamá 2004-2009			
Pilar I Reducir la Pobreza y la Desigualdad	Pilar II Impulsar el Crecimiento Económico y el Empleo	Pilar III y V Reforma de las Finanzas Públicas y la Modernización del Estado	Pilar IV Desarrollo del Capital Humano
Objetivos amplios a los que el EAP contribuirá			
<i>Reducir la pobreza, especialmente en las áreas de grupos rurales e indígenas</i>	<i>Promover el crecimiento económico de una amplia base</i>	<i>Establecer sistemas e instituciones modernos para la Administración de las Finanzas Públicas, AFP</i>	<i>Mejorar los logros de salud, nutrición y educación de los pobres</i>
Programas Seleccionados para Apoyo			
<ul style="list-style-type: none"> • Monitoreo de la pobreza y el enfoque/ administración de la asistencia social • Programa de la <i>Red de Oportunidades</i> • Seguridad y acceso de tenencia de tierras para las áreas rurales • Competitividad de productores a pequeña escala, incluyendo acceso a financiamiento rural • Uso sostenible del Corredor Biológico Mesoamericano Atlántico 	<ul style="list-style-type: none"> • Reducir el costo de hacer negocios y mejorar la competencia a través de procedimientos más simples y procesos en línea • Entrenamiento de trabajadores orientado al mercado • Apoyo en la innovación técnica • Transporte urbano más eficiente en la Ciudad de Panamá incluyendo el transporte masivo para el pobre urbano • Turismo sostenible fuera de la Ciudad de Panamá 	<ul style="list-style-type: none"> • Sostenibilidad fiscal • Sistemas de administración financiera y transparencia fiscal • Reformas completas de las compras públicas • Eficiencia y efectividad de la supervisión fiscal • Administración de deuda y desarrollo de mercados de deuda • Administración de impuestos 	<ul style="list-style-type: none"> • Cobertura de agua y saneamiento para el pobre rural • Suministro de programas de salud y nutrición comunitarios • Calidad y cobertura de educación pre-escolar, básica y secundaria
Temas Relevantes			
Fortalecer la capacidad institucional en las entidades del gobierno que ejecutan los proyectos financiados por el Banco para planear más estratégicamente a través de un monitoreo mejorado; ejecutar proyectos efectivamente a través de los sistemas de administración pública y prácticas más eficientes, y fortalecer la sostenibilidad del proyecto.			
Planear e involucrarse a través de la transición del Gobierno nacional con análisis y ofertas de apoyo financiero y técnico.			

programa está diseñado para consolidar y fortalecer la notable integración estratégica que funcionó de forma positiva bajo la NEI, enfocándose en un número limitado de objetivos interrelacionados, y haciendo del desarrollo de la capacidad institucional un tema relevante.

Además, el programa anticipa que habrá un cambio en el gobierno, el 1 de julio del año 2009, y está estructurado para ayudar a proporcionar al nuevo gobierno con información sobre temas de políticas así como acceso para apoyo financiero y técnico inmediato, hasta que una nueva Estrategia de País sea acordada.

Orientación y Monitoreo de Resultados

36. La orientación de los resultados de esta EAP se presenta en dos dimensiones. Una dimensión es el apoyo continuo al desarrollo de los sistemas estadísticos de Panamá, incluyendo la ayuda *para fortalecer los sistemas de monitoreo nacional* y apoyar de una mejor manera la *coordinación en la recolección y uso de los datos por los ministerios de línea*. Los fuertes sistemas nacionales de estadísticas son un bloque esencial para la construcción del desarrollo de rendición de cuentas. En esta parte, el Banco continuará apoyando al Contralor General y al Ministerio de Economía y Finanzas bajo el préstamo AT de Políticas Públicas, con el objetivo de mejorar la calidad de los indicadores macroeconómicos y el contenido de los datos presupuestarios y fiscales, de acuerdo a las mejores prácticas internacionales, y para llevar a cabo e institucionalizar las encuestas de medición de estándares de vida. El Banco, que ha estado ejecutando fondos multi-donantes para apoyar el desarrollo de estadísticas nacionales en el pasado, también continuará ayudando la construcción de un sistema estadístico nacional completo con el apoyo del DFID (ver Cuadro 8). Un apoyo directo también será proporcionado a los Ministerios de Educación, Salud, Desarrollo Social y Agricultura para fortalecer sus habilidades en la recolección y uso de datos en coordinación con el Departamento Nacional del Estadística y Censo de Panamá a través del fortalecimiento institucional de componentes en los préstamos financiados por el Banco. El progreso en esta dimensión será monitoreado en el contexto de las operaciones individuales.

Cuadro 8. Estrategia Nacional para el Avance del Desarrollo de Estadísticas de Panamá con el Apoyo del Banco

Durante los años 2005 y 2006, la Dirección Nacional de Estadística y Censo de Panamá, que opera bajo el Contralor General ha trabajado para preparar una Estrategia Nacional para el Desarrollo de Estadísticas con el apoyo del Programa MECOVI del Banco Mundial.²¹ La estrategia nacional está probando ser una herramienta útil para promover un mayor uso de políticas basadas en la evidencia a través de mejores medidas de las condiciones de vida y lazos más fuertes entre los sistemas de monitoreo y evaluación nacionales, pero todavía queda mucho trabajo para implementar la estrategia en su totalidad.

Uno de los principales retos para la modernización del sistema estadístico nacional de Panamá es la actualización del marco legal. La ley actual, que tiene 47 años y es insuficiente para regular los nuevos y complejos retos del desarrollo de estadísticas. Una nueva ley ha sido preparada con el objetivo de ayudar a consolidar la nueva Estrategia Nacional y proporcionar una coordinación más clara dentro de las instituciones que componen el sistema nacional. La DEC espera que la nueva Ley sea aprobada a finales de 2007.

37. La segunda dimensión relacionada con los “resultados” es la identificación y seguimiento de hitos específicos y resultados que el programa del Banco Mundial está diseñado para apoyar los

²¹ El programa MECOVI (*Mejoramiento de las Encuestas de Hogares y la Medición de Condiciones de Vida*) apoya el fortalecimiento de los sistemas nacionales de estadísticas en la región de LAC con apoyo técnico y financiero. El apoyo a Panamá fue parte de una iniciativa de US\$400,000 financiada por el Banco Mundial a través del Fondo de Fideicomiso para la Construcción de Estadísticas (TFSCB) que incluye seis países de América Central.

próximos 2 – 3 años. Esta dimensión tiene la intención de ayudar a evaluar el impacto de las operaciones financiadas por el Banco. Sigue un resumen de las actividades EAP asociadas con los cuatro objetivos EAP y el enfoque que será utilizado para monitorear los resultados las actividades que se favorecerán. El Anexo 2 describe las actividades EAP en mayor detalle y el Anexo 4 elabora los resultados e hitos que se espera que las actividades apoyen.

- ***Reducción de la pobreza, especialmente en las áreas de grupos pobres rurales e indígenas.*** Los impactos esperados asociados con este objetivo y los enfoques de monitoreo son establecidos en proyectos actuales y recientemente aprobados por el Banco. Bajo este objetivo, el programa EAP está enfocado en los resultados de dos amplias áreas: mejorar el enfoque y la efectividad de la asistencia social, incluyendo el apoyo a la *Red de Oportunidades*; y el proyecto de Protección Social, recientemente aprobado y el préstamo AT de Reformas de Políticas Públicas. Como complemento del préstamo AT, se ha planeado una Evaluación de la Pobreza cuyo impacto será capturado a través de los indicadores del mismo préstamo. El área de productividad rural sostenible está apoyada por el proyecto de Administración de Tierras y el recientemente aprobado Proyecto de Productividad Rural y su contraparte FMAM, que da fondos para el uso sostenible del Corredor Biológico Mesoamericano Atlántico. Un proyecto de Micro finanzas Rurales será diseñado para apoyar la sostenibilidad de resultados en los programas de tierras y productividad rural. Los proyectos de seguimiento de protección social y tierras serán preparados para construir desde los impactos que ellos lograron en este período EAP.
- ***Promover un crecimiento económico de amplia base.*** El programa del Banco estará activo en tres amplias áreas que contribuyen con este objetivo: ayudar a hacer más competitivo el ambiente de negocios a nivel nacional (enfocándose en la regulación– incluyendo más transparencia- y simplificando los procesos de regulación, entrenamiento de los trabajadores y el apoyo a la innovación), planificación del transporte urbano en la Ciudad de Panamá, incluyendo infraestructura del transporte masivo, y turismo sostenible fuera de la ciudad de Panamá que se enfocará en políticas, el ambiente de negocios y las necesidades de infraestructura en áreas locales particulares. La primera área será apoyada por las series DPL y el préstamo AT de Políticas Públicas actuales, que son apuntaladas por el MEP 2008. Las series programáticas DPL serán utilizadas para desarrollar más y darle seguimiento al progreso y al logro de hitos y resultados específicos. Se espera que el transporte urbano sea influenciado por el recién completado AT, y el monitoreo de su impacto sería hecho en el contexto del préstamo planeado. El proyecto de Turismo Sostenible desarrollaría el marco para evaluar el impacto, y se espera que sea guiado en parte por el Análisis Ambiental del País planeado y también es probable que tenga enlaces con el proyecto de Micro finanzas Rurales.
- ***Establecer los sistemas e instituciones de la Administración de las Finanzas Públicas (AFP) modernas.*** A las varias áreas interrelacionadas cubiertas por este objetivo y los resultados esperados que el programa del Banco está diseñado a apoyar se les dará seguimiento a través de las series programáticas DPL. Los sistemas AFP mejorados son una base importante para alcanzar al pobre a través de una entrega de asistencia social más eficiente, ya que amplían las oportunidades económicas a través de una disposición más eficiente de servicios necesarios que ultimen los negocios, y para reducir las oportunidades de que ocurra

corrupción. La asistencia técnica va a hacerse realidad a través del préstamo AT de Políticas Públicas y el programa de Asistencia Técnica para la Administración de Deuda (proporcionada por el Departamento de Tesorería del Banco), a partir del CFAPAR. Ambas actividades AT incluyen indicadores de impacto y marcos de monitoreo.

- ***Mejora de logros de salud, nutrición y educación para el pobre.*** El programa EAP contribuirá con este objetivo en cuatro maneras: expandiendo el acceso a servicios de *salud* y *nutrición* básica para familias pobres (a través del recién aprobado proyecto de Protección Social y a través del proyecto planeado de Salud); aumentando el suministro de agua limpia y sanidad sostenible en comunidades de bajos ingresos (a través del recién aprobado proyecto de Suministro de Agua y Saneamiento para Comunidades de Bajos Ingresos); y varias intervenciones para mejorar la educación y el acceso a escuelas pre-escolares hasta secundarias (a través de Educación Básica Secundaria continua y el nuevo proyecto educativo planeado). Panamá también es beneficiaria del proyecto AIDS, región para Centro América, que incluye enfoques para mejorar el diagnóstico regional y la capacidad de vigilancia. Las intervenciones para el desarrollo humano están siendo designadas para ayudar al país a mejorar el desempeño en ODM atrasados según estos se relacionan con los objetivos del gobierno. En todos los casos, hitos específicos, indicadores de resultados y marcos de monitoreo están incluidos en las operaciones de préstamos.

Desarrollo de capacidad para un gasto público más efectivo

38. Alineado con la estrategia de ingreso medio del Banco Mundial y las expectativas del Gobierno de Panamá (ver Cuadro 9), la EAP enfatiza el desarrollo de la capacidad local en ministerios de línea y agencias como tema relevante. Estos varían desde fortalecer las capacidades de los ministerios de la contraparte para planear estratégicamente y monitorear los resultados, hasta ejecutar proyectos más eficientemente, garantizando su sostenibilidad. El enfoque del desarrollo de capacidades locales surge del rango completo de instrumentos EAP. Por otro lado, el Banco continuará asistiendo al gobierno a través de reportes analíticos y evaluaciones de capacidad para entender las fortalezas y debilidades de los sistemas e instituciones que buscan modernizar generalmente y apoyar al gobierno en la implementación de sus planes de reformas con asistencia técnica de préstamos -y no préstamos- y con la asesoría de políticas (incluyendo al PMF con la asistencia del MEF, el DGCP y la CGR; en el monitoreo y evaluación con el apoyo al DEC; y en la parte ambiental a través del Análisis Ambiental del País). Al mismo tiempo, el Banco continuará evaluando las capacidades específicas y las necesidades posibles de agencias y ministerios que son contrapartes en las operaciones financiadas por el Banco, desarrollando los componentes y los enfoques de implementación de los proyectos, lo cual hace uso de sus fortalezas y les ayuda a reforzar sus debilidades. El Banco también dará una atención especial al desarrollo de capacidades como parte de la supervisión. Con el tiempo, este enfoque de dos escalones dirigido a fortalecer los sistemas del país y el desarrollo de las capacidades dentro de los Ministerios para implementarlas efectivamente- está permitiendo una mayor dependencia en esos mismos sistemas, creando un ciclo virtuoso. Utilizar los sistemas locales para implementar los proyectos financiados en el exterior tiene como consecuencia el potencial de hacerlos más fuertes. Por ejemplo, las operaciones de préstamos recientemente aprobadas financiadas por el Banco utilizarán los

instrumentos nacionales de contabilidad de Panamá, *SIAFPA*. Con el apoyo del Banco, se está llevando cabo un uso más eficiente de esta herramienta en los ministerios.

Cuadro 9. El GOP Favorece el Desarrollo de la Capacidad Local Sobre el Uso de los Agentes Financieros

El enfoque estratégico del Ministerio de Economía y Finanzas y la Contraloría General sobre el desarrollo de sistemas e instituciones eficientes y modernas de finanzas públicas dio inicio a un re-pensamiento del gobierno sobre el uso de los agentes financieros para apoyar la implementación de proyectos financiados con el apoyo exterior. Ambas entidades concluyen que el uso de agentes fue no solamente costoso sino que también perpetuó una débil capacidad del gobierno. A partir de una experiencia global, el Banco ha proporcionado asistencia técnica al MEF y a la CGR para apoyar el desarrollo de una estrategia para sistemáticamente aumentar el uso de procedimientos y sistemas del país en proyectos financiados en el exterior concurrentes con medidas para fortalecerlos. Como la capacidad local continúa mejorando y los sistemas locales se acercan a las normas internacionales, el uso de sistemas paralelos podría, en escalones, ser gradualmente desfasado. Antes de finalizar el año 2007, el MEF y la CGR esperan requerir previa aprobación y justificación para el uso de agentes financieros en operaciones futuras con fondos extranjeros, invirtiendo en lo que se ha convertido en procedimientos operativos estándares.

Préstamos del Banco Mundial

39. Dado el estado de Panamá como país de ingreso medio y de alto desempeño, baja exposición del BIRF y un fuerte desempeño de la cartera, el Banco pondrá a su disposición US\$390 - US\$465 millones en los años fiscales 2008-2010. Se espera que estos recursos reconstruyan la cartera de proyectos panameños financiados por el Banco Mundial para ayudar al gobierno con el logro de resultados medibles en áreas previamente identificadas. De acuerdo a la solicitud del GOP, los nuevos financiamientos serían divididos entre Préstamos de Políticas de Desarrollo (DPL, hasta \$75 millones por año), 7 nuevos proyectos de inversión enfocados en pobreza y un nuevo préstamo de asistencia técnica para una nueva reforma de políticas.²² Los calendarios de preparación de nuevos préstamos de inversión y AT están alineados con las programaciones de cierre de proyectos actuales, los cuales han sido establecidos para generar sinergias con otros proyectos (por ejemplo, Micro finanzas Rurales con Productividad Rural, Tierra y Turismo); permitir la coordinación con los calendarios de preparación de los proyectos BID (por ejemplo, Turismo Sostenible); reflejar los tiempos de espera sobre una larga preparación (Transporte Urbano), o tienen la intención de cumplir con posibles necesidades de financiamiento de la nueva administración (AT 2 Políticas).²³

40. Las series programáticas DPL apoyarán los programas designados por el gobierno bajo dos objetivos EAP: promover un crecimiento económico de amplia base y establecer sistemas e instituciones de administración de finanzas públicas modernas; áreas del programa donde el gobierno y el Banco han establecido un diálogo de políticas fundamentado por medio de un

²² Una baja exposición a Panamá es resultado de períodos de baja actividad de préstamos, incluyendo el hito reciente 2000-2004. La cartera de préstamos y su composición para futuros EAP tomarán en cuenta el tamaño y exposición de la cartera en la medida en que crecen, entre otros factores.

²³ De acuerdo en que las circunstancias se desarrollen, el Banco junto con el gobierno podrán acordar modificar los préstamos pendientes para garantizar que el apoyo del la organización y continuar añadiendo valor a los programas del gobierno. Si las reformas son críticas en un sector específico, el Banco y el GOP pueden acordar trasladar los fondos del Banco a otra área, mostrando una respuesta más inmediata. En un evento altamente improbable de desarrollos adversos y severos macroeconómicos o políticos, los préstamos serían reducidos. Ningún ajuste sería notado en los Reportes de progreso.

trabajo analítico apoyado por el Banco y donde el préstamo AT financiado por el Banco Mundial está proporcionando asistencia técnica y apoyo al desarrollo de las capacidades. De acuerdo con la política del Banco Mundial, si la visión macro-económica de Panamá se deteriora inesperadamente, los préstamos de políticas de desarrollo, y consecuentemente, la cartera general de préstamos será redefinido según sea oportuno.

41. Las series programáticas DPL propuestas continuarán apoyando los objetivos a mediano plazo incluyendo el Préstamo de Políticas de Finanzas Públicas y Desarrollo Institucional (AF07), que fue hecho como una operación individual en el contexto de la NEI y añade un conjunto de objetivos relacionados como medidas que son diseñadas para mejorar la competitividad de Panamá. A partir del DPL de Finanzas Públicas e Institucionales, las series continuarán apoyando el progreso en la consolidación y disciplina fiscal sostenible y el aumento de transparencia y eficiencia del uso de recursos públicos. El avance continuo y los retos de la modernización para la administración financiera pública son descritos en el Cuadro 10. En el área de competitividad, el DPL apoyará la estrategia del GOP para maximizar las ganancias del comercio a través de una agenda complementaria que busca ampliar la base de actividad económica reduciendo la burocracia, reduciendo las barreras a la competencia doméstica, capacitación de los empleados y un aumento en la productividad a través de programas para apoyar la innovación y la adopción de nueva tecnología.

Tabla 7: Programa de Préstamos EAP	
(Cant Est.EE.UU.\$ millones)	
AF08	
Competitividad y AFP	\$75
DPL I	
Educación II	\$30
Salud	\$30
<i>Total AF08</i>	<i>\$135</i>
AF09	
Competitividad y AFP	\$75
DPL II	
Acceso a Tierra	\$45
Micro finanzas Rurales	\$25
Turismo Sostenible	\$30
<i>Total AF09</i>	<i>\$175</i>
AF10	
<i>Opcional AF10 DPL</i>	<i>\$75</i>
Protección Social II	\$20
Transporte Urbano	\$50
AT 2 Reformas de	
Políticas Públicas	\$10
<i>Total AF10</i>	<i>\$155</i>
Préstamos Totales AF08-AF10	\$390 -
	\$465

42. Tal y como lo solicitó el GOP, los DPL apoyarán los siguientes resultados que podrían ser logrados al 31 de diciembre, del año 2008: Competitividad y Administración Financiera Pública DPL I y II (años fiscales 2008 y 2009). Estos reflejarían los avances políticos y logros hasta el final del año fiscal de la administración actual. Un DPL opcional para el año fiscal 2010 sería puesto a disposición de la nueva administración. Si la nueva administración elige acceder a éste, el mismo estaría basado en acciones previas que serían designadas para extender algunos resultados clave en áreas apoyadas por este EAP. La nueva administración, por supuesto, también tendría la opción de desarrollar una nueva serie DPL con el Banco en el contexto de una nueva EAP, o de buscar otras formas de apoyo según vea si lo requiere.

Cuadro 10. Administración Financiera Pública

El desempeño de los sistemas de compras públicas y administración financiera es un factor crítico para la disciplina fiscal, distribución estratégica, eficiencia operativa y transparencia en el uso de fondos públicos. El Informe de Rendición de Cuentas Financieras del País y Evaluación de Compras concluye que el sistema AFP en Panamá posee un número de fortalezas que contribuye a controlar la disciplina fiscal, tal como los poderes legales para contener el gasto presupuestario, monitorear oportunamente los datos del presupuesto de ejecución y los flujos de efectivo y la administración adecuada de la deuda. Sin embargo, como lo implica el Pilar III, Reforma de las Finanzas Públicas de la estrategia del Gobierno, ciertos temas institucionales clave requieren y también están recibiendo ahora atención.

Las calidades citadas proporcionan una buena base para continuar avanzando en las áreas donde hay espacio para aplicar otras mejoras. Con respecto a la distribución fiscal de los recursos estratégicamente sostenibles, las iniciativas actuales para desarrollar el marco presupuestario a mediano plazo deben continuar, con énfasis particular en la reconciliación operativa y transparente de marco fiscal “de arriba a abajo” y el proceso presupuestario “de abajo a arriba” (por ejemplo, planes de costos estratégicos con programas de inversión alineados), y en el mejor control de las modificaciones presupuestarias en el año para mejorar la credibilidad del presupuesto original como la principal herramienta para la implementación de políticas.

En términos de la eficiencia operativa, las compras del gobierno podrían ser optimizadas bajo el marco de una estrategia de compras públicas comprensiva que comprende, entre otras cosas, en estrategias de reducción de costos (puntos de referencia de precios, consolidación de economías de escala) y procedimientos más eficientes (incluyendo las herramientas básicas tales como los documentos estándar, manuales y guías). El gobierno se está moviendo activamente en esa dirección con la ayuda de un marco legal de compras moderno aprobado recientemente. Por otro lado, los controles de transacción (tanto el control ex-ante fiscal como los propios procedimientos de las entidades) podrían ser desglosados y aplicados en una base de consideraciones de la administración de riesgo y complementadas fortaleciendo la capacidad de auditoría externa. La Contraloría General de la República (CGR) está prestando mayor atención a la modernización de los controles ex-ante y ex-post como piezas centrales para su plan estratégico multi-anual. El Ministerio de Finanzas, a su vez, está fortaleciendo los sistemas de tesorería e información para reducir el acumulado de pagos.

Se han tomado acciones concretas recientemente para mejorar la transparencia de las finanzas públicas, tales como el aumento en la información que se pone a disposición del público y la protección legal dada a los derechos de acceso a esa información. Estas son buenas bases para continuar mejorando la información financiera pública, con una visión a lograr la convergencia con las prácticas internacionales, en áreas tales como impuestos y pagos de atrasos, calidad de los estados financieros y la cobertura de audits financieros. Se ha progresado también con la operación del sistema electrónico de compras (Panamá Compra), que, bajo la adopción de un plan estratégico para completar su desarrollo e implementación, ayudará a garantizar una suave transición a un mercado de compras públicas electrónico.

43. Con el paquete de asistencia técnica para la administración de deuda y el desarrollo de mercados de deuda, el Departamento de Tesorería asesorará al GOP sobre cómo tomar ventaja de un conjunto completo de financiamientos y productos de manejo de riesgos del BIRF. Por ejemplo, los productos bancarios del BIRF pueden proporcionar la flexibilidad a Panamá en la administración de su deuda, incluyendo la habilidad de cambiar las características financieras de préstamos existentes y futuros para administrar mejor los riesgos financieros relacionados con tasas de interés, los pases al siguiente período y volatilidad de precios de mercancías. Además, como Panamá tiene una creciente cartera de préstamos con un margen fijo con el Banco, pero todavía tiene que tomar la ventaja completa de las herramientas de administración de riesgo incluidas en el préstamo de margen fijo (FSL) que ataca los riesgos de las tasas de interés y los préstamos en moneda única a tasa fija y los préstamos con margen variable, el Gobierno podrá querer considerar firmar un Contrato de la Asociación de Swap Internacional y de Derivadas con

el BIRF, ganando así acceso a una gama de productos bancarios para administrar la tasa de interés y los riesgos de moneda de estos tipos de préstamos. Un Contrato ISDA también podrá proporcionar acceso a Panamá a productos de cobertura para la deuda contratada con otras instituciones financieras.

Servicios Analíticos y de Asesoría

44. Dada la amplitud del trabajo analítico hecho durante los dos últimos años, esta etapa de la alianza tiene como objetivo desarrollar un análisis sectorial más profundo en los programas que están apoyados por el financiamiento de préstamos, como parte del énfasis en el desarrollo de la capacidad local. Dichos estudios se enfocarán en varios temas de educación y salud. Además, la preparación de dos nuevos reportes analíticos de temas relevantes serán liderados por los funcionarios del Banco Mundial en el año fiscal 2009, una *Evaluación de Pobreza* y un *Estudio de Desarrollo Urbano* que se enfocará en pobreza y está relacionado con la infraestructura, la entrega de servicios y los temas sociales potenciales del desarrollo urbano. Como ha sido la tradición con las Evaluaciones de Pobreza pasadas, estos estudios serán hechos para apoyar la capacidad dentro de las contrapartes del GOP, incluyendo la asistencia técnica directa relacionada con prioridades inmediatas de políticas. Un *Análisis Ambiental del País* revisará el estado de las salvaguardas ambientales existentes del país y ayudará a apoyar la preparación de un proyecto de turismo sostenible. Panamá también estará incluido en por lo menos dos estudios regionales que están planeados para el AF08-AF10: un estudio de micro finanzas públicas.

45. El programa analítico y de asesoría también incluye la preparación de notas de políticas que cubrirán áreas de participación del Banco Mundial como una herramienta que ayude a fomentar el diálogo entre los grupos estratégicos durante el período electoral del año 2009. La meta es proporcionar una visión técnica y objetiva en el progreso, retos y opciones de políticas. El Banco Mundial buscará armonizar los mensajes de las políticas con donantes clave, incluyendo el BID, FMI y PNUD. Finalmente, con la apertura de una Oficina de País en Panamá, el Banco trabajará para promover lazos más estrechos con la sociedad civil y otras instituciones no gubernamentales para enriquecer la calidad y el impacto potencial de los reportes analíticos y asesoría.

Actividades de la CFI

46. La CFI continuará enfocando sus operaciones en los sectores financieros y de infraestructura para ayudar a mejorar el acceso y financiar los segmentos de la población que no están siendo atendidas, al igual que en proyectos para promover el crecimiento en lineamiento con el segundo objetivo de la EAP (promoviendo el crecimiento económico de amplia base). La Corporación, también buscará oportunidades en el sector de la industria de extracción donde la corporación puede llevar un valor agregado en términos de mejorar las prácticas ambientales y sociales, mejor generación de ingresos y buenos beneficios para las comunidades locales y aledañas. Finalmente, CFI mantendrá su interés general en apoyar las instituciones que tienen un enfoque regional en vez de un enfoque a nivel de país, de manera que las pequeñas economías en el área se beneficien de las economías de escala en varios aspectos, incluyendo la infraestructura física y financiera.

Armonización y coordinación con otros prestamistas y donantes

47. La Dirección de Cooperación Técnica del Ministerio de Economía y Finanzas es responsable de la coordinación con donantes. Esta Dirección también sirve como enlace para la asistencia técnica no reembolsable utilizada en la preparación de los proyectos de inversión financiados por el Banco. Los funcionarios de la Dirección de Cooperación Técnica regularmente se involucran de manera independiente en la planificación de programas de trabajo con varios socios de desarrollo en Panamá, con el objetivo de garantizar que las necesidades estratégicas del GOP se cumplan. Posteriormente, los donantes coordinan de manera conjunta en las áreas programáticas donde coinciden o se complementan.

48. En la medida en que el tamaño del programa del Banco Mundial en Panamá crece, la coordinación y armonización será un enfoque creciente, especialmente con el BID, para garantizar las sinergias entre los programas de préstamos. Esto será apoyado por la apertura de una oficina de País del Banco Mundial en la Ciudad de Panamá. Como parte de las consultas para la preparación de esta EAP, el Banco y el BID se han guiado por medio de la misma para identificar áreas potenciales de trabajo y han acordado acercamientos de colaboración tanto en actividades de préstamos como en las que no lo son. Estas van desde consultas entre los equipos del BID y el Banco Mundial para apoyar las sinergias del programa, hasta la preparación conjunta del proyecto o la supervisión de proyectos en un sector común. (Ver Tabla 3 en el Anexo 3).

Riesgos

49. El enfoque por etapas de una sociedad escalonada con Panamá, construida de una Estrategia Interina (AF 06-07) a una Estrategia de Sociedad de País completa, ha facilitado la adaptación de los compromisos del programa a los desarrollos que van evolucionando a medida que se reduce el riesgo. Panamá está en una posición macroeconómica más fuerte de la que estaba cuando se acordó la NEI, y la situación política también ha sido probada como propia para avanzar en las reformas de políticas en línea con la *Visión Estratégica de la Administración*. Además, la mayoría de las actividades propuestas en esta EAP tienen una base fuerte sobre los trabajos actuales, incluyendo un desempeño de la cartera mucho más fuerte.

50. A pesar de que las vulnerabilidades macroeconómicas han disminuido en la medida en que el crecimiento se ha acelerado, la deuda ha caído en forma proporcional al PIB y el balance fiscal ha mejorado, el enfoque a mediano plazo no está completamente sin riesgos. La estrategia toma en consideración los riesgos en tres áreas: económica, política y desempeño de la cartera.

51. **Económica:** Panamá está experimentando actualmente un gran auge económico, una parte alimentado por la entrada de recursos externos, especialmente el mercado de bienes raíces. Esto aumenta la posibilidad de una inflación en la economía, introduciendo varias distorsiones en la sobre-valoración de la tasa de intercambio real y el aumento de los salarios reales por encima de los niveles apoyados por el crecimiento de la productividad. Pero, al mantener la economía abierta y extender la apertura a través de acuerdos de libre comercio, incluyendo con los Estados Unidos, se espera que las presiones sobre la economía se liberen. El Banco está apoyando al gobierno en el análisis de los retos económicos y las acciones posibles en el Memorando

Económico del País, un borrador que será discutido con el GOP a finales del año 2007 para concluir en el año 2008. a nivel del sector, hay un riesgo de una rápida urbanización que está descontrolando las capacidades de planificación urbana y reglamentaria del gobierno, así como su habilidad para proporcionar la infraestructura pública adecuada. Como lo solicitó el GOP, el Banco preparará un estudio de Desarrollo Urbano para contribuir con la discusión de acciones posibles y prioridades. Además, en la medida en que la apertura del país y la estructura económica le han permitido a Panamá beneficiarse de la mejoría global reciente, el país está vulnerable a una desaceleración económica global que podría tener un impacto negativo en el comercio del Canal, las exportaciones y las actividades económicas relacionadas.

52. La expansión del Canal es un gran proyecto; y por lo tanto existe la posibilidad de que la culminación de dicho proyecto exceda el presupuesto, o que los ingresos de la Autoridad del Canal de Panamá se queden cortos. Esto podría aumentar potencialmente las necesidades de préstamos al igual que la demanda de materiales y mano de obra en lo que ya se espera ser un mercado saturado. Sin embargo, las autoridades están confiadas en que a través de una preparación conciente se mitigue fuertemente esta posibilidad y se garantice que los costos de construcción no sobrepasen las proyecciones. Los estimados del presupuesto incluyen contingencias de un 20 por ciento para manejar todos los eventos imprevistos y las subidas de precios. Además, efectivo el 01 de julio del año 2007, la Autoridad del Canal aumentó los peajes. Esto generará un estimado de US\$1.3 billones en ingresos adicionales entre los años 2007 – 2014 (más allá de los planes financieros originales) con proyecciones de futuros aumentos según surjan las necesidades. El Banco apoyará al gobierno en el monitoreo de la sostenibilidad fiscal y las potenciales vulnerabilidades a través del Memorando Económico del País (MEP) y las series DPL.

53. Otra fuente potencial de vulnerabilidad es el relativamente alto nivel de deuda externa de Panamá. Esto potencialmente hace que el país esté vulnerable a los aumentos en las tasas de interés internacional o de otra manera a condiciones del mercado de capital más estrechas. No obstante, este riesgo es compensado en gran medida por tres factores:

- La sólida administración fiscal del gobierno ha llevado a sustanciales superávits primarios, causando que la deuda disminuya. El Banco continuará apoyando al GOP en estas áreas a través de las series DPL.
- Panamá tiene reservas considerables y activos que compensan sus deudas. Por ejemplo, el Fondo Fiduciario para el Desarrollo de Panamá, fue establecido en el año 1995 con los fondos cobrados de la privatización de las empresas públicas y la venta de algunas áreas revertidas, teniendo activos equivalentes a 8.5% del PIB en el año 2004. El Canal mismo es otro activo significativo del GOP. Esto contribuye a disminuir sustancialmente la deuda neta.
- El GOP ha estado mejorando la administración de deuda y continuará estos esfuerzos con la asistencia técnica de la Tesorería del Banco.

Como se nota bajo las discusiones de préstamos (párrafo 39 – 43), ante el poco probable desarrollo de eventos adversos y severos en el área macroeconómica o política, las políticas de desarrollo de préstamo serán redefinidas y los préstamos generales serán reducidos.

54. Política: El presidente Torrijos disfruta de una amplia popularidad y es apoyado por una mayoría en la Asamblea Legislativa. Su administración culminará el 30 de junio del año 2009. Bajo la Constitución de Panamá, el presidente no podrá ser elegido a un término consecutivo. Tradicionalmente, las nuevas administraciones han hecho cambios sustanciales dentro del servicio civil, especialmente en los ministerios al llegar al poder. Estos cambios de funcionarios pueden convertir el proceso de transición ordenada en un reto, al igual que interrumpir los programas actuales, incluyendo aquellos donde el Banco está dando apoyo. El Banco es por supuesto, una pequeña parte de este proceso. Tal y como lo recomendó el QAG, el Banco apoyará la transición preparando notas de políticas para proporcionar a los candidatos presidenciales una fuente adicional de información sobre los retos de desarrollo y las políticas y programas actuales. Además, el Banco coordinará con el nuevo gobierno sobre las necesidades de capacitación, especialmente con respecto a la implementación de los proyectos.

55. Desempeño de la Cartera de Panamá: La composición de la cartera está cambiando de dos maneras importantes, las cuales, probablemente afecten las tasas de desembolso a corto plazo. Primero, gran cantidad de nuevos proyectos están siendo añadidos a la cartera, incluyendo los nuevos proyectos con ministerios que tienen poca experiencia en ejecución de proyectos. Los proyectos tienden a desembolsar a tasas bajas durante los primeros 1 – 2 años. Segundo, las agencias ejecutoras anteponen el uso y el apoyo de sistemas y agencias paralelas, también, es factible que disminuya el ritmo de la implementación y los desembolsos de los proyectos temporalmente. El Banco y el GOP están preparados para estos cambios y están trabajando para mitigar los riesgos a través de esfuerzos orientados al desarrollo intensivo de capacidades y una presencia más activa del Banco en Panamá a través de la apertura de una Oficina de País. Aún más los riesgos de una desaceleración a corto plazo en la tasa de implementación de los proyectos son considerablemente aceptables, en vista del crecimiento potencial y en relación al desarrollo de instituciones para la administración financiera pública más eficientes, y la capacidad de los ministerios que llevan asistencia social y servicios a los pobres.

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AND DEVELOPMENT

COUNTRY PARTNERSHIP STRATEGY

FOR THE

REPUBLIC OF PANAMA

FY2008-2010

September 7, 2007

**Central America Country Management Unit
Latin America and Caribbean Region
International Bank for Reconstruction and Development**

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Currency Unit = Balboa

1 US Dollar = 1 Balboa

FISCAL YEAR:

January 1 – December 31

ACRONYMS AND ABBREVIATIONS

AAA	Analytical and Advisory Activities
ANAM	National Environment Authority
ATTT	Panama Transport Authority
CAF	Andean Development Corporation
CAS	Country Assistance Strategy
CCT	Conditional Cash Transfer Program
CEM	Country Economic Memorandum
CFAPAR	Country Financial Accountability and Procurement Assessment Report
CGR	Controller General/ <i>Contraloría General</i>
CPPR	Country Portfolio Performance Review
CPS	Country Partnership Strategy
CSS	Social Security Institute
DCP	Public Procurement Directorate
DEC	National Census and Statistics Directorate
DFID	UK Department for International Development
DGCP	Directorate of Public Credit/ <i>Dirección General de Crédito Público</i>
DPL	Development Policy Lending
ESW	Economic and Social Work
FSL	Fixed-spread Loan
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GEF	Global Environment Fund
GNI	Gross National Income
GOP	Government of Panama
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICR	Implementation Completion Report
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
ISDA	International Swaps and Derivatives Association
ISN	Interim Strategy Note
JICA	Japan International Cooperation Agency
LAC	Latin America and the Caribbean
LSMS	Living Standards Measurement Survey
MDG	Millennium Development Goals
MEDUCA	Ministry of Education
MEF	Ministry of Economy and Finance
MIDA	Ministry of Agriculture
MIDES	Ministry of Social Development
MINSA	Ministry of Health

MIS	Management Information System
NTB	Non-tariff Barrier
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
PA	Poverty Assessment
PAM	Panama Municipal Authority
PAMBC	Rural Mesoamerica Biological Corridor
PCA	Panama Canal Authority
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPIAF	Public-Private Infrastructure Advisory Facility
PRONAT	Panama Land Administration Project
QAG	Quality Assurance Group
R&D	Research and Development
RDO	<i>Red de Oportunidades</i> Program
RPA	Rural Producer Association
SIAFPA	Government Budget and Accounting System
SINAP	National Protected Areas System
SME	Small and Medium Enterprise
SPIG	Presidential Secretariat for Governmental Innovation
TA	Technical Assistance
TFSCB	Trust Fund for Statistical Building
UNDP	United Nations Development Program
USAID	United States Agency for International Development

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**COUNTRY PARTNERSHIP STRATEGY
FOR THE
REPUBLIC OF PANAMA**

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EXECUTIVE SUMMARY

In recent years Panama's economy has experienced spectacular economic growth. Panamanians' decision to expand the Panama Canal over the next 6-7 years and conclusion of a free trade agreement with the United States, are expected to boost and extend economic expansion for some time. This presents an historic opportunity for Panama to make headway in reducing persistent poverty and inequality. However, to broaden the base of potential beneficiaries, complementary policies that further increase private sector competitiveness and access to education, skills, innovation and capital will be needed. In addition, the challenges of reaching Panama's poorest go deeper. 90 percent of Panamanians living in indigenous areas were living in extreme poverty in 2003, an increasing share. To reach isolated populations, the traditional approach to social assistance, which relied heavily on universal subsidies, requires rethinking and inefficiencies in public spending also require attention.

The Strategic Vision articulated by the Torrijos administration (2004-2009) is responding to Panama's development challenges. A fiscal reform package and a pension reform, both passed in 2005, form part of an ambitious development strategy which emphasizes fiscal discipline, transparency and greater efficiency to ensure a sound economic base, accelerate export-led economic growth, create more jobs and reduce poverty. To lower poverty by one-fifth during its term of office, the Torrijos administration has prioritized investments in human capital (including a big effort to modernize education and training) and introduced a flagship targeted conditional cash transfer program coupled with the continued expansion of pre-school education, primary health care and nutrition and basic infrastructure, especially in poor and indigenous areas.

The Bank was one of Panama's major development partners over much of the 1990s, a period in which the country made steady progress on structural reforms to open the economy, improve competition and modernize the state. However, the Bank's engagement dropped off dramatically between 2000 and 2004 and much of the previous Country Assistance Strategy (FY99-01) was left unimplemented. The partnership has been successfully rejuvenated through the program of activities that were agreed in the Interim Strategy Note for the Republic of Panama (ISN FY06-07): portfolio performance has rebounded, the project pipeline has been rebuilt and analytical work has contributed to robust policy dialogue.

This proposed Country Partnership Strategy (FY08-FY10) aims to provide selective, demand driven assistance that deepens the Panama-Bank partnership and helps the Government achieve its poverty and inequality reduction goals during its remaining two years in office. The program is also set up to provide the new administration (2009-2014) with access to immediate support. The CPS supports four objectives which are aligned with the pillars and goals of Panama's 2004-2009 Strategic Vision (Table 1).

The CPS has a strong results orientation. It will continue to support Panama to develop its national statistical systems and related to that, it identifies and will track specific outcomes that the World Bank program is designed to support. The CPS also emphasizes building capacity in partner ministries. This is being done in coordination with the Inter-American Development

Bank (IDB). The two banks are working to harmonize procedures with each other and with those of the Government, as Government systems and procedures are strengthened with Bank and IDB support.

Table 1: Panama 2004-2009 Strategic Vision			
Pillar I Reduce Poverty and Inequality	Pillar II Promote Economic Growth and Employment	Pillar III and V Reform Public Finances and Modernize the State	Pillar IV Develop Human Capital
Broad objectives to which the CPS will contribute			
<i>Reduce poverty, especially among rural poor and indigenous groups</i>	<i>Promote broad-based economic growth</i>	<i>Establish modern PFM systems and institutions</i>	<i>Improve health, nutrition, and education attainment of the poor</i>

The CPS includes a lending envelop of \$390-\$465 million over FY08-10. New financing would be split mainly between Development Policy Lending and seven new poverty-focused investment projects. Given the breadth of analytical work done under the ISN, the CPS builds in-depth sectoral analysis, including in health and education, into loan financed programs as part of the emphasis on local capacity building. The program also includes three analytical reports. Policy notes will be prepared as a tool for informing policy discussions related to the May 2009 national elections.

IFC will continue to focus on financial and infrastructure sectors; projects that promote growth in line with the second CPS objective (promoting broad-based economic growth). IFC will also look for opportunities where it can add social and environmental value in the extractive industry sector. IFC will maintain its focus on regional-level operators.

Though macroeconomic vulnerabilities in Panama have diminished since Board presentation of the ISN – growth has accelerated, debt has fallen as a share of GDP, and fiscal balances have improved – the medium-term outlook is not completely without risks. As elaborated in the CPS, the strategy takes into account potential risks in three areas: economic, political and portfolio performance.

Proposed Issue for Board Discussion

- Is the application of the World Bank's “Strategy for Middle-Income Countries” in this Country Partnership Strategy an appropriate strategic response to the Government of Panama, considering its Strategic Development Vision, economic prospects, and the areas in which the Government has asked the Bank for support.

I. Country Context and Development Challenges

1. In recent years Panama's economy has experienced spectacular economic growth averaging over 7.5 percent during 2004-2006. These gains, combined with the country's rosy economic growth prospects present an historic opportunity for Panama to make headway in reducing persistent poverty and inequality. The current administration under President Martin Torrijos (2004-2009) is working hard to do just that. In addition to pursuing policies aimed at broadening the base of economic activity – including opening trade markets, reducing regulatory impediments to competition, fostering innovation and giving poor rural farmers the tools to compete – the Government is moving on a number of fronts to increase the effectiveness of social assistance. It has launched a conditional cash transfer program, *Red de Oportunidades*, targeting the country's poorest to break the generational poverty cycle. It is expanding pre-schools and basic health care to better prepare poor children for primary school and is working to remove the barriers that prevent them from completing secondary school. The Government also is making progress in modernizing public financial management systems and institutions, which have been a drag on efficient delivery of public programs, infrastructure and services that are needed both to help broaden the base of economic activity and to redistribute benefits more effectively. And, among other initiatives, the President is overseeing a \$50 million a year fund, from Canal revenues that is providing basic infrastructure to communities – water, roads, and even schools – in accordance with their stated preferences.

2. With a population of about 3.5 million, a world famous canal, a modern financial center and a per capita GDP that ranks it as an upper-middle income nation, Panama is a country of stark contrasts. Perpetuated by dramatic educational disparities¹, over one-third of Panama's population was living in poverty in 2003 and 16 percent living in extreme poverty -- evidence of very high inequality. Poverty pressures have also increasingly been threatening Panama's environmental assets. Panama is one of the most biologically diverse countries in the world. More than 12 percent of the country's territory falls within the National Protected Area System. Yet poverty pressures have pushed the poor to exploit the Mesoamerican Biological Corridor's natural resources in unsustainable ways. The impact of recent growth on poverty levels and the success of efforts to help ensure that economic benefits are more broadly shared will be measured comprehensively in a 2008 living standard measurement household survey (LSMS). What is already known is that unemployment has dropped to historic lows² and the Government's policy prescriptions are on target with what has been proven to work against poverty and inequality in other places.

Growth Dynamics

3. Panama traditionally has ranked among the faster growing economies in Latin and Central America, with strong links to the US market and world trade dynamics (Figure 1a). However, Panama's economic development also has been characterized by a high degree of inequality (Figure 1b) which was exacerbated by protectionist and distortionary policies, including

¹ While non-poor Panamanian adults (25 and older) averaged 10 years of schooling in 2003, poor adult Panamanians averaged just over 5 years and indigenous adult Panamanians averaged a meager 3 years.

² Open unemployment declined from 11 percent in 2003 to 7 percent in 2006.

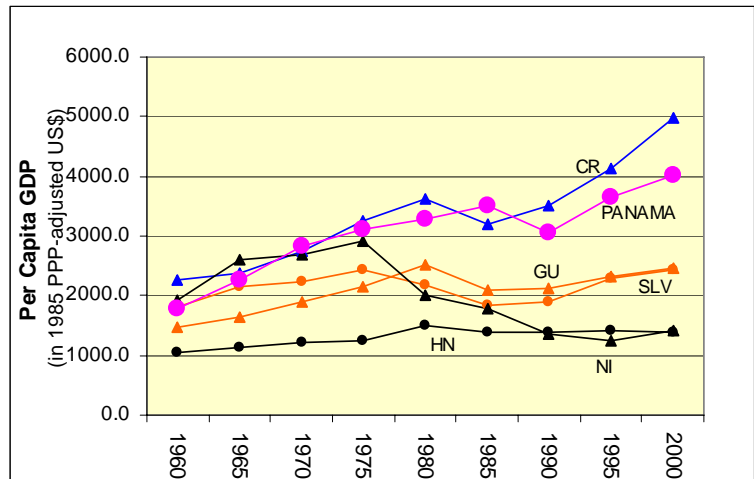
generous universal subsidies, introduced in the 1970s.³ These measures introduced structural inefficiencies that have limited productivity gains and meant that growth has mainly benefited the capital-intensive service sectors. This has put most economic opportunity out of the reach of less skilled members of society; the country's poor, including those living in indigenous communities.

4. Following a political and economic debacle that culminated with the ouster of General Manuel Noriega at the end of 1989, economic growth rebounded in the early 1990s as macro-economic discipline was restored. The 1994-1999 Pérez Balladares administration began aggressively to tackle structural weaknesses. It proceeded to dismantle the existing labyrinth of trade barriers and price controls and implemented a far-reaching privatization program accompanied by anti-trust and consumer protection legislation. Reform momentum stalled in the early 2000s, however, amid the global slowdown of 2001-2002 and the divided political environment within Panama. Progress has since been rejuvenated under the 2004-2009 Torrijos administration, accompanying renewed strong growth.

5. In October 2006, Panamanians voted in a national referendum overwhelmingly in support of expanding the Panama Canal through the creation of a third set of locks. Total investment in the Canal expansion, excluding those in ancillary activities, is estimated to be around 30 percent of GDP, spread out over six or seven years. This endeavor is expected to provide a major boost to economic growth (Box 1) with direct benefits accruing primarily to the economy's traditionally dynamic service sectors.

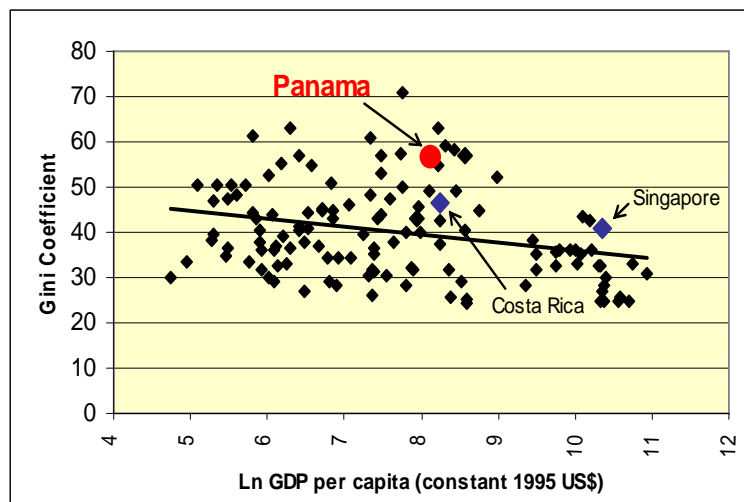
6. In June 2007, Panama and the United States signed a free trade agreement. Combined with past advances in economic opening, implementation of this agreement is expected to limit the

Figure 1.a. Panama: Historically Strong Growth



Source: World Bank 2002

Figure 1.b. Inequality



Source: World Bank 2002

³ See *Panama: A Dual Economy in Transition*, World Bank, July 20, 1995

scope for applying the protectionist policies that have exacerbated the problems of duality in the past. However, the benefits of free trade do not accrue automatically to all segments of the economy, especially to those that have traditionally had limited access to economic opportunity. Complementary policies that further boost competitiveness within the private sector and deepen access to education, skills and capital will be needed to broaden the base of the potential beneficiaries. Such policies would need to include additional measures to reduce bureaucratic red tape and other regulatory burdens, continue to lower barriers to domestic competition, improve the skills of the labor force and other measures to reduce barriers to formal employment, and increase private sector productivity through investments in innovation and technology adoption (Box 2).

Box 1. The Panama Canal

Built in 1914, the Panama Canal is the gateway for over 140 maritime routes worldwide, but to maintain its global importance capacity must expand. Each year more than 12,000 oceangoing vessels (around 30 per day) transit the 80km long Canal bringing operations close to the capacity limit. So significant is the Canal to international shipping that container ships, at least until recently, were built to fit its dimensions, known as the Panamax standard. Recent growth in world trade, however, places higher demand on container vessels and has led to the development of the Post-Panamax vessels that are currently too large to transit the Canal.

The “Canal economy”, including spillover effects, is enormously important for the Panamanian economy contributing about one-fifth of GDP and employment. Broadly defined, the Canal system consists of direct activities related to the Canal operation, indirect activities including services to container ships in transit, and, induced activities, such as the Colon Free Zone or the ports, which are a result of the existence of the Canal. These three generated 14 percent of Panama’s GDP in 1999 and accounted for two percent of employment according to calculations by the Panama Canal Authority (PCA). The Canal system also has a substantial spillover effect on the rest of the economy (known as the multiplier effect).⁴ The PCA estimated that this multiplier effect added an additional four percent of GDP and 18 percent of employment. The Canal has also been one of the most important sources of government revenue (29 percent of total) and contributed to 41 percent of exports.⁵

Given the capacity constraints of the Canal, its economic importance and expected world trade growth, feasibility studies commissioned by the PCA concluded that expanding the Canal is economically sensible. The so-called ‘third set of locks project’ was overwhelmingly endorsed in a national referendum held in October 2006. At an estimated cost of over US\$5 billion (almost a third of GDP), the project will expand Canal capacity through three components: (1) the construction of two new sets of locks, one set each on the Atlantic and Pacific sides; (2) the excavation of access channels to the new locks and the widening of existing navigation channels, and; (3) slight elevation of Gatun Lake’s maximum operating level. Capacity will be roughly doubled, as a consequence, and will allow for the passage Post-Panamax vessels. The project, to be completed by 2014, is to be financed partly by toll revenues and partly by PCA borrowing.⁶

The expansion is expected to have a strong positive impact on growth and employment and will also yield considerable advantages for international trade and the maritime industry. PCA estimates suggest that GDP may grow as much as one percentage point more per year, on average, over the next twenty years because of the project. The PCA also expects employment to increase considerably by around 45,000 in 2010 and 252,000 in 2025. Independent estimates by the IMF suggest a more modest employment impact of around 20,500 in 2010 and 44,000 in 2025.

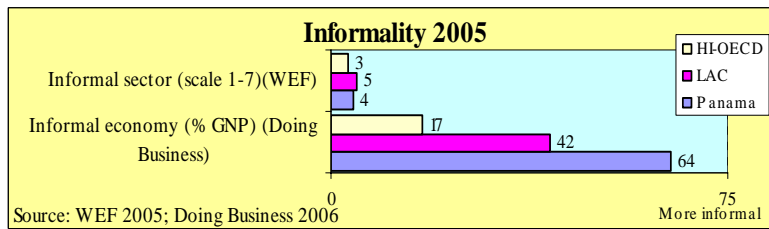
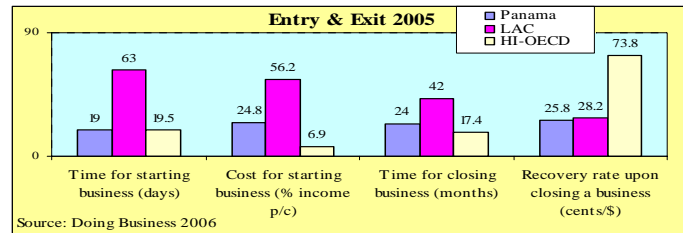
⁴ The multiplier effect refers to the dynamic through which the incomes and employment generated by Canal related activities increase the demand for goods and services produced elsewhere in the economy.

⁵ PCA and Intracorp, 2006, *Panama Canal Economic Impact Study at the National Level*, Volume 1

⁶ On 26 April 2007, Cabinet approved an increase in the Canal tolls. The new tariff structure implies a ten percent nominal increase per year on average over the next three years. The higher-than-expected increase reflects an assertive attempt by the PCA to capture the full economic value offered by the Canal. Higher toll revenue would reduce PCA borrowing requirements for financing the Canal expansion project.

Box 2. Panama Business Environment

In several aspects of the business environment, Panama performs relatively well from an international perspective. According to the *Doing Business* database, it is relatively fast and cheap to start a business in Panama, and the country has good indicators in licensing, paying taxes, trading across borders, and registering property. In many of these areas, including in financial depth, Panama ranks closer to the OECD averages than those of Latin America and the Caribbean (LAC).



With regard to labor regulations, Panama exhibits non-salary labor costs (taxes and social security contributions) that are lower than those of the average LAC country, as well as more flexible regulations for working hours, and lower firing costs. However, firing regulations are restrictive by international

standards and minimum wages are high relative to average value added per worker. Moreover, the efficiency of Panama's judicial system is relatively low, at least in terms of the monetary costs of and the time required for enforcing commercial contracts. These transaction costs may contribute to Panama's high informal economic activity (64% of GDP, 47% of non-agricultural employment). Other potential culprits of the high levels of informality observed in Panama are associated with governance and regulatory framework issues. Thus, Panama scores slightly below the LAC average in control of corruption, government effectiveness, regulatory quality, and political stability (Kaufman et al. 2006). Not surprisingly, according to the World Economic Forum, the three most problematic factors for doing business in Panama are corruption, an inefficient government bureaucracy, and restrictive labor market regulations.

The lack of skills within the labor force is also considered an impediment. Less schooling does not appear to be the culprit: Panamanian workers are more educated than their LAC peers, with 8.6 years of average schooling in 2000, compared to 6.1 years average in LAC and more university graduates. However, Panamanians lag in technology use. In 2004, personal computer use rates were 55 percent behind the LAC average, internet use lagged by 17 percent and levels of fixed and mobile phone penetration were also below the LAC average. Research and development (R&D) spending, a proxy for country innovation, was also below average. In 2002, Panama spent 0.38 percent of GDP on R&D, much lower than the 0.57 percent for LAC and 2.5 percent in the OECD.

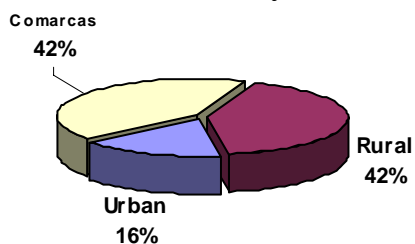
Poverty and Inequality

7. Despite Panama's locational advantages, its dualistic economic structure has historically contributed to persistent poverty and high inequality. With support from the World Bank, Panama conducted two living standard measurement surveys (LSMS), one in 1997 and one in 2003.⁷ Over that period, overall high poverty levels, measured by individual consumption, moved little (from 37.3 percent to 36.8 percent), while extreme poverty declined from 18.8 percent to 16.6 percent. Fortunately, these weak results are unlikely to be a good indicator of recent progress in poverty reduction. The 2003 LSMS was conducted just as Panama was

⁷ The LSMS is a population-based survey that collects information on detailed indicators of the consumption patterns and well being of household members. It is statistically representative for populations living in urban and rural non-indigenous and indigenous areas.

beginning to emerge from a two-year economic slump.⁸ Of more interest are the striking

Figure 2: Composition of Extreme Poverty 2003



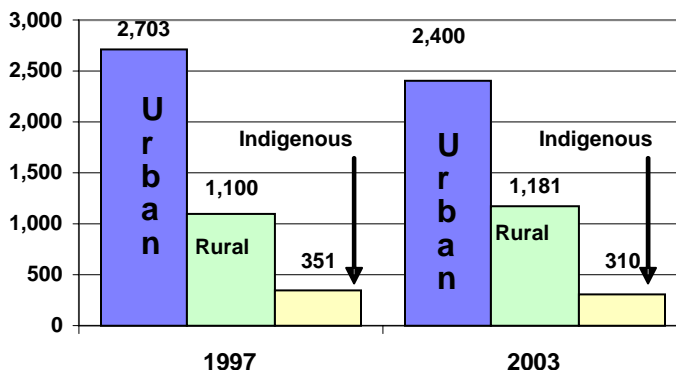
changes in the composition of Panama's poor between those years. In 1997, the majority of the extreme poor, 56 percent, lived in non-indigenous rural areas, while 35 percent lived in indigenous areas and only 9 percent in urban areas. By 2003, the share of extreme poor living in rural non-indigenous areas fell, while the proportion of extreme poor living in indigenous areas rose, equalizing the share at 42 percent. Over the same period, the share of

extreme poor living in urban areas almost doubled to 16 percent, due at least in part to migration from rural to urban areas. With the allure of the Panama Canal expansion project, migration to Panama City may well increase; 57 percent of the poor are less than 20 years old and 36 percent are adults of working age (20-60).

8. By 2003, almost all Panamanians living in indigenous areas were poor (98.4 percent), with 90 percent living in extreme poverty.⁹

Poverty was also much deeper among those living in indigenous areas. Because consumption levels are so low among the indigenous, it would take a much greater increase to lift the consumption of an average person in an indigenous area above the extreme poverty line compared to what it would take to move an urban or rural non-indigenous person's consumption above the extreme poverty line. In essence, what is emerging is a three-part personal welfare structure tied to

Figure 3: Mean Per Capita Annual Consumption (US\$)



Panama's *three-faceted economic structure*: those with access to the dynamic service sector (urban residents), those who depend on less competitive, lower growth sectors like agriculture (rural non-indigenous residents) and those who are geographically isolated from economic activity (*comarca* residents). Even as progress is made in increasing the dynamism of sectors previously held back by protectionism and regulatory rigidity, those living in isolated indigenous *comarcas* areas may still be left behind.

⁸ According to Panama's national accounts data, GDP per capita grew by an annual rate of 1.5% while consumption as measured in the household survey fell by 0.7%. Such differences between national account data and household survey findings are common as the instruments are measuring different things and both are subject to error. For a fuller discussion, see the forthcoming Poverty Assessment.

⁹ Indigenous people in Panama comprise just under 10 percent of the population. The peoples belong to seven groups of varying size. The three most numerous have obtained demarcated semi-autonomous *comarcas*: *Ngobe-Bugle* near the border of Costa Rica, *Kuna* in the San Blas archipelago, and *Ember-Woonan* in Darien near the Border with Colombia. Other major ethnic groups include people descended from Spanish settlers and Afro-Panamanians, though estimates put those of mixed heritage at 85-90 percent.

9. Panama made progress on reducing consumption inequality between 1997 and 2003. The Gini coefficient for consumption declined from 48.5 to 46.9,¹⁰ but it remained above the average for Latin America and was high by global norms, especially among countries of similar wealth levels. The differences in consumption among various groups of Panamanians were also still widespread in 2003. People living in non-indigenous rural areas consumed less than half of their urban counterparts, while those living in indigenous areas consumed nine times less (Figure 3). These economic differences are mirrored in other social indicators. Slightly more than one-fifth of all Panamanian children were chronically malnourished in 2003, with the level reaching over half for indigenous children. In education, while education attainment for the population aged 25 or older was 8.6 years at the national level, it was only 3.7 years and 3.1 years among the extreme poor and those living in indigenous areas. Primary enrollment rates are rising among the poor to close the gap with the non-poor, but less than one third of extremely poor children were enrolled in secondary school in 2003, compared with one-half of poor children and 85% of non-poor children. The trends and disparities in social indicators are reflected in the progress and likelihood of Panama's achieving the Millennium Development Goals (Box 3).

Box 3. Panama: Progress and Prospects for MDG Attainment

Panama is making good progress toward meeting MDG goals on education, water and sanitation and longer term trends in poverty reduction. Extreme poverty was cut nearly in half between 1991 and 2002, approaching the MDG target. The poverty trend measured through 1997 and 2003 LSMSs was less reassuring (extreme poverty decreased from 18.8% to 16.6% over those five years using a national consumption-based poverty line), but the recent economic boom is likely to be picking up the pace of poverty reduction once again.

Net primary enrollment increased from 92.1% in 1997 to 93.9% in 2003, and the ratio of girls to boys was 95% for primary and 105% for secondary education. On pace with MDG goals, more people have access to an improved water source (88% in 2004, up from 79% in 1990) and improved sanitation (53% in 2000, up from 44% in 1990). Prospects also look promising for the MDG on halting forest degradation as trends are among the lowest in the region: total forest area decreased only from 58.8% in 1990 to 57.7% in 2005.

However, Panama has not yet succeeded in making sufficient progress on health indicators. The percentage of chronically malnourished Panamanian children grew from 14% in 1997 to 21% in 2003 (and to over 50% in indigenous areas). Maternal mortality per 100,000 live births also climbed in Panama from 55 in 1990 to 160 in 2000. Panama was able to achieve about a 30% reduction in child and infant mortality from 1990 to 2004, but the pace of achievement lagged behind the 40% average reduction seen across Latin America and the Caribbean.

Public Spending and Social Assistance

10. Public expenditure inefficiencies in Panama have helped perpetuate inequality and will need attention for Panama to more fully capture the potential benefits of freer trade. Panama's persistent inequality and the depth of poverty among many of the extreme poor argue for a more effective redistributive role of the state. In addition, the private sector relies on the state for providing and maintaining infrastructure, educating the workforce, supporting innovation, and regulating efficiently – all important factors for maintaining domestic competitiveness. For Panama it is less a question of spending more on social programs, but of spending well. Panama spends 17 percent of GDP in the social sectors, above the Latin American average of 14 percent, but outcomes are not commensurate with the level of investment, pointing to inefficiency. In

¹⁰ The Gini coefficient is a measure of inequality of a distribution of income. It is defined as a ratio with values between 0 and 1 where 0 corresponds to perfect income equality (i.e. everyone has the same income) and 1 corresponds to perfect income inequality (i.e., one person has all the income, while everyone else has zero income).

areas of infrastructure provision the most important challenges are negligence in managing public assets; weak pricing and cost recovery policies; and inadequacy of maintenance expenditures in all the state-managed assets.

11. Underdeveloped tools and systems for strategic planning, resource allocation, and monitoring have limited the impact of social, infrastructure and agriculture spending. For example, while Panama's education and health indicators are fairly good for the amount of public spending devoted to these sectors, those same social sector outcomes could be achieved at a significantly lower cost by following best practices applied in other countries. In addition to mechanisms to allow for a more strategic use of funds, the 2007 *Panama Country Financial Accountability and Procurement Assessment Report (CFAPAR)* indicates that better practices should include modernized public financial management and procurement regimes; inefficiencies of these regimes have contributed to higher costs for observed results in all types of government spending.

12. Finally, a stronger redistributive role can only be achieved with better targeting of social assistance. Panama spends about 1% of GDP annually on universal subsidies including price subsidies for electricity, cooking gas and piped water, luxuries that most poor do not enjoy. At the same time, until recently, few social programs systematically targeted the poor. The shortcomings of weak targeting are illustrated by the huge income-group disparities among social sector indicators discussed in paragraph 9. As progress is made through Panama's targeted conditional cash transfer program (*Red de Oportunidades*) and extremely poor children stay healthier and complete primary school in greater numbers, increased attention will need to be given to secondary education completion, where challenges are even greater. While 60 and 35 percent of new urban and rural adults completed secondary school in 2003, only 10 percent of the indigenous in the same cohort were able to make that achievement. Panama, thus, has the opportunity to achieve more effective public sector interventions by developing and employing tools for more strategic use of public resources, modernizing public financial management institutions and practices, and by careful targeting of social assistance.

Summary of Development Challenges

13. As documented in the World Bank's recent Flagship Report for Latin America and the Caribbean, *Poverty Reduction and Growth: Virtuous and Vicious Circles*, in the long-run all pro-growth policies will lead to lower poverty; however, in the short-run, when severe inequality is not addressed, the poor will benefit less and some not at all. The report finds that high poverty levels are also a steady drag on growth. The findings of another recent report, *Economic Growth in the 1990s* (World Bank, 2006), concurred: the most successful growth experiences had four things in common: rapid accumulation of capital, efficient resource allocation, technological progress and *a sharing of the benefits of growth*. According to the draft *Panama Poverty Assessment: Toward Effective Poverty Reduction* (PA forthcoming in 2007) these general findings are also applicable to Panama. As discussed in the next section under "medium-term economic outlook", the expansion of the Canal and the prospects of an FTA are bound to boost economic growth for some years to come. While future strong economic growth in Panama cannot be guaranteed and continued efforts to realize growth projections will be needed, Panama's "unequal distribution of growth benefits" stands out as the country's greatest

development challenge. As one small-scale farmer put it during informal consultations with Bank staff, “there are two Panamas: the Canal and us.” For all Panamanians to participate and benefit from the expected growth generated by the Canal and free trade agreement, the poor will need greater access to assets of all kinds: land and capital will be important, but also training, access to markets, risk sharing and, perhaps most importantly, healthy and well educated children.

14. As described in the next section, a major focus of the current administration is dismantling the divide between those who have benefited from the “Canal system” and those who have been a part of the other Panama. The administration views this as a critical element of its social contract with the nation to expand the Canal: If funds equal to about one-third of GDP are to be invested in the Canal, an equivalent effort is needed to enable Panama’s poor to become better off.

II. Government Strategy and Economic Outlook

15. The Strategic Vision articulated by the Torrijos administration (2004-2009) responds to Panama's development challenges and gives renewed attention to poverty reduction. President Martin Torrijos assumed office in September 2004 with a strong political mandate that gave his party's coalition a majority in the Legislative Assembly. Within six months of taking office, the Government secured passage of a fiscal reform package and a politically difficult pension reform.¹¹ These measures form part of an ambitious medium-term development strategy, *Strategic Vision of Economic and Employment Development Toward 2009*, which was unveiled by the Authorities in early 2005 (Box 4). Building on the structural reform process that was suspended after 1999, this strategy emphasizes fiscal discipline, transparency (Box 5) and greater efficiency as crucial elements for ensuring a sound economic base, accelerating export-led economic growth, creating more jobs and reducing poverty. The Torrijos administration has set an ambitious goal of lowering poverty by one-fifth during its term of office and has prioritized investments in human capital (including a big effort to modernize education and training) and targeted social assistance (including the introduction of a flagship targeted conditional cash transfer program and the continued expansion of pre-school education and primary health care, especially in poor and indigenous areas) as hallmarks of this effort.

Box 4. GOP Strategic Vision of Economic and Employment Development Toward 2009

The Strategic Vision is comprised of five pillars:

Pillar I - Reduce Poverty and Income Inequality encompasses four dimensions: stimulate growth and expand employment opportunities, especially for youth; build human capital of the poor; pioneer a flagship conditional cash transfer program (*Red de Oportunidades*) which brings together efforts to improve education, health, nutrition and basic infrastructure access targeting the poorest areas; and invest in productive activities in rural areas, including land tenure security

Pillar II - Foster Economic Growth and Employment focuses on efforts to open the economy to international competition and promote export-led growth, including through free trade agreements, development of export infrastructure (roads, ports, etc.), removal of distortions and unfair sector incentives, and targeted complementary investments in Canal expansion, irrigation, and urban transport.

Pillar III - Reform Public Finance includes actions to reduce public debt, achieve fiscal sustainability and modernize public financial management, including fiscal and pension reform; measures to improve the accuracy and transparency of national accounting systems; modernization of procurement and tax administration; and improvements in budget management.

Pillar IV - Develop Human Capital seeks to improve the competitiveness of Panama's labor force and reduce poverty and inequality through investments in education and health. Initiatives will support national curriculum reform, expanded coverage of preschool and secondary education, effective worker training, preventative and occupational health and nutrition programs, and expanded health, water, and sanitation infrastructure in rural and indigenous areas.

Pillar V - Reform and Modernize the State supports activities to help the public sector and public institutions become better facilitators of countrywide development. Measures will be taken to reduce corruption, improve private participation in infrastructure, increase competition in the electricity and transport sectors, and foster decentralization of service-delivery.

¹¹ These measures were supported by the *FY07 Public Finance and Institutional Development Policy Loan* (\$60 million).

Box 5. GOP is Increasing Transparency and Accountability to Reduce Corruption and Improve Public Sector Efficiency

During his inaugural speech (September 2004) President Torrijos announced that fighting corruption would be a priority during his tenure and from the start his administration recognized the need to strengthen public institutional foundations and ensure transparency as essentials to creating an economic growth environment that could eventually move Panama to developed-country status. This priority is reflected in Pillar V of the Government's Strategic Vision: Reform and Modernization of the State, which includes a multi-faceted program to improve transparency and fight corruption of public institutions and finances. This program calls for strengthened public ethics; integration of good governance principles of transparency, integrity, and accountability into public operations (through financial management and procurement modernization); and simplification of key business procedures. Specific measures taken by the Government in each one of these areas follows.

To **strengthen transparency of Government operations and create a more open civil service culture** the Government has: (i) abolished regulations to the Transparency Law that imposed restrictions on, rather than facilitated, public access to information; (ii) approved a law ratifying the United Nations Convention Against Corruption; (iii) created the National Anticorruption Council, and its Executive Secretariat, as an advisory body to the Executive Branch on public sector strategies related to good governance, transparency, ethics and anticorruption; (iv) issued regulations establishing general principles for the standardization of codes of ethics within the central government, and the adoption of such codes in a number of public entities; (v) established a financial disclosure program for public sector employees; and (vi) presented a draft law protecting whistleblowers.

To improve **fiscal transparency and public financial management accountability**, the Government has introduced several measures: (i) upgrading tax information systems (e-Tax) and fostering on-line presentation of income tax returns, coupled with an awareness campaign and user training programs; (ii) timely issuance and publication of budget documentation, budget execution reports, financial statements, information on debt and payroll, and other fiscal data; (iii) reduction of the stock and time taken to pay accrued expenditures; and (iv) implementation of a document tracking and management system (SIGUEME) to enhance accountability and performance in financial transactions.

Steps to **modernize public procurement** include: (i) issuance and implementation of improved Procurement Law and regulations; (ii) stronger mandate and support given to the regulatory body (DGCP) in the context of an inter-institutional coordination effort; and (iii) roll out of the new e-procurement system (PanamaCompra) that promotes transparency and competition in public procurement (all central government procurement notices are now being published in the system).

To **reduce business red tape** and stem opportunities for squeezing private companies, Government has pursued the following: (i) creation and operation of the Presidential Secretariat for Governmental Innovation (SPIG); (ii) roll out of an internet portal "Panama Tramita" where information is provided on all the government administrative procedures identified by SPIG; (iii) implementation of five electronic one-stop-shops or inter-institutional internet portals, in which high priority administrative procedures can be performed and information can be obtained about the status of those procedures that are still not available on-line; (iv) creation of mechanisms, through "Panama Tramita," to allow users of Government services to file complaints; and (v) passage of the "Panama Emprande" Law, which simplifies the procedures for starting new businesses.

Medium-term Economic Outlook

16. Panama's economy emerged from a slump in 2003 and has been booming since then, with growth rates averaging over 7.5 percent during 2004-06 (Table 2). This boom has been led by exports of goods and services, which benefited from a worldwide recovery of trade during this period, and has been accompanied by strong private consumption and investment demand. From a sector perspective, the economic recovery has been led by construction, transport and

commerce activities, and most recently by an incipient recovery in financial intermediation. Two sectors that have not exhibited significant signs of recovery since 2002 are agriculture (excluding fisheries) and manufacturing.

Table 2: Panama Medium-Term Macroeconomic Framework

(in % of GDP, unless noted otherwise)

	2003	2004	2005	2006	2007	2008	2009	2010
	-----Actual-----				-----Projection-----			
GDP growth rate (%)	4.2	7.5	6.9	8.1	8.5	8.8	7.9	7.1
Inflation rate (% , average)	1.4	0.5	2.9	2.5	3.7	3.6	3.8	3.9
Gross Domestic Fixed Investment	17.1	16.6	16.8	18.4	22.1	24.3	26.8	28.6
Gross National Savings	20.2	16.7	18.8	17.5	18.0	19.1	19.2	19.1
Open Unemployment (%)	11.4	9.7	8.1	6.8	n/a	n/a	n/a	n/a
<u>Key Nonfinancial Public Sector Indicators</u>								
Revenues (excluding PCA)	22.3	21.1	22.3	25.3	25.6	24.6	24.5	24.3
Expenditure (excluding PCA)	27.0	26.0	24.9	24.8	25.1	24.9	24.9	24.6
Overall Balance, excl. PCA	-4.7	-4.9	-2.6	0.5	0.5	-0.2	-0.4	-0.3
Primary Balance, excl. PCA	-0.3	-0.7	1.8	4.9	4.7	3.5	3.2	2.7
<u>External Sector Indicators and Public Debt</u>								
Merchandise Exports (fob)*	7.7	8.1	8.3	8.6	8.1	7.7	7.4	7.2
Merchandise Imports (fob)*	19.0	19.6	20.5	21.7	23.1	24.7	27.4	29.7
Current Account Balance	-3.9	-7.6	-5.0	-2.2	-5.6	-6.7	-9.1	-11.0
Total Public Debt	67.0	70.4	66.1	57.5	51.7	46.3	41.9	38.0
External Public Sector Debt	50.3	50.9	49.1	45.5	44.2	39.8	36.8	33.8

*Excludes the Colón Free Zone

Sources: IMF and WB calculations.

17. During the initial phase of this boom, fiscal balances exhibited a deteriorating trend. The overall public sector fiscal deficit reached an alarming 4.9 percent of GDP in 2004 and raised Panama's public debt to 66.1 percent of GDP, triggering new concerns about the country's future debt sustainability.¹² This decline primarily reflected a deterioration in the finances of the central government and of the Social Security Institute (CSS), and was mostly due to declines in revenues. Then, a major fiscal correction took place in 2005, reducing the overall fiscal deficit to 2.6 percent in 2005 to near overall balance and a positive primary fiscal balance in 2006. While part of this fiscal adjustment reflected a rise in revenues induced by the strong economic upswing, a considerable part was due to the change in policy parameters, as the Torrijos

¹² Considering that almost all of this debt is on market terms, Panama is ranked as one of the most highly indebted countries in Latin America.

administration moved quickly to restore fiscal stability (through fiscal and pension reform measures)¹³ and reintroduced a broad reform agenda.

18. Economic growth in 2007 is projected to be 8.5 percent, led by the ongoing boom in the construction, commerce and tourism sectors, and fueled by significant capital inflows. As the current dynamism of the real estate markets wanes, investment activities associated with the Panama Canal expansion are expected to take over as the main driver of growth, together with new private investments in complementary activities. Earlier background analyses commissioned by the Panama Canal Authority estimated that the Canal expansion would raise economic growth by roughly one percentage point over the next 25 years. In parallel, the free trade agreement with the United States should gradually begin to exert an effect in terms of encouraging export development and foreign investment in productive activities. Based on these developments, GDP growth is projected to average around 8.1 percent through 2010 (Table 2) – with a trajectory that peaks in 2008 and falling gradually thereafter reaching 7.1 percent in 2010. Nevertheless, the medium-term outlook is still subject to risks as explained in paragraphs 50-55.

19. A debt sustainability analysis carried out by the World Bank in early 2006 under fairly conservative medium-term growth projections had concluded that Panama's consolidated public debt, which stood at 66.1 percent of GDP at the end of 2005 (down from 70.4 percent in 2004), is sustainable (in the sense of placing the public debt ratio on a steadily declining trajectory) if the Government is able to maintain a primary fiscal surplus of 1.6 percent of GDP. Under the current macroeconomic settings, with growth well above the 4 percent used in baseline simulations and with the primary surplus well above 1.6 percent, Panama's debt ratios are projected to decline much faster than previously anticipated. These positive projections are broadly shared by IMF staff in the last Article IV consultation report (January 2007), which estimated that with the current policy framework, the consolidated public debt would fall to about 55 percent of GDP in 2011 (46.5 percent excluding the estimated PCA debt). (See Annex 2 for more details)

20. A frequently raised question in this context is whether Panama's sovereign debt rating will be adversely affected by the proposed Canal expansion project. It should not be. The authorities have excluded the balances of the Panama Canal Authority (PCA) from the public sector fiscal accounts and have indicated that they do not intend to provide sovereign guarantees for any debt that may be issued by the PCA to finance part of the Canal expansion project.¹⁴

¹³ Tax revenues rose by 31% in 2006, or much faster than the growth of GDP, reflecting the impact of the 2005 tax reforms and improvements in tax administration. The pension reform, in turn, halted the financial deterioration of the Social Security Institute, which reported a small surplus in 2006 and whose finances are projected to improve further over the next few years.

¹⁴ However, one cannot discard the possibility that in a hypothetical worst-case scenario an implicit government guarantee would be called, given the Canal's strategic importance for Panama's economy. While this could potentially create a source of fiscal vulnerability, the lack of a perceptible capital market reaction to the government announcement in June 2006 of intentions to proceed with the Canal expansion project, suggests that the markets view any potential increase in fiscal vulnerability as negligible. The PCA has established a long track record of financially sound and profitable business operations, and preliminary estimates indicate that the net surplus currently generated from the Canal operations (net of toll fees and dividends transferred to the central government) are enough to service the increase in PCA debt currently envisaged under the Canal expansion project.

III. Panama -World Bank Partnership

21. The Bank was one of Panama's major development partners over much of the 1990s, a period in which the country made steady progress on structural reforms to open the economy and improve competition, strengthen fiscal sustainability and modernize the state. However, the Bank's engagement dropped off dramatically between 2000 and 2004 as the Government turned away from the Bank and left much of the previous Country Assistance Strategy (FY99-01) unimplemented. The partnership has been successfully rejuvenated through the program of activities that were agreed in the *Interim Strategy Note for the Republic of Panama* (ISN FY06-07) (Box 6).

Box 6. The Panama-World Bank Development Partnership was Rebuilt through a Two-year Interim Strategy

The last Country Assistance Strategy (CAS) for Panama, covering FY99-01, was discussed at the Board in October 1998. National elections were then held in May 1999. Over the next administration (Sept. 1999-Aug. 2004), economic growth and policy reform slowed and the GOP turned increasingly to capital markets for financing, leaving much of the CAS unimplemented. Implementation of ongoing projects languished and policy dialogue with the Bank shrank to a few areas of active lending with decreasing attention to cross-cutting concerns. By the end of FY05, the World Bank portfolio in Panama had shrunk to just three operations of which only about \$60 million was left to be disbursed.

A new administration led by President Martin Torrijos took office on September 1, 2004 and in early 2005 laid out its five pillar development strategy vision (See Box 4). In response to the new administration's interest in World Bank services, a demand-driven 24-month program was agreed as an Interim Strategy Note (FY06-07). The ISN has proven to be a valuable instrument for rebuilding the Bank-Panama development partnership. It allowed the Bank to respond quickly to Panama's renewed interest in Bank services and the ISN's focus on analytical work has given a solid and welcomed foundation both for policy dialogue and preparation of this results-based Country Partnership Strategy.

22. The Interim Strategy put into practice the World Bank's then emerging strategy for Middle-Income Countries; it was driven by the Government of Panama's priorities and supported selected aspects of the new administration's development strategy. The 24-month program provided technical assistance and diagnostic analytical reports to generate knowledge and a more robust policy dialogue focusing on areas of poverty reduction and public expenditure efficiency, which helped inform other activities, including a development policy loan, three poverty focused investment projects, and several ongoing lending operations (Annex 2 elaborates areas of Bank involvement). The Bank determined that it would be premature for it to associate the modest level of activities proposed in the ISN with the wide-ranging medium-term development targets of the Government. So the ISN indicated that its success would be judged in terms of "the timeliness of the analytical work and quality at entry of lending provided, the relevance of Bank services to the Government's development strategy and policy formulation, the performance of the Bank's portfolio, and the Government's interest in a continued partnership with the Bank." (p. 21 of the ISN).

23. The success of the ISN has been reviewed in light of the criteria it set forth. The quality, timeliness and strategic relevance of ISN analytical reports were assessed by the World Bank's Quality Assurance Group (QAG) through a "Country AAA Assessment" that was completed in

April 2007.¹⁵ The three investment projects were prepared. None has been formally reviewed for “quality at entry” by QAG; however, all received high marks on quality from internal reviewers and also from Government counterparts. The performance of the portfolio has been assessed using standard indicators, including project ratings and disbursement performance. From the Government’s perspective, the ISN has contributed to some of its most important policy and program initiatives. This section reviews progress made under the ISN, discusses what worked well and what worked less well, explores lessons and the Bank’s comparative advantages and notes the other development partnerships supporting Panama.

24. The ISN activities have been supporting key elements and programs of the Government of Panama’s five pillar strategy to help achieve its poverty and inequality reduction targets. Table 3 highlights recent Government program advances to which World Bank supported lending and non-lending activities have contributed. (Annex 2 elaborates on sector challenges, Government response and Bank contributions).

Table 3: Highlights of Government Program Advances to which the ISN Contributed

Panama 2004-2009 Strategic Vision			
Pillar I Reduce Poverty and Inequality	Pillar II Promote Economic Growth and Employment	Pillar III and V Reform Public Finances and Modernize the State	Pillar IV Develop Human Capital
Highlights of Program and Policy Advances to Which the World Bank Contributed			
<ul style="list-style-type: none"> • Poverty maps updated and used to target social assistance • Well targeted CCT program launched under the <i>Red de Oportunidades</i> • Rural land regularization advanced: 6,300 rural properties in Chiriqui, Veraguas, and Bocas del Toro surveyed, and two indigenous areas consolidated • Protected areas formalized and management improved • Export growth orientation to rural productivity support 	<ul style="list-style-type: none"> • Free trade agreements negotiated with US and also with Chile, Taiwan, Singapore • Significant improvements made in macroeconomic statistical databases and information systems for patents, trademarks and technical regulations • Urban transport policy developed 	<ul style="list-style-type: none"> • NFSP deficit below 1% of GDP in 2006 • Consolidated public debt below 58% in 2006 • Improved availability of public information on fiscal performance • Significant decline in end of fiscal year outstanding accruals of central government expenditures • Introduction of a medium-term budget framework • Passage of Law 22 which modernizes procurement practices • 90% of public offices publish purchasing activities in PanamaCompras (transparent e-procurement system) 	<ul style="list-style-type: none"> • Preschool coverage expanded from 31% in 2004 to 55% in 2005 through the expansion of non-formal approaches • Access to primary and secondary education expanded in poor rural and indigenous areas through scholarships and distance education programs • Inter-cultural bilingual education was advanced for the three main indigenous groups (Kuna, Ember and Ngobe)

¹⁵ The Assessment covered from FY02 through mid-FY07. It covered five tasks, including 4 of the 5 pieces of analytical work that were included in the ISN (the Country Economic Memorandum/Investment Climate Assessment was excluded as it was still in early stages of preparation). The assessment was done in two phases, in Washington and in the field using standardized questionnaires.

What Worked Well

25. Performance of projects under implementation improved dramatically during the ISN period. Credit can be given to World Bank and Government teams for acting on the lessons that were identified in the ISN (see Table 4). Disbursements hit all time highs¹⁶ as GOP counterparts worked with Bank supervision teams to uncover sources of delays in procurement and financial management processes, concurrent with prioritized attention by the Government to improve the transparency and efficiency of these systems. Systemic issues uncovered at the project level fed back into policy discussions with the Government, as well as the comprehensive CFAPAR which was jointly prepared by the World Bank and IDB. Bottlenecks and inefficiencies were being dealt with simultaneously at the project and the policy level. Lending is again increasing. The portfolio rebounded from three to seven projects by July 31, 2007 with undisbursed commitments of \$134 million.¹⁷

Table 4: Actions Taken on Lessons Identified in the ISN (FY06-07)

Lessons Identified in ISN¹⁸	Actions Taken
Counterpart funding allocations, often lacking or inconsistent, must be adequate and reliable to ensure projects are implemented under agreed schedules	<ul style="list-style-type: none"> ✓ Country Financing Parameters adopted ✓ GOP fiscal reform and economic boom have eliminated counterpart funding constraints
Cumbersome and lengthy internal procurement and/or payment authorization procedures should be streamlined and/or factored into project plans	<ul style="list-style-type: none"> ✓ GOP attention to systematic PFM issues has improved operating environment ✓ Intensive supervision has helped identify and address internal bottlenecks, feeding back into PFM reform discussion ✓ Partnership with the Controller General is helping improve the efficiency of ex-ante review
WB teams should improve planning to address staff turnover and associated lack of familiarity with individual projects and Bank procedures	<ul style="list-style-type: none"> ✓ Systematic training on WB procedures has improved performance
To enhance project impact and outcomes, projects should focus on systemic and sector-wide issues and consider sector-wide approaches	<ul style="list-style-type: none"> ✓ Enhanced policy dialogue through AAA has brought sector-wide issues to the table and these are being taken up in project designs

26. The program had strategic relevance; analytical reports were of high quality and their policy impact was enhanced because of their strategic coherence. The QAG Country AAA Assessment for Panama gave high marks to the ISN analytical work for “strategic relevance” and “coherence and integration”.¹⁹ The common and inter-related themes of the analytical work that was undertaken were well integrated and brought significant coherence and integration to the overall ISN program. In addition, several reports were ranked highly satisfactory for “internal

¹⁶ The disbursement ratio for investment projects more than doubled from 10% in FY05 to over 30% in (FY07).

¹⁷ Land Administration, Basic Education 2, Public Policy Reform TA, Rural Productivity (GEF), Rural Productivity (IBRD), Social Protection, and Water Supply and Sanitation to Low Income Communities.

¹⁸ The lessons were drawn from the World Bank Operations Evaluation Department (since renamed to the Independent Evaluation Group) project evaluations, Country Portfolio Performance Reviews and Implementation Completion Reports.

¹⁹ These two dimensions are rated “highly satisfactory” with a mark of 1 on a 5 point scale.

quality” and “likely impact” and the program’s overall “internal quality” and “likely impact” was judged to be satisfactory. QAG noted the central role the analytical reports played in shaping the lending operations; including underpinning the policy dialogue for the Public Finance and Institutional Development Policy Loan (DPL). QAG also commended the significant technical assistance that took place during preparation of several reports which contributed to the design of emerging programs and legislation, including the *Red de Oportunidades* and the procurement law, among others.

27. At the end of the day, the success of the ISN is best judged by the Government’s interest in continuing its partnership with the Bank. The Government has asked that the program continue, that annual lending be increased and that the Bank expand its presence by opening a country office in Panama. In particular, the Government has praised the responsiveness of the Bank to the administration’s development strategy and the contribution of analytical and technical assistance from the Bank.

What Worked Less Well

28. Knowledge generated from World Bank supported activities was not well disseminated outside Government circles during the ISN period. “Consultation, participation and dissemination” received the lowest mark from QAG, obtaining only a “moderately satisfactory” rating. The Bank agrees that while most aspects of the ISN program exceeded expectations, the ISN consultation strategy fell short. That said, the potential for greater dissemination in the future is promising. During consultations on this new CPS, the authorities indicated their interest in publication of all completed ISN reports by September 2007.

Development Partners

29. **In recent years, the Inter-American Development Bank (IDB) and the Agencies of the United Nations have been Panama's most active development partners**, complemented by modest, targeted support from a few bilateral aid agencies (Annex 3). Panama’s partnership with IDB represents the largest donor assistance package, with an active portfolio in early 2007 comprising 28 loans with commitments of US\$865 million of which US\$403 million was undisbursed. The IDB is active in multiple sectors to help boost country competitiveness, develop human and productive capital, and strengthen governance and transparency, including help to build modern public financial management institutions. Activities supported by the United Nations Development Programme (UNDP) in Panama target democratic governance, poverty reduction, energy and the environment, crisis management, and HIV/AIDS. The Andean Development Corporation (*Corporación Andina de Fomento*, CAF) has directed its support to road infrastructure projects, including a US\$80 million loan in 2005 to widen the road between Arraiján and Chorrera and rehabilitate a portion of the Transisthmian Highway. Bilateral assistance has been more modest. Recent grants from JICA and USAID have supported agricultural development, improved monitoring of water quality, watershed conservation, anti-corruption programs, free trade, and indigenous communities. Since 2001, the European Union has also provided limited aid to strengthen Panama’s economy, promote democratic institutions, and support social development.

Box 7. Lessons and Recommendations from the Quality Assurance Group (QAG)

The QAG Country AAA Assessment identified several lessons which can be grouped into three main points:

- ✓ A long-term view of the relationship with the client is needed. The Bank should aim to maintain a presence in the country through AAA even during periods of less active partnership, including cyclical reductions in demands for financing. In this way, the Bank will be ready to provide financial assistance promptly, should the need arise.
- ✓ Engaging a client like Panama requires balance between technical expertise and diplomatic skills to avoid the impression of “imposing solutions” that may alienate the client. The dialogue with Panama should be seen as a dialogue of equals, incorporating the views and priorities of the country. The partnership strategy and programs may need to be revisited frequently to maintain their relevance.
- ✓ Reports should include two page executive summaries on the conclusions and recommendations to make them more accessible to Ministers and other senior policy makers.

Based on its extensive in-country consultations assessing the Bank’s AAA program, QAG proposed the following priorities for analytical work under the new CPS: (a) an analysis of urban development requirements for the Panama City Metropolitan Area, particularly as they relate to the orderly development of Panama City and its relationship to the urban poor; (b) sector and analytical work intended to identify solutions needed to strengthen the quality of education; (c) sector analytical work to identify options on how best to integrate the health services of the Social Security Institute and the Ministry of Health; and (d) preparation of a set of Policy Notes for the incoming 2009 administration.

30. The World Bank together with the Inter-American Development Bank and the United Nations Development Programme (UNDP) have employed an array of approaches to complement and collaborate with each other. For example, The IDB and the Bank are supporting the *Panama National Land Administration Program (PRONAT)* through joint land administration projects operating out of same government project coordination unit under common technical standards. Both institutions are supporting land titling and regularization, but in distinct geographic areas. In addition, the IDB is more involved in big city urban land policy issues and the Bank more in rural and protected area land policy. Another area of close collaboration has been in support to the *Red de Oportunidades* where the Bank and the IDB are providing parallel financing using harmonized fiduciary, procurement, and monitoring and evaluation systems. Joint preparation missions led to harmonized project designs and the synergistic realignment of ongoing IDB operations in health and education. The Bank and the IDB also jointly prepared the 2007 CFAPAR with technical assistance provided by both agencies under ongoing TA loans (each covering different beneficiary agencies). For the 2007 Poverty Assessment, the Bank worked closely with UNDP to harmonize policy recommendations and poverty assessment methodologies and indicators.

31. The IMF conducts Article IV reviews on a one year cycle. The last review was discussed by the Fund’s Board on February 16, 2007. The IMF provided comments on review drafts of analytical reports and the *Public Finance and Institutional Development Policy Loan (FY07)*.

World Bank Potential Added Value

32. The Bank has the potential to add value in Panama based on its historical involvement in particular sectoral areas in the country and also from its knowledge and experience in the region and globally. The Bank has a strong reputation for the quality and relevance of analytical work

and technical assistance and it has established a recent strong track record of proactive supervision that has supported building local capacity. Table 5 identifies sectoral areas in which the Bank has supported Panama in some significant way between 1990-2006 (these are also areas where the Bank brings significant experience from other countries), and also lists important development areas where the Bank has gained experience working in other countries, but has had no hands-on experience in Panama.

Table 5: Areas of World Bank Potential Added Value

Areas of Bank involvement in Panama 1990 to mid-2007	New areas in which the Bank has gained relevant experience in other countries
Poverty analysis and monitoring	
National health policy, hospital management, rural preventative health services and rural water and sanitation	Nutrition services to remote areas
Conditional cash transfer social assistance	
National education policy, quality and coverage of primary education, bilingual education, non-formal pre-school	Worker training and quality and coverage of secondary education
Urban transportation policy and sector management and urban and inter-urban road rehabilitation and maintenance	Dedicated public transport bus lines
Environment and natural resources management, including biodiversity conservation	Country environmental analysis
Land tenure policy for rural areas, land titling and administration, including for protected areas, community-driven livelihood projects in rural areas, rural competitiveness	Sustainable tourism and land access
Macroeconomic stability, debt relief, more open trade and enhanced competitiveness, utility privatization	Debt management
Modernization of public financial management systems and institutions	

Consultations

33. Panama engages democratic processes in the development of public policy. In addition to democratic elections – which indicate public preferences for the policy platforms of parties and candidates – the Government makes use of various means of consultation to develop reforms and reach agreement. Recent examples include the multi-party negotiations undertaken to conclude a pension reform, the national referendum on the Panama Canal and the on-going “*Concertacion Nacional Para el Desarrollo*”.²⁰ The proposed CPS program was developed in close dialogue with Panamanian authorities over a period of about six months, including visits, exchanges of letters and reviews of draft documents. The program is comprised of the activities requested by the Government, taking account of Bank administration resources and the importance of maintaining the program’s strategic coherence and integration (which enhances its value to Panama).

²⁰This forum for National Dialogue for Development (facilitated by the UNDP) between the Government and a wide range of social organizations, including representatives of indigenous peoples, is aimed at agreeing on a long-term strategy for economic development and poverty eradication. Central to this strategy is prioritizing the use of additional revenue generated by expansion of the Panama Canal following its expected completion in 2014. See Annex 5 for details.

34. Formal consultations of the proposed CPS program were held in Panama on June 28-29. These included consultations with various stakeholders and meetings with Government authorities (see Annex 5). Of note, the authorities explained that the current administration plans to conclude all major policy undertakings by end-December 2008 (to permit a period of stocktaking and preparation for the transition to the new administration which would take office July 1, 2009 following May 2009 elections.) As such, they asked that the DPL series conclude with end-2008 outcomes for which they would be accountable. While the CPS could also include an option for a follow-on DPL with the incoming administration, they noted that any policy actions which might be undertaken by the incoming administration could not be pre-determined by the current administration.

IV. Panama -World Bank Partnership Strategy (FY08-10)

35. The Country Partnership Strategy aims to provide selective, demand driven assistance that deepens the Panama-Bank partnership and helps the Government achieve its poverty and inequality reduction goals. The CPS supports four objectives which aim mainly to support the two less developed facets of Panama's three-faceted economy and are aligned with the pillars and goals of Panama's 2004-2009 Strategic Vision (Table 6). As requested by the Government, the Bank will provide technical, financial, analytical and capacity building assistance to specific Government policies and programs which contribute to the partnership objectives. The program is designed to consolidate and strengthen the notable strategic integration that worked so well under the ISN by focusing on a limited number of interrelated objectives and by making institutional capacity building a cross-cutting theme. In addition, the program anticipates that there will be a change in Government on July 1, 2009, and is set up to help provide the new Government with information on policy issues as well as access to immediate financial and technical support to bridge until a new Partnership Strategy is agreed.

Table 6: CPS Program Objectives and Select Areas of Action

Panama 2004-2009 Strategic Vision			
Pillar I Reduce Poverty and Inequality	Pillar II Promote Economic Growth and Employment	Pillar III and V Reform Public Finances and Modernize the State	Pillar IV Develop Human Capital
Broad objectives to which the CPS will contribute			
<i>Reduce poverty, especially among rural poor and indigenous groups</i>	<i>Promote broad-based economic growth</i>	<i>Establish modern PFM systems and institutions</i>	<i>Improve health, nutrition, and education attainment of the poor</i>
Selected Programs for Support			
<ul style="list-style-type: none"> • Poverty monitoring & social assistance targeting/administration • <i>Red de Oportunidades</i> program • Land tenure security and access for the rural poor • Competitiveness of small-scale rural producers, including access to rural finance • Sustainable use of the Atlantic Mesoamerican Biological Corridor 	<ul style="list-style-type: none"> • Reduce costs for doing business and improve competition through streamlined procedures and on-line processing • Market-oriented worker training • Technical innovation support • More efficient urban transport in Panama City including mass transit for the urban poor • Sustainable tourism outside Panama City 	<ul style="list-style-type: none"> • Fiscal sustainability • Financial management systems and fiscal transparency • Comprehensive public procurement reform • Efficiency and effectiveness of fiscal oversight • Debt management and debt market development • Tax administration 	<ul style="list-style-type: none"> • Water and sanitation coverage for the rural poor • Supply of integrated package of basic health and nutrition services • Quality and coverage of preschool, basic and secondary education
Cross-cutting themes			
Strengthen institutional capacity in Government entities executing Bank-financed projects to plan more strategically through improved monitoring; execute projects effectively through more efficient public financial management systems and practices; and strengthen project sustainability.			
Plan for and engage through the national Government transition with analysis and offers of financial and technical support.			

Results Orientation and Monitoring

36. The results orientation of this CPS is present in two dimensions. One dimension is continued support in the development of Panama's national statistical systems, including help *to strengthen national monitoring systems* and support better *coordination in collection and use of data by line-ministries*. Strong national statistics systems are an essential building block of development accountability. Here the Bank will continue to support the Controller General and the Ministry of Economy and Finance under the Public Policy TA loan to improve the quality of macro-economic indicators and the content of budgetary and fiscal data in line with international best practice and to conduct and institutionalize the household living standards measurement survey. The Bank, which has been executing multi-donor funds to support national statistics development in the past, will also continue to help build a comprehensive national statistical system with support from the UK Department for International Development (DFID) (Box 8). Direct support will also be provided to the Ministries of Education, Health, Social Development and Agriculture to strengthen their abilities to collect and use data in coordination with Panama's National Department of Statistics and Census through institutional strengthening components in the Bank-financed loans. Progress in this dimension will be monitored in the context of the individual operations.

Box 8. Panama's National Strategy for Development Statistics Advances with Bank Support

Over 2005-2006, Panama's National Department of Statistics and Census, which operates under the Controller General (The *Dirección de Estadística y Censo* or DEC) has worked to prepare a National Strategy for Development Statistics with support from the World Bank's MECOVI Program.²¹ The national strategy is proving a useful tool to promote greater use of evidence-based policies through better measurement of living conditions and stronger linkages among the national M&E systems, but much work remains to fully implement the strategy.

One of the main challenges to modernizing Panama's national statistical system is to update the legal framework. The existing Law, which is 47 years old, is outdated and insufficient to regulate the new and complex challenges of statistical development. A new law has been prepared that would help underpin the new National Strategy and would provide for clearer coordination within the institutions that comprise the national system. DEC expects that the new Law will be approved by the end of 2007.

37. The second related "results" dimension is the identification and tracking of specific milestones and outcomes that the World Bank program is designed to support over the next 2-3 years. This dimension is intended to help assess the impact of Bank-financed operations. A summary of CPS activities associated with the four CPS objectives and the approach that will be used to monitor the results those activities will support follows. Annex 2 describes the CPS activities in greater detail and Annex 4 elaborates the outcomes and milestones the activities are expected to support.

- ***Reduce poverty, especially among rural poor and indigenous groups.*** Expected impacts associated with this objective and monitoring approaches are set out in on-going and recently

²¹ The MECOVI (*Mejoramiento de las Encuestas de Hogares y la Medición de Condiciones de Vida*) program supports the strengthening of national statistical systems in the LAC region with technical and financial support. Support to Panama was part of a \$400,000 initiative financed by the World Bank through the Trust Fund for Statistical Building (TFSCB) that included six Central American countries.

approved Bank-financed projects. Under this objective, the CPS program is focused on results in two broad areas: improving the targeting and effectiveness of social assistance, including support to the *Red de Oportunidades* and supporting sustainable increases in rural productivity. The first area is supported by the recently approved Social Protection project and Public Policy Reform TA loan. A Poverty Assessment will complement work planned under the TA loan and its impact would be captured through the TA loan indicators. The area of sustainable rural productivity is supported by the on-going Land Administration project and the recently approved Rural Productivity Project and its GEF counterpart, which funds sustainable use of the Atlantic Mesoamerican Biological Corridor. A Rural Microfinance project will be designed to support sustainability of outcomes in the land and rural productivity programs. Follow-on social protection and land projects will be prepared to build from impacts that are achieved in this CPS period.

- ***Promote broad-based economic growth.*** The Bank program will be active in three broad areas that contribute to this objective: helping to make the national-level business environment more competitive (focusing regulation – including more transparent and streamlined regulation processes, worker training and innovation support), urban transport planning in Panama City including mass transit infrastructure, and sustainable tourism outside Panama City which would focus on policy, the business environment and infrastructure needs in particular local areas. The first area will be supported by the DPL series and the on-going Public Policy TA loan, which are underpinned by the 2008 CEM. The programmatic DPL series will be used to further develop and track progress towards, and attainment of specific milestones and outcomes. Urban transport is expected to be influenced by the recently completed TA and monitoring of its impacts would be done in the context of the planned loan. The planned Sustainable Tourism project would develop the framework for assessing impact, and is expected to be in part guided by the planned Country Environmental Analysis and is also likely to have links to the Rural Microfinance project.
- ***Establish modern public financial management (PFM) systems and institutions.*** The various interrelated areas covered by this objective and the expected outcomes that the Bank program is designed to support will be tracked through the programmatic DPL series. Improved PFM systems are an important foundation for reaching the poor through more efficient delivery of social assistance, for broadening economic opportunity through more efficient provision of services needed for businesses to compete, and for reducing opportunities for corruption to occur. Technical assistance will come through the Public Policy TA loan and the Debt Management Technical Assistance program (provided by the Bank's Treasury Department), drawing from the CFAPAR. Both TA activities include impact indicators and monitoring frameworks.
- ***Improve the health, nutrition, and education attainment of the poor.*** The CPS program will contribute to this objective in four ways: expanding access to basic *health* and *nutrition* services for poor families (through the recently approved Social Protection project and through the planned Health project), increasing the supply of sustainable clean water and sanitation in low-income communities (through the recently approved Water Supply and Sanitation to Low-Income Communities project), and various interventions to improve education and access from pre-school through secondary school (through the on-going

Second Basic Education and the planned new education project). Panama is also a beneficiary of the Central America regional AIDS project which focuses on enhancing regional diagnostic and surveillance capacity. Human development interventions are being designed to help the country improve performance on lagging MDGs as they relate to Government targets. In all cases, specific milestones, results indicators and monitoring frameworks are built into the lending operations.

Capacity Building for More Effective Public Spending

38. Aligned with the World Bank's middle income strategy and the expectations of the Government (Box 9), the CPS emphasizes building local capacity in line-ministries and agencies as a cross cutting theme. This ranges from fortifying counterpart ministries' capacities' to plan strategically and monitor for results, to executing projects more efficiently while ensuring their sustainability. The approach to capacity building draws from the full range of CPS instruments. On the one hand, the Bank will continue to assist the Government through analytical reports and capacity assessments to understand the strengths and weaknesses of systems and institutions it seeks to modernize generally and support the Government in implementation of its reform plans with lending and non-lending technical assistance and policy advice (including on the PFM front with assistance to MEF, the DGCP and CGR; on the M&E front with support to DEC; and on the environment front through the planned Country Environment Analysis). At the same time, the Bank will continue to assess the specific capacities and possible needs of agencies and ministries that are counterparts in Bank-financed operations, building in project components and designing project implementation approaches that make use of their strengths and help shore-up weaknesses. Here, the Bank will also give special attention to capacity building as part of supervision. Over time, this two-tiered approach aimed at strengthening country systems and building capacity within Ministries to implement them effectively is allowing for increased reliance on those very systems, creating a virtuous cycle. Using local systems to implement foreign financed projects has the potential of making them stronger as a consequence. For example, recently approved Bank-financed lending operations will use Panama's national accounting instrument, *SIAFPA*, for project accounting, which, in turn, with Bank support, is leading to more efficient use of this tool in the Ministries.

Box 9. GOP Favors Building Local Capacity Over Use of Financial Agents

The strategic focus of the Ministry of Economy and Finance and the Controller General on building efficient and modern public finance systems and institutions gave rise to a Government re-think on the use of financial agents to support foreign-financed project implementation. Both entities concluded that use of agents was not only costly, but was also perpetuating weak Government capacity. Drawing from global experience, the Bank has provided technical assistance to MEF and the CGR to support the development of a strategy to systematically increase the use of country procedures and systems in foreign financed projects concurrent with measures to strengthen them. As local capacity continues to improve and local systems approach international norms, the use of parallel systems would, in step, be gradually phased out. Before the end of 2007, MEF and the CGR are expected to require prior approval and justification for use of financial agents in future foreign funded operations, reversing what had become standard operating procedure.

World Bank Lending

39. Given Panama's status as a high-performing middle-income country, low exposure to IBRD and strong portfolio performance, the Bank will make available \$390-\$465 million over

FY08-10. These resources are expected to rebuild Panama’s portfolio of World Bank financed projects to help the Government achieve measurable outcomes in areas it has designated. As requested by the Government, new financing would be split between Development Policy Lending (DPL, up to \$75 million per year), 7 new poverty-focused investment projects and one new policy reform technical assistance loan.²² The preparation schedules of the new investment and TA loans are either aligned to closing schedules of on-going projects; set to generate synergies with other projects (e.g., Rural Microfinance with Rural Productivity, Land and Tourism) or enable coordination with IDB project preparation schedules (e.g., Sustainable Tourism); reflect long preparation lead times (Urban Transport); or are meant to meet possible financing needs of the new administration (Policy TA 2).²³

40. The proposed programmatic DPL series will support Government designated programs under two CPS objectives: promoting broad-based economic growth and establishing modern public financial management systems and institutions; program areas where the Government and the Bank have established a policy dialogue grounded in Bank-supported analytical work and where the World-Bank financed TA loan is providing technical assistance and capacity building support.

In accordance with World Bank policy, should Panama’s macro-economic outlook unexpectedly deteriorate, development policy lending and, consequently, the overall lending envelope would be recalibrated as appropriate.

41. The proposed DPL series would continue support for the medium-term objectives included in the *Public Finance and Institutional Development Policy Loan* (FY07), which was done as a stand-alone operation in the context of the ISN, and add an additional set of objectives related to measures that are designed to improve Panama’s competitiveness. Building from the FY07 Public Finance and Institutional DPL, the series would continue support for progress in consolidating and sustaining fiscal discipline and increasing the transparency and efficiency of public resource use. The continued advances and remaining challenges in public financial management modernization are described in Box 10. In the area of competitiveness, the DPL will support the GOP’s strategy to maximize the gains from trade through a complementary

Table 7: CPS Lending Program	
(Est.Amt.US\$m)	
FY08	
Competitiveness and PFM DPL I	\$75
Education III	\$30
Health	\$30
<i>Total FY08</i>	<i>\$135</i>
FY09	
Competitiveness and PFM DPL II	\$75
Land Access	\$45
Rural Microfinance	\$25
Sustainable Tourism	\$30
<i>Total FY09</i>	<i>\$175</i>
FY10	
<i>Optional FY 10 DPL</i>	<i>[\$75]</i>
Social Protection II	\$20
Urban Transport	\$50
Public Policy Reform TA 2	\$10
<i>Total FY10</i>	<i>\$155</i>
Total Lending FY08-FY10	\$390-
	\$465

²² Low World Bank lending exposure in Panama is a result of periods of low lending activity, including the recent 2000-2004 hiatus. Lending envelopes and their composition for future CPSs would take account of portfolio size and exposure as they grow, among other factors.

²³ As circumstances unfold, the Bank together with the Government may agree to modify the lending pipeline to ensure that Bank support is adding value to the Government's program. Should critical reforms in one sector stall, the Bank and Government could agree to shift Bank resources to another area showing more immediate promise. In the highly unlikely event of severe adverse developments on the macroeconomic or policy front, lending would be reduced. Any adjustments would be noted in the Progress Report.

agenda that aims to broaden the base of economic activity by reducing bureaucratic red tape, lowering barriers to domestic competition, training workers and increasing private sector productivity through programs to support innovation and technology adoption.

42. As requested by the Government, the series would support outcomes that could be attained by December 31, 2008 through two DPLs: *Competitiveness* and *Public Financial Management DPLs I & II* (FY08 and FY09). These would reflect political advances and achievements through the final full fiscal year of the current administration. An optional FY10 DPL would be made available to the new administration. Should the new administration choose to access the optional FY10 DPL, it would be based on prior actions that would be designed to extend some key outcomes in areas supported by this CPS. The new administration would, of course, also have the option of developing a new DPL series with the Bank in the context of a new CPS, or of pursuing other forms of support as it would see its requirements.

Box 10. Public Financial Management

The performance of public financial management (PFM) systems including public procurement is a critical factor for fiscal discipline, strategic allocation, operational efficiency and transparency in use of public funds. The Bank's 2007 Country Financial Accountability and Procurement Assessment Report (CFAPAR) concludes that the PFM system in Panama possesses a number of strengths that contribute to fiscal discipline control, such as legal powers to contain budgeted expenditures, timely monitoring of budget execution data and cash flows, centralization of revenues, and adequate debt management. However, as implied by the Government strategy's pillar III, Reform of Public Finance, certain key institutional issues require and are also now getting attention.

The cited qualities provide a good base to continue advancing in the areas where there is room for improvement. With respect to the fiscally sustainable strategic allocation of resources, the initiatives underway to develop a medium-term budget framework should continue, with particular emphasis on the operational and transparent reconciliation of the "top-down" fiscal framework and the "bottom-up" budgeting process (i.e., costed strategic plans with aligned investment programs), and on better control of in-year budget modifications to enhance the credibility of the original budget as the main tool for policy implementation.

In terms of operational efficiency, government procurement could be optimized under the framework of a comprehensive public procurement strategy comprising, among others, cost reduction strategies (price benchmarking, consolidation for economies of scale) and more efficient procedures (including basic tools such as standard documents, manuals and guidelines). The Government is actively moving in that direction with the aid of a recently approved modern legal procurement framework. On the other hand, transactional controls (both ex-ante fiscal control and the entities' own procedures) could be streamlined and applied on the basis of risk management considerations, and complemented by strengthening external audit capacity. The Office of the Controller's General (CGR) is paying increasing attention to modernization of ex-ante and ex-post controls as central pieces to its multi-annual strategic plan. The Ministry of Finance, in turn, is strengthening treasury and information systems to reduce payment arrears.

Concrete actions have been taken recently to enhance transparency of public finances, such as the increase in information that is made publicly available and the legal protection given to rights of access to that information. These are good foundations to continue improving public financial information, with a view to reaching convergence with international practice, in areas such as tax and payment arrears, quality of financial statements, and coverage of financial audits. Progress has also been made with the operation of the electronic procurement system (*Panamacompra*), which, under the adoption of a strategic plan to complete its development and implementation, will help ensure a smooth transition to an electronic public procurement marketplace.

43. Along with a technical assistance package on debt management and debt market development, the Treasury Department will advise the Government on how to take advantage of the full array of IBRD financing and risk management products. For example, IBRD banking

products could provide flexibility to Panama in managing its debt, including the ability to change the financial characteristics of existing and future loans to better manage the financial risks relating to interest rates, rollover and commodity price volatility. Panama has an increasing portfolio of fixed-spread loans (FSLs) with the Bank, but has yet to take full advantage of the embedded risk management tools included in the FSLs that address interest rate risks and commodity price volatility. Furthermore, as Panama's loan portfolio with the Bank includes fixed-rate single currency loans and variable-spread loans, the Government may want to consider signing an International Swaps and Derivatives Association (ISDA) Agreement with IBRD, thus gaining access to a range of banking products to manage the interest rate and currency risks of these types of loans. An ISDA Agreement may also provide Panama access to hedging products for debt contracted with other financial institutions.

Analytical and Advisory Services

44. Given the breadth of analytical work done over the last two years, this stage of the partnership aims to build more in-depth sectoral analysis into programs that are supported by loan financing, as part of the emphasis on local capacity building. Such studies will address various education and health topics. In addition, the preparation of two new cross-cutting analytical reports will be led by World Bank staff in FY09, a *Poverty Assessment* and an *Urban Development Study*. The urban study will focus on poverty and related infrastructure, service delivery and potential social issues of urban development. As has been the tradition with past Poverty Assessments, these studies will be done to support capacity within Government counterparts, including direct technical assistance related to immediate policy priorities. A *Country Environmental Analysis* will review the state of existing country environmental safeguards and help support the preparation of a sustainable tourism project. Panama will also be included in at least one regional study that is planned for FY08-FY10: a study of **rural microfinance**.

45. The analytical and advisory program also includes preparation of policy notes that will cover areas of World Bank engagement as a tool for informing policy discussions leading up to and following the 2009 national elections. The goal is to provide objective technical views on progress, challenges and policy options. The World Bank will seek to coordinate policy messages with other key donors, including the IDB, IMF and UNDP. Finally, with the opening of a Country Office, the Bank will work to foster closer ties to civil society and other non-government institutions to enrich the quality and potential impact of analytical reports and advice.

IFC Activities

46. IFC will continue to focus its operations in the financial and infrastructure sectors to help improve access to finance for underserved segments of the population, and on projects that promote growth in line with the second CPS objective (*promoting broad-based economic growth*). IFC will also look for opportunities in the extractive industry sector where IFC would bring value-added in terms of improved environmental and social practices, better revenue generation, and good benefits for local and surrounding communities also in line with *promoting broad-based economic growth*. Finally, IFC will maintain its overall interest in supporting

institutions that have a regional focus rather than a country level focus, so that small economies in the area would benefit from economies of scale in various aspects, including physical and financial infrastructure.

Donor Harmonization and Coordination

47. The Directorate of Technical Cooperation at the Ministry of Economy and Finance is responsible for donor coordination. This Directorate also serves as the liaison for non-reimbursable technical assistance used in the preparation of Bank-financed investment projects. Staff from the Directorate of Technical Cooperation regularly engages in work program planning with Panama's various development partners on an individual basis, ensuring that the Government's strategic needs are being met. Donors then coordinate amongst themselves in complementary or overlapping program areas.

48. As the size of the World Bank program in Panama grows, coordination and harmonization will become an increasing focus, especially with the IDB to ensure synergies among the lending programs. This will be aided by the opening of a World Bank Country office in Panama City. As part of the consultations for preparation of this CPS, the Bank and IDB have gone through the CPS program to identify areas of potential synergy and agreed on collaboration approaches in both lending and non-lending activities. These range from consultation between IDB and World Bank teams to support program synergies, to joint project preparation or supervision of projects in a common sector. (See Table 3 in Annex 3).

Risks

49. The staged approach of stepped up partnership with Panama, building from an Interim Strategy (FY06-07) to a full Country Partnership Strategy, has facilitated the tailoring of program commitments to evolving developments while reducing risk. Panama is in a stronger macroeconomic position than it was when the ISN was agreed, and the political situation has also proved conducive to advancing on policy reforms in line with the administration's *Strategic Vision*. In addition, the majority of activities proposed in this CPS have a strong foundation in on-going work, including strong portfolio performance.

50. Though macroeconomic vulnerabilities have diminished as growth has accelerated, debt has fallen as a share of GDP, and fiscal balances have improved, the medium-term outlook is not completely without risks. The strategy takes into account potential risks in three areas: economic, political and portfolio performance.

51. **Economic:** Panama is currently experiencing a major economic boom, in part fueled by external resource inflows, especially in the real estate market. This raises the possibility of overheating the economy and of introducing various distortions in the form of real exchange rate over-valuation and raising real wages above levels supported by productivity growth. But, by keeping the economy open and extending the openness through free trade agreements, including with the United States, the pressures on the economy are expected to be relieved. The Bank is supporting the Government in analysis of economic challenges and possible actions in the Country Economic Memorandum, a draft of which will be discussed with Government in late

2007 for completion in 2008. At the sector level, there is the risk of rapid urbanization that is outpacing the Government's urban planning and regulatory capacities, as well as its ability to provide adequate public infrastructure. As requested by the Government, the Bank will prepare a study of Urban Development to contribute to the discussion of possible actions and priorities. In addition, just as the country's openness and economic structure have allowed Panama to benefit from the recent global upturn, the country is vulnerable to an economic global slowdown which could have a negative impact on canal trade, exports and related economic activities.

52. The expansion of the Canal is a large undertaking and thus raises the possibility that completion of the project will exceed the budget, or that Panama Canal Authority revenues will fall short. This could potentially increase borrowing needs and increase demand for materials and labor in what is already expected to be a tight market. However, the authorities are confident that the thorough preparations mitigate strongly against this possibility and ensure that construction costs will not surpass projections. The budget estimates include contingencies of 20 percent to deal with unforeseen events and price escalations. In addition, effective July 1, 2007, the Canal Authority raised tolls. This will generate an estimated \$1.3 billion in additional revenue between 2007-2014 (beyond original financing plans) with scope for future increases as needs arise. The Bank will support the Government in monitoring fiscal sustainability and potential vulnerabilities through the CEM and the DPL series.

53. Another potential source of vulnerability is Panama's relatively high level of external debt. This potentially renders the country vulnerable to increases in international interest rates or otherwise tighter capital market conditions. This risk, however, is offset to a considerable extent by three factors:

- The Government's sound fiscal management which has led to substantial primary surpluses causing debt to decline. The Bank will continue to support the Government in these areas through the DPL series.
- Panama has considerable reserves and assets which offset its debt liabilities. For example, Panama's Trust Fund for Development (*Fondo Fiduciario*), which was established in 1995 with funds collected from privatization of public enterprises and the sale of some reverted areas had assets equivalent to 8.5% of GDP in 2004. The Canal itself is another significant Government asset. These contribute to a substantially lower net debt.
- The Government has been improving debt management and will continue these efforts with technical assistance from the Bank's Treasury.

As noted under the lending discussion (para. 39-43), in the highly unlikely event of severe adverse developments on the macroeconomic or policy front, development policy lending would be recalibrated and overall lending would be reduced.

54. **Political:** President Torrijos enjoys wide popularity and is supported by a majority in the Legislative Assembly. His Government will complete its term of office on June 30, 2009. Under Panama's Constitution, the president may not be elected to a consecutive term. Traditionally, new administrations have upon taking office made substantial changes within the civil service, especially in line ministries. These staffing changes can make an orderly transition challenging and can be disruptive to on-going programs, including those where the Bank is

providing support. The Bank is, of course a small actor in this process. As recommended by QAG, the Bank will support the transition by preparing a set of policy notes to provide presidential candidates with an additional source of information about development challenges and on-going policies and programs. In addition, the Bank will coordinate with the new administration on training needs, especially with respect to project implementation.

55. Portfolio Performance: The composition of the portfolio is changing in two important ways which are likely to affect disbursement rates in the short-term. First, many new projects are being added to the portfolio, including new projects with ministries that have little experience in project execution. Projects tend to disburse at lower rates over the first 1-2 years. Secondly, executing agencies are forgoing the use and support of parallel systems and agencies, which is also likely to temporarily slow the pace of project implementation and disbursements. The Bank and Government are prepared for these changes and are working to mitigate against the risks through intensive capacity building efforts and more active Bank presence in Panama through the opening of a Country Office. Moreover, the risks of a short-term slowdown in the rate of project implementation are considered acceptable in light of the substantial up-side potential of building more efficient public financial management institutions and capacity in the line ministries that are tasked with bringing improved social assistance and services to the poor.

Millennium Development Goals

Millennium Development Goals 1990-2015	Recent Trends	MDG Benchmark	Latest Estimates	2015 MDG Goals
1. Poverty and Hunger				
<ul style="list-style-type: none"> Reduce extreme poverty by half 	On target to reach MDG; good progress	11.8% (1991)	6.5% (2002)	5.5%
<ul style="list-style-type: none"> Reduce under five malnutrition rate by half 	Off pace with MDG; trend worsening	6% (1992)	6.8% (2003)	3.5%
2. Universal primary education				
<ul style="list-style-type: none"> Increase net enrollment ratio in primary school to 100%* 	Modest progress toward MDG	92.1% (1997)	93.9% (2003)	100%
3. Promote gender equality				
<ul style="list-style-type: none"> Raise ratio girls/boys in primary and secondary school to 100%.** 	Negligible change in gender index in primary education	96% (1990)	95% (2005)	100%
	MDG target met; gender index in secondary education over 100%	107% (1990)	105% (2005)	100%
4. Reduce child mortality				
<ul style="list-style-type: none"> Reduce child mortality in children under 5 by two-thirds 	Modest progress toward MDG; 30% decrease in under-five mortality per 1,000 live births	34 (1990)	24 (2004)	11.3
<ul style="list-style-type: none"> Reduce infant mortality by two-thirds 	Modest progress toward MDG; 30% decrease in infant mortality per 1,000 live births	27 (1990)	19 (2004)	9
5. Improve maternal health				
<ul style="list-style-type: none"> Reduce the rate of maternal mortality (for each 100,000 live births) by three-fourths. 	Off target with MDG; trend apparently worsening (maternal mortality nearly tripled between 1990 and 2000)	55 (1990)	160 (2000)	14
6. Combat HIV/AIDS, malaria and other diseases				
<ul style="list-style-type: none"> Have halted by 2015 and begun to reverse the spread of HIV/AIDS, malaria. 	HIV not halted; slight increase in percentage of those aged 15-49 years living with HIV between 2001 and 2005	0.7% (2001)	0.9% (2005)	Halt and reverse spread
	Tuberculosis prevalence rate per 100,000 population decreased from 117 in 1990 to 45 in 2004	117 (1990)	45 (2004)	
7. Ensure environmental sustainability				
<ul style="list-style-type: none"> Halve the proportion of individuals without access to an improved water source.*** 	MDG target nearly met; coverage of improved water sources expanded significantly	79% (1990)	88% (2000)	90%
<ul style="list-style-type: none"> Halt forest degradation (% of total land area) 	MDG outlook promising. Forest degradation lowest rate in region: only slight decrease in forest area since 1990	58.8% (1990)	57.7% (2005)	Halt degradation
<ul style="list-style-type: none"> Proportion of the population with access to improved sanitation services.*** 	Coverage of sanitation services increased	44% (1990)	53% (2000)	n.a

Sources: Unless otherwise indicated, data is from the United Nations website "Millennium Development Goals Indicators" at <http://mdgs.un.org/unsd/mdg/>

* Primary enrollment data from FY07 Poverty Assessment calculations based on the 1997 and 2003 LSMSs.

** 1990 data from Panama's Controller General and 2005 data from the Ministry of Education (MEDUCA).

***Data from "Objetivos de desarrollo del milenio: primer informe de Panamá," Gabinete Social de la República de Panamá and UNDP (2003).

Select Sector Development Challenges and World Bank Support

Under the framework of the Interim Strategy Note (FY06-07) the Bank provided analytical, technical and financial support to select government initiatives which formed part of the Torrijos administration's 2004-2009 National Strategic Vision. The Country Partnership Strategy builds from work in those areas and also includes support in selected new areas where the Bank offers a comparative advantage.

This annex provides additional background information on development challenges facing sectors in which the Bank program is active, including what was done under the ISN and what is planned under the CPS. Table 1 (on the following page) maps out the pillars of the Government's Strategic Vision, specific sectoral challenges where the Bank is supporting the Government response, relevant Government programs, and related Bank ISN and CPS activities. The following text elaborates each of these topics by pillar.

Pillar I: Reduce Poverty and Income Inequality

A. Weak Targeting of Social Assistance and Ineffective Programs

As assessed in the draft *Panama Poverty Assessment: Toward Effective Poverty Reduction* (forthcoming in 2007), Panama's expenditure of 1.7% of GDP on *social assistance* surpasses the Latin America average by 70%, but the results, in terms of supporting greater economic equality, have not been commensurate with the level of spending. Two-thirds of Panama's social assistance spending in 2005 went to universal subsidies for electricity, utility provided water, cooking gas and gasoline – luxuries that are usually beyond the reach of poor families. At the same time, poor people, especially those living in indigenous areas have lacked access to basic social services due to both demand and supply side constraints. The historic lack of coherence in social assistance programs has contributed to weak poverty impact. This impact would be substantially strengthened by consolidating programs, improving the targeting of social assistance to benefit major at-risk groups, particularly the extreme poor and those living in indigenous areas, and systematically monitoring and evaluating to make sure money is getting desired results.

Efforts to build Panama's capacity in monitoring and analyzing poverty data and trends, and applying data to social assistance have begun to facilitate better targeting of resources, but challenges remain. The National Census and Statistics Directorate (DEC) faces capacity constraints to institutionalizing regular Living Standard Measurement Surveys (LSMS) as part of its role as the focal point coordinating national statistics. An additional challenge is to ensure the transfer of knowledge in data production and poverty analytics from the MEF to staff in DEC and the new Social Policy Division in the Ministry of Social Development (MIDES), created in 2005 to oversee social policy strategy.

Government Response:

- *Strengthen Poverty Monitoring.* The Ministry of Finance conducted a second national LSMS in 2003. The Torrijos administration used the data to update

Table 1: Key Government Challenges and World Bank Support over the ISN and CPS

Govt. Pillars	Challenges in areas where the Bank is supporting the Government's Response	Government Response	ISN Instruments of Bank Support	CPS Instruments of Bank Support
Pillar I: Reduce Poverty and Income Inequality	A. Weak targeting of social assistance and ineffective programs	Strengthen poverty monitoring	PP Reform TAL (ongoing) ESW: Poverty Assessment	PP Reform TAL (ongoing) Poverty Assessment (FY09)
		Launch of the <i>Red de Oportunidades</i>	Social Protection Project ESW: Poverty Assessment	Social Protect. Proj. (ongoing) Social Protect. Proj. II
	B. High rural poverty due to insufficient economic opportunity	Enhance land security and access for the rural poor	Land Admin. Project (ongoing)	Land Admin. Proj. (ongoing) Land Access Project Rural Microfin. Proj. & ESW
		Reorient MIDA to export-oriented support to farmers and support rural productivity	Rural Prod. Project	Rural Prod. Project (ongoing) Rural Microfin. Proj. & ESW
		Promote sustainable use of the Atlantic Mesoamerican Biological Corridor	GEF Rural Prod. Project	GEF Rural Prod. Project (on-going)
Pillar II: Promote Economic Growth and Job Creation	A. Restricted market access and insufficient competitiveness	Support free trade & improve domestic competitiveness	PP Reform TAL (ongoing) ESW: Country Economic Memorandum/ICA	DPL series PP Reform TAL (ongoing)
	B. Growth and urban poverty reduction impeded by inadequate transport network in Panama City	Modernize Panama City's transportation network and public transport services	TA: Urban Transport Study	Urban Transport Project ESW: Urban Dev't Study
	C. Underdeveloped tourism opportunities outside Panama city	Develop sustainable tourism outside Panama City	None	Sustainable Tourism Project Rural Microfin. ESW & Proj. ESW: Country Env. Analysis
	D. IFC Support			
Pillar III & V: Reform Public Finance & Modernize the State	A. High fiscal deficits and debt threatened long-term sustainability	Pension and fiscal reform adopted	Development Policy Loan	DPL Series TA : TRE Debt Management
	B. Underdeveloped public financial management perpetuates inefficiencies and higher costs	Improve fiscal transparency, including through reduced payment arrears	PP Reform TAL (ongoing) DPL ESW: CFAPAR	DPL Series PP Reform TAL (ongoing)
		Develop medium-term budgeting		
		Modernize public procurement		
	Improve efficiency of Controller General			
Pillar IV: Develop Human Capital	A. Education attainment lower among rural poor, especially indigenous groups	Expand non-formal preschool education to reach poor children	Basic Education Project II (ongoing)	Basic Education II (ongoing) Basic Education III DPL Series (training)
		Improve quality and expand coverage of primary and secondary education to reach poor and strengthen skills training		
	B. Increasing malnutrition rates, especially among poor and indigenous groups	Introduce nutrition programs targeted to extreme poor	Social Protection Project	Social Protection Project (ongoing)
	C. Key health outcomes lag behind Panama's peers and deteriorated among the poor	Expand coverage of healthcare services in rural and indigenous areas		Health Project (FY09)
		Improve water and sanitation in rural areas	Water Supply & Sanitation in Low Income Comm. (WSLIC)	WSLIC Project (ongoing)

poverty maps, which have helped target new social assistance. The Government is planning a third LSMS in 2008 and intends to use the results to help evaluate social assistance and to again update poverty maps. **Bank Contribution under the ISN.** The Bank's Policy Reform TA loan supported the implementation and analysis of the 2003 LSMS, and updating of poverty maps. The Bank's 2007 Poverty Assessment analyzed and documented countrywide poverty trends and disparities and provided recommendations on poverty reduction.

- **Launch of the Red de Oportunidades (RDO).** In early 2006, the Government launched a new effort – the *Red de Oportunidades* – including a conditional cash transfer (CCT) program that aims to raise the living standards of extremely poor rural non-indigenous and indigenous groups by removing supply and demand side barriers to basic social services, conditioning cash on families sending their kids to school and getting them regular health check-ups, including vaccinations, and providing economic opportunities through provision of basic infrastructure and other programs. **Bank Contribution under the ISN.** Preparation of the 2007 Poverty Assessment included technical assistance to design the targeting mechanism and pilot initiative of the CCT program, in addition to assessing the targeting efficiency of current social assistance initiatives.

The CPS (FY08-10) will continue support for these areas:

- **Strengthen poverty monitoring.** Bank funded technical assistance and analytical work will continue efforts to strengthen government capacity in collecting, analyzing and applying poverty data to enhance the effectiveness of social spending. Additional financing for the ongoing Public Policy Reform TA will finance the 2008 LSMS and support updating of poverty maps. The FY09 Poverty Assessment will analyze the evolution of poverty during a period of remarkable growth, and will assess whether Government's new social protection programs have been effective in reducing extreme poverty by targeting the neediest. In addition, an FY09 Urban Development study will look into questions of urban migration and planning to mitigate against potentially large increases in urban poverty.
- **Support the Red de Oportunidades,** including social sector administration. The recently approved Social Protection project supports improved management and operation of the RDO's conditional cash transfer program to enhance its effectiveness in reaching the poorest and indigenous groups. The project will support initiatives to increase beneficiary participation in the program, strengthen the supply of nutrition and child growth promotion interventions in indigenous areas (*comarcas*), and enhance government capacity to develop coherent and efficient social sector policies and interventions on the basis of evidence. The planned FY09 Poverty Assessment will help to analyze the effectiveness of interventions. A follow-on project will be prepared in FY10 to further strengthen the program with the new Government and broaden social assistance reform.

B. High Rural Poverty Due to Insufficient Economic Opportunity

Despite being at the forefront of Central America in per capita income, Panama's rural poverty remains high; 54% of rural non-indigenous residents were poor and 22% extremely poor in 2003. Among the indigenous, a staggering 98.4% were poor, and 90% extremely poor. Progress on rural poverty reduction is impeded by limited economic opportunity partly generated by the poor's lack of access to land, land titles and microfinance, and structural constraints on competitiveness in the agricultural sector.

Panama's rural sector has one of the most skewed distributions of land in the Central America, and efforts to equalize land access for the rural poor have been impeded by land administration hurdles. In 2001, the poor, who accounted for two-thirds of the rural population, owned only one third of the land. Only one-third of agricultural land was titled, and of those 85% of titles belonged to the non-poor. Today, 20,000 to 30,000 families still lack access to land, which has increased pressure to occupy land in forests and protected areas, threatening biodiversity and long-term environmental sustainability. Panama has in recent years made headway in improving land administration, rural land regularization, and protected area management. However, these efforts need strengthening, as land administration services, including titling, registration and cadastre services, are still under-funded and fragmented, and biodiversity remains threatened.

Structural inefficiencies and sector management challenges in the agricultural sector have contributed to weak growth in agriculture, limiting poverty reduction. Sector expenditures under the Ministry of Agriculture (MIDA) are not efficiently aligned with Panama's comparative advantages, which has dragged down agricultural performance. The rural sector is dominated by isolated small-scale farmers inadequately linked to extension services, rural finances and markets, preventing farmers from modernizing their practices and selling more products under a more open trade environment. MIDA's management structures and operations also need modernization, including monitoring and evaluation of sector interventions to enhance sector learning.

Government Response:

- *Enhance land security and access for the rural poor.* In line with Panama's 2004-2009 Strategic Vision and its *Programa Nacional de Administración de Tierras (PRONAT)*, President Torrijos's administration is carrying out land administration reforms and promoting land access for the poor. In 2006, two key pieces of legislation were approved which considerably simplified land regularization procedures, including the new law permitting mass land titling. **Bank Contribution under the ISN.** The Bank's Land Administration Project was restructured to align with new Administration's priorities and is supporting modernization of land administration, including mass titling in rural areas, streamlined titling procedures, and greater regularization of protected and indigenous land.
- *Reorient MIDA to export-oriented support to farmers, including support to increase rural productivity.* Government developed a 2004-2009 Agricultural Strategy focused on increasing agricultural productivity, yields, and farmer incomes in rural areas to capitalize on free trade and reduce rural poverty and unemployment. Panama has also begun to reform sector management and policies under MIDA. **Bank Contribution under the ISN.** The Rural Productivity Project (FY07) supports reorientation of MIDA and introduces support for producer alliances (see below).
- *Promote sustainable use of the Atlantic Mesoamerican Biological Corridor.* Under its 2004-2009 Strategy of Conservation for Sustainable Development, Panama's National Environment Authority (ANAM) aims to strengthen stakeholder partnerships and institutional capacity to better manage protected areas and biodiversity. **Bank Contribution over the ISN.** Building from gains under the Panama Mesoamerican Biological Corridor GEF project, a new project was prepared to invest in small-scale rural groups to promote natural resource management and sustainable productive opportunities in fourteen protected

areas and buffer zones. The project was also designed to continue supporting improved management of the National Protected Areas System (SINAP), strengthened co-management arrangements and enhanced monitoring and evaluation capacity in ANAM.

The CPS (FY08-10) will continue to support these areas:

- **Enhance land security and access for the rural poor.** The ongoing Land Administration Project will continue to support development of regulations to simplify the regularization process, complete demarcation of indigenous communities and provide support to survey, title and register thousands of additional rural and urban properties, and regularize coastal areas. A Land Access Project will be prepared in FY09 to complete rural land regularization and initiate a program to provide land and complementary productive assets and technical assistance to the poor.
- **Support increased rural productivity among small-scale producers, including access to rural microfinance.** The Rural Productivity Project will finance business plans for alliances between Rural Producer Associations (RPAs) and commercial partners to boost market access and competitiveness in Herrera, Los Santos and Veraguas, and provide training and capacity building to establish new and strengthen existing RPAs. Together with the proposed Land Access and Rural Microfinance projects, small-scale producers will have access to greater assets (land and capital) and tools (including skills and ability to work in producer associations) to increase their incomes and compete in more sustainable ways for trade opportunities.
- **Promote sustainable use of the Atlantic Mesoamerican Biological Corridor.** The ongoing GEF project will continue support for sustainable conservation and productive activities in or near protected areas as noted above.

Pillar II: Promote Economic Growth and Development

A. Restricted Market Access and Insufficient Competitiveness

In the early 1990s Panama had one of the most distorted trade regimes in the region. As late as 1996, tariffs ranged from zero to 90%, basic grains had even higher tariffs and quotas and other non-tariff barriers (NTBs) were used extensively, resulting in high food prices and extremely low agricultural productivity and incomes. Over the next few years, the Government lowered tariffs and eliminated all NTBs. Tariffs were reduced to a maximum of 15% (with the exception of cars, milk, rice and sugar). Certain tariffs were subsequently increased by the incoming administration (1999-2004). As of January 2007, Panama's median tariff remained low at 3%, with an average of 6.6%, but with a relatively high dispersion across products. Two percent of tariff lines face tariffs greater than 15% (virtually all of them affect food products, including chicken parts (260% tariff), milk products (up to 155% tariff) and sugar (144%)). The Government has continued the disuse of core NTBs (e.g., quotas, import licenses, anti-dumping and countervailing duties). Furthermore, in late 2006 the GOP implemented an important institutional reform that improved the transparency of the publication and enforcement of phytosanitary standards for the importation and commercialization of agricultural and food products.

In 1996, the government passed a competition law which removed remaining price controls and established an anti-trust and consumer protection framework, including creation of the

Competition and Consumer Affairs Commission (CLICAC).⁴⁷ This framework has begun to take hold, but important areas of deregulation would contribute to eliminating remaining distortions. For example, competition in oil refining and marketing has continued to be restricted, including through differential taxes, administered prices and other measures. In addition, the breach between the high minimum wages and skill level of many in the labor force is an obstacle to achieving growth potential under more open markets. Education and training disparities will need attention to help close this gap. Competition would also benefit from applying best practices to support innovation. Public R&D spending as a percent of GDP trails 30% behind LAC averages. Finally, streamlined and improved regulations and procedures for SME start-up and operations would remove impediments to business generation, exerting a positive impact on growth.

Government Response:

- *Support free trade.* To boost exports and promote growth particularly in rural areas, GOP concluded negotiations of a free trade agreement with the United States, initiated discussions with the European Community and is working to dismantle protectionist policies and trade barriers. **Bank Contribution over the ISN.** The Public Policy Reform TA (PPR TA) helped build government capacity to negotiate and satisfy standards for multilateral trade agreements.
- *Improve domestic competitiveness.* GOP is aiming to make the local business environment more competitive by reducing the time and cost to complete business-related processes, including business registration and import and export procedures, and reform commercial regulations governing consumer protection and entry of businesses into specific domestic markets. GOP is supporting greater investments in R&D and technical and skills-based training for workers in growth sectors. Under the 2006-2010 National Strategic Plan for Development of Science, Technology and Development, GOP is providing matching grants to finance R&D, private sector innovation projects, and scholarships to produce more Panamanian researchers. GOP is also expected, under a consolidated and revamped National Training Institute, to provide technical training to Panamanian workers in strategic areas such as Canal expansion. **Bank Contribution over the ISN.** The PPR TA provided support to strengthen institutions and commercial regulations related to competition and consumer protection. The forthcoming CEM/ICA analyzes the potential distributional impacts of the free trade agreement with the US and Canal expansion with a view to identifying opportunities for broadening the base of economic opportunity, especially through domestic competitiveness improvements.

The CPS (FY08-10) will broaden support for making Panama more competitive:

- **Reduce costs of doing business and increase domestic competition.** The DPL series and the PPR TA will support efforts to eliminate and streamline business procedures, such as increasing online transactions through the *Panama Tramita* internet portal, and support development of e-commerce. The PPR TA will also support regulatory modernization and institutional capacity building to support trade standards, a general tourism law, and a more transparent and non-discriminatory regulatory environment promoting competition, particularly in the utility sector.

⁴⁷ Comision de Libre Competencia y Asuntos del Consumidor

- **Increase formal employment and improve worker training.** The DPL series will support efforts to increase the number of workers with marketable skills through training and certification programs. This is expected to reduce the breach between workers' skills and the minimum wage, thereby reducing incentives for informal employment. The planned third education project will help expand emphasis on marketable skills to secondary and tertiary programs.
- **Increase innovation and productivity.** The DPL series will support Panama's National Secretariat for Science, Technology and Innovation program to expand matching grant funds for R&D, establish an R&D trust fund and sector funds in strategic areas, and expand scholarship program for researchers. Under Government's *Agenda Complementaria*, the DPLs will also support development of a program to increase economic opportunities under trade liberalization for Panama's most vulnerable groups.

B. Growth and Urban Poverty Reduction Impeded by Inadequate Transport Network In Panama City

Congestion and strained public transport services in Panama City have increased costs of doing business and are an obstacle to urban poverty reduction. 46% of Panamanians live in Panama City, but inadequate transport investments and policies have led to daily congestion and traffic bottlenecks, poor traffic management, and deficient road and public transport services, particularly on key trunk lines. In 2004, congestion delays in Panama City cost an estimated \$300 million in productivity losses, equivalent to 2.2% of Panama's nominal GDP. Congestion and limited mass transit alternatives have also reduced economic opportunities for the urban poor who disproportionately rely on inefficient public transportation requiring hours to reach job centers. Urban poverty grew from 15.3% in 1997 to 20.0% in 2003, even as overall poverty declined.

Government Response:

- *Modernize Panama City's transportation network and public transport services.* Government prioritized under its 2004-2009 Strategic Vision improving urban transport as a key ingredient to promoting economic growth and reducing urban poverty. In Panama City, Government elaborated a series of projects to modernize urban transport through road, traffic and pedestrian improvements, and expanded mass transit services, including a dedicated bus-line system. **Bank Contribution over the ISN.** The Bank's FY07 Urban Transport Study TA program helped develop a comprehensive urban transport policy and action plan that also took account of the transport needs of the urban poor. An ongoing Public-Private Infrastructure Advisory Facility (PPIAF) grant is helping GOP develop a strategy for redeploying transport operations as part of an overall strategy to shift to a dedicated bus-line system.

The CPS (FY08-10) will build upon efforts begun in the ISN to improve urban transport and mass transit services in Panama City:

- **Modernize Panama City's transportation network and public transport services.** The Bank will continue technical assistance to build institutional capacity within Panama's Transport Authority (ATTT) during preparation and implementation of a planned investment project that will partially finance up to three dedicated mass transit bus lines which will improve mobility of Panama City's urban poor.

C. Underdeveloped Tourism Outside of Panama City

Tourism is a sector with high potential in Panama, a country that is not affected by natural disasters and with unique natural resources, including beautiful coastal areas and islands. However, tourism is underdeveloped outside Panama City and offers potential for more socially inclusive economic development in remote areas. To do this in a sustainable way will require careful land use planning, infrastructure development with attention to environmental safeguards and capacity building and training of local laborers.

Government Response: The Government, through IPAT (*Instituto Panamenio de Turismo*), has undertaken a systematic inventory of areas with tourism potential and with assistance from UNDP, IDB and OMT (*Organizacion Mundial de Tursimo*) is preparing a long term master plan for sustainable tourism development (*Plan Maestro de Desarrollo Turistico Sostenible 2007-2020*) that entails clarifying land tenure, ensuring that development is culturally sensitive and consistent with sustainable natural resource use, identifying and addressing infrastructure needs and building local human resource capacity.

The CPS (FY08-10) envisions collaboration with IDB:

- **Develop sustainable tourism outside Panama City.** The World Bank will collaborate with other stakeholders and donors to support government interventions to enhance sustainable tourism along the lines of the tourism master plan. The World Bank will provide a package of technical and financial support for particular geographic areas that will be agreed with the Government. The proposed sustainable tourism project will focus on sustainable tourism planning, eco- and agro-tourism and environmental conservation, institutional strengthening, building local capacity and promoting the participation of rural communities and investments in infrastructures. A Country Environmental Analysis will inform the project.

D. IFC Support to Economic Growth: Strengthening Financial Services and Infrastructure

As stated in the ISN, IFC's support during that period focused on the financial and infrastructure sectors in the context of supporting regionally focused activities in Central America. Five investment projects were committed during the ISN period, three in the financial sector and two in infrastructure for an overall amount of \$145 million on IFC's own account. One advisory service project in infrastructure was concluded in FY07. All six projects supported Panama's Pillar II of promoting economic growth and employment as well as Pillar I in reducing poverty and inequality.

In the financial sector, IFC committed a \$40 million loan in FY04 aimed at helping Banco Continental de Panama provide long-term funding to productive enterprises as well as support the Bank's strategy of providing traditional banking products and services throughout Central America. That same year, a \$15 million loan was committed to La Hipotecaria, a specialized full-service housing finance company, to support its existing operations in Panama and assist in expanding its operations in El Salvador. The third financial sector operation, a \$25 million loan, was committed in FY07 to Banvivienda, a domestic bank to help it expand mortgage banking availability to provide low- and middle-income people with access to long-term funding for housing.

In infrastructure, IFC committed two operations in FY05 for a total of \$65 million. One operation was to finance the three –year capital expenditure program of Manzanillo International Port Terminal located next to the Colon Free Trade Zone. This would allow the port to meet the projected five-year demand and help it maintain its competitive position in Panama. The second operation was a \$15 million standby credit facility to COPA, an international airline headquartered in Panama. Through this operation, IFC is supporting the continued expansion of a strong regional airline. In FY07 IFC successfully concluded an advisory service mandate advising the Government of Panama and the Agency for the Panama Pacífico Special Economic Zone on the selection of a private Master developer for a phased development of the areas as an international multi-use service and logistic center.

As of end-April 2007, IFC’s committed portfolio in Panama stood at \$225.1 million (including \$21.4 million in syndications) in nine projects in the financial sector (five projects), transportation and warehousing (three projects) and utilities (one project).

Pillar III and V: Reform Public Finance and Modernize the State

A. High Fiscal Deficits and Debt Threatened Long-Term Sustainability

Panama’s fiscal balance began to deteriorate rapidly after 2000, resulting in primary deficits in 2003 and 2004. This decline reflected deterioration in finances of the central government and the Social Security Institute (CSS), mostly due to declines in revenues, rather than increased expenditures. In parallel, the ranks of civil servants swelled, particularly in the CSS, creating additional budget pressures. Fiscal administration also became less transparent; for example, increasing recourse was taken to deficit financing via payment arrears, which obscured the quality of fiscal information. Panama’s overall public sector fiscal deficit reached an alarming 4.9 percent of GDP in 2004, raising Panama’s public debt to 66 percent of GDP, and triggering new concerns about the country’s future debt sustainability.

Government Response: To strengthen fiscal discipline, the Torrijos administration adopted fiscal and pension reforms that put Panama’s debt trajectory back on sustainable path and medium-term fiscal targets (2009) within reach.⁴⁸ **Bank Contribution over the ISN.** The FY07 DPL supported the fiscal and pension reforms.

⁴⁸ Panama’s short and medium-term growth projections have improved since early 2006, as actual growth in 2006 turned out to be almost double the 4.5% projected at the beginning of 2006 and considering that economic activity indicators during the first semester of 2007 have continued at the same pace as in the first semester of 2006. Also, the country’s fiscal outlook continues to be strong: total central government revenues grew by 36% during 2006, divided equally between tax and non-tax revenues. Although the growth in revenues also reflected a few one-time, non-recurrent inflows (overdue tax payment by the Panama Ports Company and a capital gains tax on the sale of a large private Panamanian bank), these only accounted for about one-half of the increase in non-tax revenues. (The other half is mainly accounted for by the increased tolls charged by the Panama Canal authority, which are scheduled to rise further.) In the absence of these non-recurrent revenues, the overall NFPS balanced would have yielded a deficit of 0.6% of GDP in 2006, instead of the reported surplus of 0.5%. Nevertheless, this means that the Government already has over-performed on its medium-term fiscal deficit target of 1% of GDP, which was to be reached gradually by 2009. In light of these positive developments, the NFPS balance over 2007-09 is projected (conservatively) to remain close to the original deficit target of 1% of GDP.

The CPS (FY08-10) will continue to help Panama achieve fiscal and debt sustainability:

- **Fiscal sustainability.** The World Bank will continue to support the Government's fiscal reforms and medium-term fiscal targets through the DPL series.
- **Debt management and debt market development.** The World Bank will support government efforts to improve debt management and develop debt markets through provision of analysis, technical assistance, capacity building and IBRD financial products.

B. Underdeveloped Public Financial Management Perpetuates Inefficiencies and Higher Costs

The advances and challenges in public financial management are discussed in Box 10 in the main text.

Government Response:

- *Improve fiscal transparency, including through reduced payment arrears.* Government is working to improve and standardize financial documentation and improve the quality and quantity of available fiscal data, with a view to gradually complying with international standards. Government is also aiming to eliminate payment arrears and keep payments current. **Bank Contribution over the ISN.** The 2007 Country Financial Accountability and Procurement Assessment Report (CFAPAR) assesses fiscal transparency practices against international standards. Its preparation includes TA and discussions of priority actions. The FY07 DPL supported the government program and helped identify targets indicators of medium-term progress.
- *Develop medium-term, policy-based budgeting.* The Government has established a 2006-2009 medium-term budgetary framework and aims to strengthen public investment planning and forecasting. The Government has also begun work to develop a medium-term fiscal and budgetary framework, including preparation of fiscal projections and draft multi-annual budgets to achieve more productive investments and better allocate public resources in line with national objectives and fiscal policy. **Bank Contribution over the ISN.** The draft 2007 CFAPAR discusses the importance of improved medium-term budgeting integrating accurate sector and institutional budgets, and of improved compliance with public investment programming procedures. The FY07 DPL supported advances in medium-term budgeting and helped identify medium-term indicators.
- *Modernize public procurement.* To generate savings, Government has taken steps to modernize the procurement system, including reforming the Public Procurement Directorate (DCP), developing a comprehensive procurement strategy, launching an e-procurement system (*PanamaCompra*), and adopting a new procurement law (*Ley 22*) that modernizes procurement practices. **Bank Contribution over the ISN.** The 2007 CFAPAR assessed the reform strategy and provided just-in-time policy advice, including to the draft procurement law. The Bank's ongoing Policy Reform TA loan is funding additional studies, and the FY07 DPL supported key measures and helped frame medium-term targets.
- *Improve efficiency of the Controller General (CG).* Government has prioritized reviewing the CG's ex-ante transaction controls with a view to streamlining controls based on risk management considerations and strengthening external audit capacity. **Bank Contribution over the ISN.** The 2007 CPAFAR analyzed the CG's transactional practices and discussed the importance of adoption of a risk management tool that could raise the threshold for ex-ante reviews and other measures to improve efficiency.

The CPS (FY08-10) will continue support for these areas:

- **Improve fiscal transparency, including through reduced payment arrears.** The DPL series and technical assistance from the ongoing PPR TA will continue to support more frequent and comprehensive publication of public financial data in line with international standards, and the reduction of arrears to under 2% in 2010 from 5.8% in 2005. In addition, Bank-financed investment projects will provide capacity building support to line ministries to strengthen financial management and payment systems and practices.
- **Develop medium-term, policy-based budgeting.** DPL lending will support institutionalization of rolling medium-term budgets and the development and integration of well-substantiated agency and sector projections.
- **Modernize public procurement.** The ongoing PPR TA project will continue to provide technical support to implement government's new procurement law (*Ley 22*), build capacity within the DCP, continue updating *PanamaCompra* (new e-procurement system), and prepare surveys on public perceptions of the procurement system. The DPL series will support strengthening of the new e-procurement system, development and implementation of a sector reform strategy, and achievement of system improvements according to standard OECD procurement indicators.
- **Improve efficiency of the Controller General.** The Bank will provide technical assistance under the PPR TA to the Controller General's Office, as part of the CG's efforts to modernize its fiscal control systems and consider adoption of a risk based system for ex-ante reviews of procurement decisions. The Bank will also support capacity building in line-ministries through investment projects to allow them to become more self-sufficient, relying less on the CG for processing transactions, and thereby allowing the CG to provide more strategic checks.

Pillar IV: Develop Human Capital

A. Education Attainment Lower Among Rural Poor, Especially Indigenous Groups

Education attainment increased among all demographics in recent years, but attainment in rural and indigenous areas trails that in urban areas, and the gap between indigenous and non-indigenous is widening. According to the draft 2007 Poverty Assessment, average schooling among young adults is 10.5 years. Urban areas lead the way averaging nearly 12 years, but attainment falls to about nine years in rural areas and six years in indigenous areas. Differing attainment rates are attributable to lack of schools in rural and indigenous areas, weak quality of basic and secondary education, and school-related costs that continue to put education out of reach for poor households. Preschool enrollment, a key factor favoring retention in later years, increased from 33% in 1997 to 50% in 2003, but 60% of poor children are still not enrolled due to poor coverage and lack of human resources for expanding formal programs. In 2003, national primary enrollment reached 94% and secondary enrollment reached 70%.⁴⁹ Among the extreme poor, primary enrollment lagged at 88% in 2003 and secondary enrollment was dramatically less

⁴⁹ Primary enrollment figures in the CPS are based on the draft FY07 Poverty Assessment calculations from the 1997 and 2003 Living Standards Measurement Surveys. Government data shows that primary enrollment grew from 91.4% in 1990 to 100% in 2005; however, LSMS data is widely considered more comprehensive as it is based on a representative sampling of households, and reflects widely observed enrollment issues for children of the extreme poor and the poor, and in rural and indigenous areas.

at 32%, despite having risen significantly from 19% in 1997. Primary school coverage needs expansion, but secondary schools are particularly lacking in rural and indigenous areas. Suboptimal quality and relevancy of curriculums and language barriers also lower attainment by fueling high repetition and drop-out rates.

Government Response: To boost education attainment among Panamanians, GOP is working to expand coverage of preschool, primary and secondary education especially in rural and indigenous areas, including through innovative approaches, such as bilingual education and video-based distance education for secondary students.

- *Expand non-formal preschool education to reach poor children.* Panama's National Strategic Vision prioritizes increasing preschool enrollment from 50% to 75% from 2004 to 2009. Given cost and human resource hurdles, Government is expanding informal programs in rural and indigenous areas to provide equal access to the poorest. **Bank Contribution over the ISN.** The ongoing Basic Education II project has established non-formal preschool education and home-based initial education programs serving nearly 100,000 children, representing over 50% of total enrollment.
- *Improve quality and expand coverage of primary and secondary education to reach poor.* Government has prioritized increasing primary and secondary enrollment and completion rates between 2004 and 2009 by expanding coverage in poor and rural areas and reforming curriculums. **Bank Contribution over the ISN.** The Bank's draft 2007 Poverty Assessment analyzed education trends. The ongoing Basic Education II project has built 167 new primary schools, provided scholarships to over 30,000 poor students, and introduced over 90 video-based distance education programs (*telebasicas*) bringing secondary education to over 4,500 students in rural areas.

The CPS will continue to support these areas and provide assistance to promote sector reform:

- **Expand non-formal approaches to preschool education.** Additional financing under the ongoing Education II project will support more than 500 additional non-formal and home-based preschool education programs.
- **Expand coverage in primary and secondary education and improve skills training, including through sector reform.** The ongoing Education II project will continue rehabilitation of primary school infrastructure and expand video-based secondary education programs in rural and indigenous areas. Sector reform will be addressed in current and follow-on education projects with a focus on improving sector planning, and establishing and implementing a comprehensive management information system to strengthen regional and sector oversight. The planned third project will aim to institutionalize advances in the second education project and provide greater support for improving the quality of secondary education and job training to help ensure links to the job market.

B. Increasing Malnutrition Rates, Especially Among Poor And Indigenous Groups

Panama's malnutrition rates have climbed in recent years, particularly among poor and indigenous groups. The national malnutrition rate (height for age) among children under five increased from 14.3% in 1997 to 20.6% in 2003. Within this trend, however, are clear demographic disparities. In 2003, only 10% of non-poor and 14% of urban children under five were chronically malnourished, but these rates climb to nearly 19% in rural areas, 40% among the extremely poor, and over 50% in indigenous areas. Contributing factors to malnutrition are a

lack of awareness and knowledge of nutrition, inappropriate food preparation practices, and a lack of simple oral re-hydration solutions to help alleviate diarrhea illnesses. In addition, the poor and indigenous lack of access to adequate and varied diet and the means to acquire needed supplements.

Government Response:

- *Introduce nutrition programs targeted to extreme poor.* To reduce chronic malnutrition in 6-9 year olds from 22% in 2004 to 15% in 2009, the Government has introduced new early nutrition intervention programs targeting the extreme poor under the *Red de Oportunidades* (RDO). **Bank Contribution over the ISN.** Demographic analysis of nutrition status was part of the draft 2007 Poverty Assessment.

The CPS will support targeted nutrition programs in rural and indigenous areas:

- **Introduce nutrition programs targeted to extreme poor.** The recently approved Social Protection Project will support the development and integration of a comprehensive protocol to prevent malnutrition into the Ministry of Health's basic package of health services and the delivery of this enhanced package in poor indigenous areas benefiting from cash transfers under the RDO.

C. Key Health Outcomes Lag Behind Panama's Peers And Deteriorated Among the Poor

Trends in key health outcomes have not matched progress in middle income countries in the LAC and have worsened among Panama's poor. Panama's child and infant mortality rates between 1990 and 2004 fell about 30% but dropped less than rates in other middle income countries in the region. Between 1990 and 2000, Panama's middle income peers in LAC achieved reductions in maternal mortality, but in Panama maternal mortality appeared to climb from 55 to 160 per 100,000 live births (at least part of this change may be attributable to improved data collection). Among non-poor children, immunization rates rose between 1997 and 2003, but rates dropped among poor and extremely poor children. Diarrhea illness among non-poor children fell about 6% from 1997 to 2003, but among the extreme poor increased about 14% to reach nearly 30% in 2003.

Suboptimal or worsening health outcomes are driven by multiple factors. The Ministry of Health (MINSa) and the Social Security Institute continue to support fragmented and overlapping programs, impeding efficient delivery of quality services and pharmaceuticals in rural areas. Contracts with NGOs assigned to deliver MINSa's package of basic health services (*Paquete Integral de Servicios de Salud – PAISS*) in rural areas have been inadequately monitored, contributing to spotty performance on coverage and service targets. Health clinics and services are lacking in *comarcas* and isolated rural areas, and the inability to pay for services remains a challenge for the poor. Lack of appropriate consideration of indigenous peoples' differing cultural perspectives on healthcare has also complicated service delivery. Childhood illness has been exacerbated by limited access to water and sanitation. In 2004, access to improved water supply was estimated at 75% in rural areas and 56% in indigenous areas, and sanitation coverage was estimated at only 39% in indigenous areas. Efforts to improve water and sanitation coverage have been impaired by the lack of a national policy framework and insufficient coordination among sector stakeholders, including the National Water and Sewer Agency, the Social Investment Fund, and MINSa.

Government Response:

- *Expand coverage of healthcare services in rural and indigenous areas.* Based on the national Strategic Health Plan, Government is working to improve healthcare services and coverage in rural and indigenous areas. GOP is focusing particularly on increasing the supply of health services available to poor households under the *Red de Oportunidades* CCT program, which aims to build capacity to meet the basic health needs of the poor while protecting household budgets from high out-of-pocket expenditures. GOP is also seeking to strengthen the stewardship of the Ministry of Health and improve regional management contracts to better coordinate programs and improve services. **Bank Contribution under the ISN.** The draft 2007 Poverty Assessment highlights health challenges and inequities between the poor and non-poor and between urban, rural and indigenous areas.
- *Improve water and sanitation coverage in rural areas.* To improve water and sanitation coverage and boost the number of rural households with access to potable water from 75% in 2004 to 82% in 2009, Government introduced community-driven water programs under the *Red de Oportunidades*, and established an inter-institutional committee chaired by MINSA to improve program coordination and services. **Bank Contribution under the ISN.** As part of the preparation of the Water and Sanitation project, the Bank supported a national dialogue on water policy that brought together key stakeholders.

The CPS (FY08-10) will continue to support these areas:

- **Expand coverage of healthcare services in rural and indigenous areas.** The recently approved Social Protection Project will provide support to improve the management and monitoring of the *Red de Oportunidades*, enhance beneficiary participation in the CCT program, strengthen the supply of basic health services among beneficiaries, and help improve social assistance policy-making. A planned new health project will assist the GOP in improving the performance of the health system with an emphasis on improving the efficiency of regional primary health care networks.
- **Improve water and sanitation coverage in rural areas.** The Water and Sanitation project will strengthen community water boards, support sustainable water supply and sanitation in poor rural communities, pilot a sustainable water provision program for small towns, facilitate better program coordination among government agencies and stakeholders, and help MINSA and other agencies build their capacity to manage and monitor sector investments and outcomes. A national initiative to promote handwashing will also be supported by this project.

Donor Harmonization

Table 1: Principal Areas of Activity by Donor

Partners	Sector/Thematic Areas															
	Private Sector	Social Protection	Agriculture & Rural Dev.	Trade & Growth	Financial Sector	Infrastructure/Transport	Tourism	Public Sector Reform	Capacity/Inst. Building (incl. M&E)	Judicial & Legal Reform	Education	Health	Environment	Crisis Prevention & Recovery	Water & Sanitation	Security & Stability
World Bank		X	X	X	X	X	X	X	X		X	X	X		X	
CAF						X										
IDB	X	X	X	X	X	X	X	X	X	X	X	X	X		X	X
IFAD			X													
UNDP	X		X	X		X	X	X	X	X	X	X	X	X		X
EU	X	X		X				X	X		X	X				
JICA			X										X		X	
USAID		X	X	X					X	X					X	

Table 2: Information on Donor Programs

Donor	Areas of Engagement	Financing
<i>Multilateral Aid Agencies</i>		
Andean Development Corporation (CAF)	Road Rehabilitation and Improvement	US\$80 million in FY05 to widen road between Arraiján and Chorrera to four lanes, and the Transthian Highway between Panama City and Colón.
InterAmerican Development Bank (IDB)	<p>IDB's 2005-2009 Country Strategy supports sustainable economic growth and poverty reduction. It aims to:</p> <ul style="list-style-type: none"> • boost the economy's competitiveness • develop human and productive capital • strengthen governance and transparency <p>Specific operations focus on fiscal sustainability, social protection, and sustainable economic growth (e.g., investment climate, rural development, sector productivity, transportation)</p>	IDB has the largest donor presence in Panama. Its active portfolio in early 2007 comprised 28 loans with commitments of US\$865 million of which US\$403 million was undisbursed.

International Fund for Agricultural Development (IFAD)	Rural and agricultural development and environmental protection	Two ongoing loans supporting rural development totaling \$28.3 million
United Nations Development Program (UNDP)	UNDP assistance is focused on the following high priority areas <ul style="list-style-type: none"> • Democratic Governance • Poverty Reduction • Energy & Environment • Crisis Prevention and Recovery • HIV/AIDS 	Not available
<i>Bilateral Aid Agencies</i>		
European Union (EU)	In 2001, Panama and the EU signed a Memorandum of Understanding (MOU) prioritizing: <ul style="list-style-type: none"> • Economic competitiveness • Democratic institutionalization of the state • Social development 	MOU forecasted assistance of €24.3 million as follows: <ul style="list-style-type: none"> • Strengthening the economy (30%) • Democratic institutionalization (40%) • Social development (30%)
Japan International Cooperation Agency (JICA)	Priority areas for JICA include: <ul style="list-style-type: none"> • Poverty reduction in rural areas • Sustainable growth of the nation's economy/society • Environmental conservation 	Total FY05 financing: ¥831,029,000 Total FY04 financing: ¥924,674,000 Principal Grants in FY04-FY05: <ul style="list-style-type: none"> • Panama Canal Watershed Conservation Project • The Cattle Productivity Improvement Project • The Sustainable Agricultural Training and Extension • Project in Rural Areas • Water Quality Monitoring
United States Agency for International Development (USAID)	USAID assistance focused on infrastructure network protection (esp. the Panama Canal), democracy, and trade and investment. Grants have supported: <ul style="list-style-type: none"> • Judicial reform and anti-corruption • Improved economic competitiveness and canal management • Conservation of critical watersheds • Free trade with the U.S. and development of key economic sectors • Strengthened indigenous communities 	FY05 Grants: \$3,180,000 FY06 Grants: \$5,325,000 FY07 Requested: \$8,101,000

Table 3: Harmonization Strategies with the Inter-American Development Bank

	<i>Attend Review Meetings</i>	<i>Joint Preparation</i>	<i>Project Design Harmonized</i>	<i>Common PMU</i>	<i>Common Fiduciary Arrangements</i>	<i>Joint Supervision Missions</i>	<i>Teams Consult to Ensure Synergies</i>
Ongoing Lending Projects (World Bank Project/IADB Projects)							
Land Administration - <i>National Land Management Program (PRONAT)</i>							
PPR TA Loan - <i>Investment Climate and Trade Adjustment</i> - <i>International Trade Capacity Building</i>							
Basic Education II - <i>Education Sector Program</i>							
Rural Productivity Project (PRORURAL) - <i>Rural Microcredit Expansion in the Central Provinces</i> - <i>Dev. Program for Central Provinces (pipeline)</i> - <i>Competitiveness and Trade (pipeline)</i>						occasional	
Mesoamerican Biological Corridor II (GEF) - <i>Environmental Management (pipeline)</i>						occasional	
Social Protection Project - <i>Social Protection Phase I</i>							
Water Supply and Sanitation in Low-income Communities							
New Lending Projects							
DPL Series (FY08-10) - <i>Training and Employment Systems Development</i> - <i>Fiscal management II</i> - <i>Program to Foster Competitiveness</i> - <i>Tech. Transformation & Competitiveness II (pipeline)</i>							
Education III Project - <i>Training and Employment Systems Development</i>							
Health Project - <i>Institutional Transformation of Health Sector</i>							
Sustainable Tourism - <i>Rural Tourism Development (pipeline)</i>							
Urban Transport							
Social Protection II - <i>Social Protection Phase II (pipeline)</i>							
Land Access - <i>Cadastre Program of the Metropolitan Region of Panama and Modernization of Land (pipeline)</i>				As appropriate			
Economic and Social Work and Technical Assistance							
Country Environmental Analysis		Possible					
Policy Notes							
Poverty Assessment							
TA from Treasury - Debt Management							

Results Matrix

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
CPS Objective 1: Reduce poverty, especially among rural poor and indigenous groups				
<p>Pillar I: Reduce Poverty and Improve Income Distribution</p> <ul style="list-style-type: none"> - Reduce poverty levels from 37% in 2003 to 32% in 2009. - Reduce indigenous poverty from 98% in 2003 to 80% in 2009. - Reduce the income gap multiplier between quintiles from 42 to 35 between 2004 and 2009. 	<p><i>Weak social assistance targeting and ineffective programs</i></p> <p>Public policy has favored universal subsidies. Social assistance programs have been fragmented and monitoring underdeveloped.</p> <p>Poverty monitoring since mid-90s impressive, but infrequent and not yet institutionalized.</p> <p>Many extreme poor, including people living in indigenous areas, lack access to basic social services due to both supply and demand constraints.</p>	<p>Government uses updated poverty maps to update information in the management system used to target the <i>Red de Oportunidades</i> conditional cash transfers.</p> <p>[For Next CPS]: At least 80 percent of disbursed cash transfers under the CCT are received by poor households.</p> <p>[For Next CPS]: 60,000 poor households with children receive transfers under GOP's cash transfer program conditional on regular use of health and education services.</p>	<p>Conduct Third Living Standards Measurement Survey.</p> <p>Update Poverty Maps.</p> <p>Management information system monitoring the CCT fully functional with 66% of households recertified.</p> <p>Technical support teams to help families participate in the CCT program formalized in at least 60% of 623 targeted jurisdictions.</p> <p>Programs for responding to cultural and social patterns developed and implemented in all indigenous jurisdictions.</p>	<p>Public Policy Reform TA (on-going)</p> <p>Social Protection Project (approved FY08)</p> <p>Poverty Assessment (AAA)</p> <p>Social Protection Project (approved FY08)</p> <p>Poverty Assessment (AAA)</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
	<p><i>High rural poverty due to insufficient economic opportunity</i></p> <p>Poor land property titles and some of the indigenous <i>Comarcas</i> (territories) have not yet been well defined.</p> <p>Land administration and titling services have been fragmented, poorly integrated and outdated, although recent progress is promising.</p> <p>Without land titles, small-scale farmers can not secure capital to improve productivity and rural microfinance remains underdeveloped.</p> <p>Poor land management contributes to the expansion of the agricultural frontier in or near protected areas.</p> <p>Fragmented agricultural market dominated by small-scale producers limits market access and producer incomes.</p>	<p>Land agency efficiency improved as indicated by:</p> <ul style="list-style-type: none"> • Time and cost for registering a land parcel decrease to 24 hours and US\$2 per transaction • 50,000 rural properties in Chiriqui, Veraguas, and Bocas del Toro surveyed and 12,000 registered <p>[For Next CPS]: Outcomes to be developed related to increased access of rural producers to microfinance.</p> <p>[For Next CPS]: 10% reduction in area appropriate for forestry under annual crops and cattle grazing.</p> <p>[For Next CPS]: At least 40% increase in net revenues among RPAs participating in productive alliances.</p>	<p>Framework Law on Mass Land Tiling approved by Legislative Assembly [completed June 2006].</p> <p>SIICAR (integrated registry and cadastre system) operational.</p> <p>Three indigenous territories consolidated.</p> <p>[Milestone for increased rural microfinance access to be developed]</p> <p>300 sustainable agricultural/conservation projects developed by rural communities.</p> <p>30 productive alliances formed among project-trained Rural Producer Associations.</p>	<p>Land Administration Project (on-going)</p> <p>Rural Microfinance Project</p> <p>Rural Productivity Project (GEF) (on-going)</p> <p>Rural Productivity Project (approved March 2007)</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
CPS Objective 2: Promote broad-based economic growth				
<p>Pillar II: Promote Economic Growth and Employment</p> <p>-Investment in national fixed capital/GDP increases from 17% to 25%</p> <p>- Actual net per capita exports increase from B/1,250 in 2004 to B/1,650 in 2009</p>	<p><i>Inefficiencies in Government regulation and insufficiently competitive markets impede new business creation</i></p> <p>Despite being ahead of the average LAC country with regard to several <i>Doing Business</i> indicators, Panama does not perform well with regard to tax payments, control of corruption, government effectiveness, regulatory quality, and the incidence of informal activities.</p>	<p>Businesses will take less time complying with Government regulations as a result of streamlining and increased transparency as indicated by:</p> <ul style="list-style-type: none"> • increased coverage of the <i>Panama Tramita</i> internet portal (200 on-line transactions made available up from 75 in June 2007) • Reduced costs of <i>Doing Business</i> in Panama as measured by the WB through end-2008 (time needed to start a business reduced from 19 to 5 days , time for exporting reduced from 16 to 10 days, and time spent preparing, filing, and paying taxes also reduced) 	<p>At least 140 online transactions made available through <i>Panama Tramita</i>.</p> <p>Kiosks created to facilitate use of the <i>Panama Tramita</i> portal by low income populations.</p> <p>Improved legal and regulatory framework for electronic government and commerce.</p>	<p>Competitiveness and PFM DPLs I & II</p> <p>Public Policy Reform TA (on-going)</p> <p>Country Economic Memorandum/ Investment Climate Assessment (AAA)</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
	<p><i>Under-skilled workforce and certain labor code rigidities limit participation in the formal labor market</i></p> <p>Labor informality affects almost one half of the labor force, and is driven in part by the disconnect between worker skill level and the minimum wage.</p> <p>The supply of skilled and semi-skilled labor is not well aligned with current and emerging needs in the labor market.</p>	<p>An overhauled training system effectively promotes the upgrading of worker skills in order to respond to emerging labor market needs as indicated by:</p> <ul style="list-style-type: none"> • Number of workers certified and incorporated into the labor market through end-2008 • Number of recognized labor competency standards adapted and validated by the productive sector 	<p>Revamped National Training Institute (INADEH) is successfully implementing a Strategic Plan for certifying labor skills and increasing the quality of training courses, and has established clear and transparent rules for the use of its fiduciary fund.</p>	<p>Competitiveness and PFM DPLs I & II</p> <p>Education III Project</p> <p>2008 Country Economic Memorandum/ Investment Climate Assessment (AAA)</p>
	<p><i>Panama's investments in R&D and innovation are low compared to other middle-income countries</i></p>	<p>Increase in Panama's per capita R&D.</p> <p>Strategic sectors benefit from innovation support programs.</p>	<p>National Secretariat for Science, Technology and Innovation (SENACYT) is promoting productive R&D (as measured by increases in publications by R&D teams it funds), and is increasing the quality of local researchers through scholarships (as measured by increases in faculty with graduate degrees).</p>	<p>Competitiveness and PFM DPLs I & II</p> <p>Public Policy Reform TA (on-going)</p> <p>2008 Country Economic Memorandum/Investment Climate Assessment (AAA)</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
			Implementation of programs to promote R&D in strategic sectors, including for micro and small rural enterprises.	
	<p><i>Panama City's underdeveloped transport system limits business competitiveness and makes it hard for the poor to get to jobs</i></p> <p>Panama City's urban poor rely on an underdeveloped mass transit system, which means multiple hour commutes to jobs.</p> <p>Panama's Transport Authority (ATTT) is pursuing a mass transit plan for Panama City, but lacks sufficient capacity and expertise in critical areas.</p>	<p>[For Next CPS]: Average commuting time for urban poor living in Panama City reduced from x to y and the capacity of authorities in urban transport management and project implementation strengthened.</p>	<p>Coherent Urban Transport Policy for Panama City adopted by the Transport Authority (ATTT).</p> <p>Action Plan adopted by ATTT for Panama City delineating steps for implementing the mass transit program.</p>	<p>2007 Urban Transport Study (AAA)</p> <p>Urban Transport in Panama City Project</p>
	<p><i>Tourism outside Panama City underdeveloped</i></p> <p>Insufficient planning and land management and weak infrastructure development have held back tourism.</p>	<p>[For Next CPS]: Indicator related to increased incomes and employment in areas supported by project.</p>	<p>[Milestones to be developed related to preparation of local strategies and action plans]</p>	<p>Sustainable Tourism Project</p> <p>Country Environmental Analysis (AAA)</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
CPS Objective 3 : Establish modern public financial management institutions				
<p>Pillar III and V: Reform Public Finance and Modernize the State</p> <ul style="list-style-type: none"> - Public debt to fall from 65.9% of GDP at end-2004 to 54% or less by end-2009 - Fiscal deficit to fall from 5% in 2004 to 1% by 2009 	<p><i>Mounting fiscal deficits were leading to unsustainable public debt</i></p> <p>Declining revenues caused a dramatic increase in the fiscal deficit which reached 5% in 2004. This course was reversed over 2005-2006.</p>	<p>Maintenance of a stable fiscal framework in line with the Government's debt and fiscal deficit targets.</p> <p>Improved capacity of MEF to manage public debt and develop debt markets. [indicators to be developed]</p> <p>Increased tax collections resulting from improved administrative procedures, as measured by progress in DGI's performance indicators and PEFA indicators Nos. 14 and 15.</p>	<p>Implementation of Fiscal Equity Law.</p> <p>Annual fiscal balances consistent with the 2009 1% target.</p> <p>Implementation of debt scenario analysis for measuring cost and risk of financing strategies.</p> <p>Adoption of a new tax audit strategy and improvements to the systems to facilitate taxpayer compliance.</p>	<p>Competitiveness and PFM DPLs I & II</p> <p>Debt Management Technical Assistance from TRE</p>
	<p><i>Insufficient fiscal transparency and blurred financial management governance</i></p> <p>Government fiscal planning and reporting has improved, but still fall short of international good practice.</p> <p>Slow payments add to costs of government contracts and</p>	<p>Public availability of medium-term fiscal framework and fiscal information closer to international standards, as measured by progress in international indicators (as</p>	<p>Improved financial management governance, as evidenced by the transfer of responsibility over consolidated financial statements from the CGR to the MEF.</p>	<p>Competitiveness and PFM DPLs I & II</p> <p>Public Policy Reform TA (on-going)</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
	<p>impair accurate budgetary reporting. End-of year accruals dropped from over 13% in 2004 to 5.8% of central govt. expenditures in 2005, but further efforts are needed to sustain the initial achievements.</p>	<p>measured by progress in PEFA indicators Nos. 6, 12, and 25).</p> <p>Stock of payments arrears falls below 2% of central government expenditures.</p>	<p>Strengthened fiscal transparency and planning norms.</p>	<p>2007 Country Financial Accountability and Procurement Assessment Report (AAA)</p>
	<p><i>Outmoded procurement structure had been increasing costs</i></p> <p>A new law was passed in June 2006 which is modernizing the procurement structure. More work is needed to implement the law.</p> <p>Lack of transparency in procurement systems weakened business and public confidence. A new e-procurement system was launched in 2005 and is turning around public perceptions.</p>	<p>Improved procurement performance across Government agencies through use of standard documents, as measured by international indicators (OECD-DAC/WB).</p> <p>Increased savings in publicly procured goods and services, as measured by reduction in average unit cost of key items tracked by DGCP.</p> <p>Improved public perceptions of transparency and effectiveness of the procurement system as measured by survey.</p>	<p>Standard procurement documents adopted by DGCP.</p> <p>Issuance of Regulations to the Procurement Law, resulting in full use of <i>PanamaCompra</i> by all central government and several decentralized entities.</p> <p>Surveys conducted to measure public views of the procurement system.</p>	<p>Competitiveness and PFM DPLs I & II</p> <p>Public Policy Reform TA (on-going)</p> <p>2007 Country Financial Accountability and Procurement Assessment Report (AAA)</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
	<i>Inefficient transactional controls and processes lengthen processes and increase costs to service providers</i>	Increased efficiency of internal controls and quality of external audit tools, as measured by decreases in average processing times for ex-ante reviews and progress in PEFA indicator No. 26.	Improved management of control transactions, as evidenced by CGR's launch and implementation of the SIGUEME tracking system. Revisions of the internal control and external audit models.	Competitiveness and PFM DPLs I & II Public Policy Reform TA (on-going) 2007 Country Financial Accountability and Procurement Assessment Report (AAA)
CPS Objective: Improve health, nutrition, and education attainment of the poor				
<p>Pillar IV: Develop Human Capital</p> <p>Chronic undernourishment falls from 22% in 2004 to 15% in 2009.</p> <p>Infant mortality falls from 21 per thousand live births in 2004 to 15 in 2009.</p>	<p><i>Lack of clean water and sanitation contributes to high incidence of water-borne diseases, especially among poor children</i></p> <p>In 2003 (date of the last LSMS) access to an improved source of water supply was 78% in rural non-indigenous areas and 48% in indigenous <i>comarcas</i> due to local poverty and insufficient public assistance.⁵⁰</p>	<p>[For next CPS]: Increase of access to an improved source of water supply to 89% in rural non-indigenous areas and 87% in indigenous <i>comarcas</i> in 2012.</p>	<p>Share of water boards that are operating well and maintaining their facilities increased (baseline to be determined).</p> <p>Sector Information System in operation.</p> <p>Draft Strategic Plan for sector elaborated and broadly discussed.</p>	<p>Water Supply and Sanitation in Low Income Communities (approved FY08)</p>

⁵⁰ Figures on sanitation coverage in rural and indigenous areas are of insufficient quality to serve as a baseline, since no distinction is made between improved latrines and latrines that are considered inadequate. Nevertheless, interventions will put a special emphasis on sanitation and hygiene promotion and efforts will be made to collect more meaningful data on sanitation during the next LSMS.

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
	<p><i>High level of chronic malnutrition in rural and indigenous areas</i></p> <p>Levels high due to lack knowledge and resources of how to provide adequate pre-natal and early childhood nutrition and the gap between health needs of the poor and available supply of services.</p>	<p>[For Next CPS:] Reduction of chronic malnutrition prevalence by 5 percentage points in 2012 among children under 2 years old, registered in the PAISS+N in indigenous <i>comarcas</i>.</p>	<p>Standard growth and nutrition interventions integrated into the PAISS.</p> <p>Supervision and auditing protocols for service providers and monitoring system implemented.</p>	<p>Social Protection Project (approved FY08)</p>
	<p><i>Key health outcomes including maternal mortality and vaccination rates deteriorated 1997-2003</i></p> <p>Basic health service packages have been inadequately monitored in rural areas leading to spotty coverage and service.</p> <p>Insufficient consideration of cultural traditions has also lessened uptake of health services in indigenous areas.</p>	<p>[For Next CPS:] Outcomes will be developed during preparation of the new project and will relate to improved health indicators among targeted poor populations.</p>	<p>Milestones will be developed building from the improved supervision provisions that are being developed under the Social Protection Project noted above.</p>	<p>Health Project</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
<p>Preschool coverage increases from 58% in 2006 to 85% in 2009 (for 4 and 5 year old children)</p> <p>Secondary Education coverage increases from 64% in 2006 to 75% in 2009.</p> <p>School survival rate to grade 5 increases from 85% in 2005 to 95% in 2009.</p>	<p><i>Poor children, especially indigenous, lag in educational attainment</i></p> <p>Insufficient preparation for primary school contributes to lower enrollment and high desertion rates among poor children.</p> <p>School infrastructure in rural communities and areas of extreme poverty is of poor quality (<i>escuelas ranchos</i>) and secondary schools are limited in rural areas, particularly senior secondary schools.</p> <p>Planning and information systems in the Ministry of Education are fragmented compromising the effectiveness of strategic planning and decision making which affect education quality.</p>	<p>Preschool coverage among 4-5 year olds increases from 58% in 2006 to 85% in 2009, including increases for poor.</p> <p>Secondary enrollment increases from 64% in 2006 to 70% in 2009, including increases among poor.</p> <p>Ministry of Education officials strategic planning abilities strengthened as indicated by:</p> <ul style="list-style-type: none"> • Use of an expanded MIS incorporating key functions of the Ministry • Improvements in regional office M&E systems 	<p>375 additional pre-school and 150 home-based programs established (through 2008).</p> <p>200 primary school classrooms constructed/rehabilitated annually.</p> <p>63 additional <i>telebasicas</i> secondary distance education established (through 2008).</p> <p>4 additional MIS modules implemented and regional personnel trained.</p> <p>Medium-term education sector strategy covering increasing coverage for poor and indigenous groups and evaluating student outcomes developed.</p>	<p>Education II & III Projects</p>

CPS Consultations with Panamanian Stakeholders

As part of the preparation of this Country Partnership Strategy, formal consultations were held in Panama City on June 28-29, 2007. These consultations included primarily sectoral government representatives as well as representatives from business, the international donor community and think tanks. The Bank team was led by Jane Armitage (Country Director) and included staff and sector leaders from each key sector. Earlier rounds of more informal consultations were held in both May and June 2007 during a series of meetings with local stakeholders (in the provinces of Veraguas and Bocas del Toro, and the indigenous *comarca* of Kuna Yala) to solicit views on how ongoing and future Bank activities could more effectively support the Government's development agenda. In addition, in May 2007 the CPS team convened discussions with a range of Panamanian opinion-makers to talk about Panama's development challenges and prospects. Key points from these earlier discussions were already reflected in the CPS document.

The methodology for formal consultations in Panama City (with over 70 participants) included introductory remarks by the Bank Country Director and a PowerPoint presentation of proposed CPS areas of emphasis and a listing of proposed lending and non-lending activities in support of the Government's development plan: *Visión Estratégica de Desarrollo Económico y de Empleo Hacia 2009*. Following the presentation, participants broke into four smaller thematic groups based on the main areas of Bank involvement: social development; rural development; public sector modernization and governance; and competitiveness and investment climate. Each of the four groups then reported back to the plenary on the results of its discussions. Stakeholders provided feedback on: (i) how the Bank has most effectively supported the Government and what approaches have worked less well; (ii) methods that other organizations in Panama have used effectively that the Bank might consider; (iii) specific advice for the incoming World Bank Resident Representative; and (iv) how they see the evolution of the Bank's interactions with Panama as the national economy continues to grow. This approach facilitated productive and frank discussions with the various stakeholders.

The following is a summary of views expressed by stakeholders during the formal consultations (views are aligned to the pillars of the Government's Strategic Vision). The groups raised a number of general concerns with respect to persistent high poverty levels, weak institutional capacity, public sector management, provision of social services, rural development, land property rights and the environment, competitiveness and the impact of the free trade agreement with the United States, as well as broader civil society participation for consideration by the Government and the Bank's CPS team. Table 1 (below) summarizes the principal recommendations from this round of consultations and how the CPS program is responding.

Pillar I - Reduce Poverty and Inequality

Participants agreed that **sustainable rural development** is a central factor in reducing inequality in Panama. Participants acknowledged that rural development requires a multi-sectoral approach. Key elements of a multi-sectoral strategy should include land tenure, improving access to basic services and markets, and increasing access to credit by the poor.

Rural development plans should also strive to promote and empower Panama's small-scale rural producers to compete in a post-FTA environment. Participants stated that much remains to be done to improve conditions in rural areas and welcomed the Bank's interventions in this area, while also encouraging stronger linkages among projects.

Pillar II - Promote Economic Growth and Employment

Participants highlighted the importance of promoting **broad-based economic growth and competitiveness** as a way to reduce poverty and promote employment. The issue of how to remain competitive (especially in light of the impacts of the Panama Canal expansion and the FTA with the United States) and how to enhance the country's work force, as well as transportation issues and innovation capacity were of highest interest to participants. It was also recommended that both Government and the Bank develop stronger mechanisms to ensure that the benefits of economic growth reach the poor, particularly indigenous populations in rural areas.

Pillars III and V - Reform Public Finances and Modernize the State

Participants stressed the importance of increasing Bank support for **institution building** to strengthen the effectiveness of key public institutions. In addition, participants highlighted the importance of supporting reforms and initiatives to promote the establishment of more modern and transparent public financial management systems. Improved efficiency and transparency in Government spending would allow for better delivery of social services and encourage an improved investment climate. Participants also recommended that the Bank play a greater role in strengthening the institutional capacity of the Government, thereby contributing to a more effective public sector.

Participants indicated that, despite the Government's successfully reducing the fiscal deficit, there remain unresolved issues related to the quality of spending on social services. In this context, participants emphasized the need to improve the provision of services through a more efficient system.

Pillar IV - Develop Human Capital

Participants consider **social protection** a priority item for investment – it is a critical element in reducing poverty and offering opportunity to future generations. Improved **health and education** (including bilingual education) were also highlighted as important vehicles to stimulate economic growth and improve income distribution.

Other Concerns

Lastly, participants in the various groups highlighted their desire to make project design and implementation procedures more inclusive and participatory (particularly by including women). In their view, such a shift would enhance the link between development processes and their beneficiaries. In turn, a more inclusive project culture would also result in permanent and transparent mechanisms for monitoring and ensuring accountability of both projects and public policies.

Table 1: Specific Recommendations and How the CPS is Addressing Them

Recommendations	How they are addressed in the CPS
<i>How has the Bank most effectively supported the Government?</i>	
Sector studies (analytical work) and technical assistance as the bases for project preparation.	CPS includes analytical work aimed at building in-depth sectoral knowledge in areas that will be supported by Bank projects (e.g., <i>Country Environmental Analysis</i> as the basis for Sustainable Tourism Project; <i>see Para. 44 of main text</i>).
Strengthen institutional capacity in Government entities executing Bank-financed projects; improve project implementation.	CPS emphasizes building local capacity, including for project implementation. (<i>see Para. 38</i>)
<i>What approaches have worked less well and lessons from other organizations?</i>	
Bank lacks permanent physical presence in Panama, making coordination and communication a challenge.	<i>Para. 27 of the CPS</i> reflects the Government's request that the Bank expand its presence in Panama by opening a Country Office in early FY08. The new local presence is expected to enhance communication and coordination to further improve program targeting and implementation.
Bank fiduciary procedures different from those used by Government and other donors (IDB); makes implementation of projects cumbersome and less efficient.	The CPS' two-tiered approach aimed at strengthening country fiduciary systems (through technical assistance and policy advice) and building capacity within Ministries to implement them is expected to allow for increased reliance on those very systems. (<i>see Para. 38</i>)
After projects close, lack of follow-up leads to lost capacity.	Project design will include an exit strategy to better ensure program sustainability (<i>see Para. 38</i>).
<i>Any specific advice for the incoming Resident Representative?</i>	
Further harmonize activities with other development partners; ensure that support for programs and initiatives do not overlap and are coordinated.	An incoming Resident Representative in Panama is expected to boost collaboration with other development partners to more efficiently support the Government program.
Foster closer relationships with civil society and other non-governmental institutions.	The Bank (through its new office in Panama) will seek ongoing dialogue with key non-governmental groups that can enhance the effectiveness and targeting of Bank activities. (<i>see Para. 45</i>)
<i>How can the Bank's relationship with Panama evolve as the economy continues to grow?</i>	
Notwithstanding Panama's economic performance, poverty reduction will remain a central issue in Panama for the foreseeable future.	Aligned with the Bank's mandate, the CPS emphasizes poverty reduction as the overarching objective. The FY09 Poverty Assessment will help define the targeting and scope of the Bank activities.
The Bank should concentrate on transferring knowledge and strengthening public sector capacity.	CPS program revolves around the idea of transferring knowledge in those areas where, through international experience, the Bank has gained a competitive edge.

Representative groups of Panamanians are in the midst of a national dialogue (facilitated by UNDP) to agree on a long-term strategy for development and poverty eradication. Central to this strategy is determining how best to use the additional income that is expected to be generated by the expansion of the Panama Canal after its completion in 2014. While the Bank is not a participant in this exercise, Bank staff are following its course. Box 1 (below) elaborates the process and the areas in which various focus groups are focused.

Box 1. National Dialogue for Development

On August 16, 2006, President Torrijos inaugurated the forum for a National Dialogue for Development (*Concertación Nacional para el Desarrollo*), aimed at designing a plan that will help transform Panama into a more democratic, equal, and prosperous society, primarily through the correct prioritization of the use of the additional revenue generated by expansion of the Panama Canal. This dialogue (facilitated by UNDP) between the Government and a wide range of social organizations (including representatives from civil society, business, academic institutions, political parties, indigenous organizations, women's and youth groups, as well as sectoral government representatives) seeks to establish long-term strategic objectives and specific actions in key areas of development. This forum was originally organized around four thematic working groups: (i) poverty reduction and equality; (ii) economic growth and competitiveness; (iii) education; and (iv) institutional strengthening. It was later agreed to expand the dialogue to include two new thematic working groups: (v) health; and (vi) justice and personal security. These six working groups are expected to present their conclusions and suggested actions to President Torrijos later this year.

The following are the focal areas that each working group has designated: **(i) Poverty reduction and equality:** expansion, focalization and improved monitoring and evaluation of public social expenditure; strengthening of social protection programs that target vulnerable and indigenous groups; and development of sustainable professional training that considers gender equality; **(ii) Economic growth and competitiveness:** guarantee fiscal and macroeconomic stability; expand environmentally sustainable infrastructure to support economic diversification; promote access to services and markets; support policies that help generate employment; stimulate public-private partnerships to deliver basic services; and encourage technological innovation; **(iii) Education:** increase school coverage (both in terms of enrollment as well as years of schooling); improve quality of education by strengthening curricula; improve teacher training and pedagogic methods; and expand multicultural and multiethnic education; **(iv) Institutional strengthening:** improve transparency and accountability in the provision of public services; improve access to information and stimulate civil society participation; professionalize the civil service; and enhance inter-institutional coordination among public entities; **(v) Health:** develop a model for the public health system including management, financing, social participation, and M&E; **(vi) justice and personal security:** increase access to justice; reform the judicial system; and increase accountability and transparency.

Panama at a glance

5/9/07

Key Development Indicators	Panama	Latin	Upper
		America & Carib.	middle income
(2006)			
Population, mid-year (millions)	3.3	551	600
Surface area (thousand sq. km)	76	20,420	30,136
Population growth (%)	1.6	1.3	0.6
Urban population (% of total population)	71	77	72
GNI (Atlas method, US\$ billions)	15.0	2,228	3,379
GNI per capita (Atlas method, US\$)	4,640	4,045	5,634
GNI per capita (PPP, international \$)	7,310	8,129	10,861
GDP growth (%)	8.1	4.5	5.5
GDP per capita growth (%)	6.4	3.1	4.9
(most recent estimate, 2000–2006)			
Poverty headcount ratio at \$1 a day (PPP, %)	7	9	..
Poverty headcount ratio at \$2 a day (PPP, %)	18	22	..
Life expectancy at birth (years)	75	72	70
Infant mortality (per 1,000 live births)	19	26	22
Child malnutrition (% of children under 5)	..	..	..
Adult literacy, male (% of ages 15 and older)	93	..	..
Adult literacy, female (% of ages 15 and older)	91	..	..
Gross primary enrollment, male (% of age group)	113	120	106
Gross primary enrollment, female (% of age group)	109	116	104
Access to an improved water source (% of population)	90	91	94
Access to improved sanitation facilities (% of population)	73	77	84

Age distribution, 2005

Male (left side, blue bars), Female (right side, red bars). X-axis: percent (0 to 15). Y-axis: age groups (0-4, 10-14, 20-24, 30-34, 40-44, 50-54, 60-64, 70-74).

Under-5 mortality rate (per 1,000)

Legend: Panama (light blue), Latin America & the Caribbean (dark blue). X-axis: years (1990, 1995, 2000, 2005). Y-axis: mortality rate (0 to 60).

Net Aid Flows	1980	1990	2000	2006 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	45	99	16	20
<i>Top 3 donors (in 2005):</i>				
United States	15	97	-9	7
Spain	..	6	13	4
Japan	2	2	3	2
Aid (% of GNI)	1.3	2.0	0.1	0.1
Aid per capita (US\$)	23	41	5	6

Growth of GDP and GDP per capita (%)

Legend: GDP (green line with diamonds), GDP per capita (purple line with squares). X-axis: years (90, 95, 00, 05). Y-axis: percentage (-5 to 10).

	1980–90	1990–2000	2000–06
<i>(average annual growth %)</i>			
Population, mid-year (millions)	1.9	2.4	2.9
GDP (US\$ millions)	3,810	5,313	11,621
<i>(% of GDP)</i>			
Agriculture	8.9	9.8	7.2
Industry	19.5	15.1	19.1
Manufacturing	11.0	9.7	10.1
Services	71.5	75.1	73.6
Household final consumption expenditure	44.9	56.9	59.9
General gov't final consumption expenditure	17.6	18.1	13.2
Gross capital formation	28.1	16.8	24.1
Exports of goods and services	98.2	86.8	72.6
Imports of goods and services	88.8	78.6	69.8
Gross savings	27.6	24.2	23.1

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. Group data are for 2005. .. indicates data are not available. a. Aid data are for 2005.

Balance of Payments and Trade **2000** **2006**

(US\$ millions)

Total merchandise exports (fob)	5,838	8,930
Total merchandise imports (cif)	7,655	10,402
Net trade in goods and services	-279	433

Workers' remittances and compensation of employees (receipts)	16	126
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Current account balance as a % of GDP	-7.15	-7.16
	-6.2	-4.2

Reserves, including gold	707	1,335
--------------------------	-----	-------

Central Government Finance **2000** **2005**

(% of GDP)

Revenue	23.3	..
Tax revenue	10.2	..
Expense	22.1	..

Cash surplus/deficit	-0.8	..
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Highest marginal tax rate (%)		
Individual	30	30
Corporate	30	30

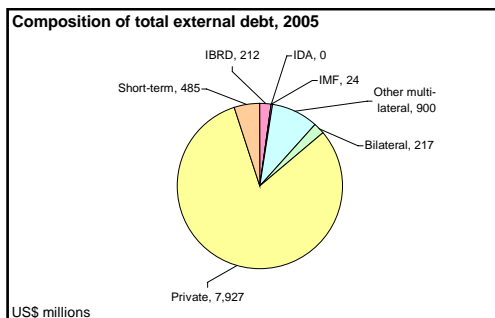
External Debt and Resource Flows

(US\$ millions)

Total debt outstanding and disbursed	7,041	9,765
Total debt service	918	2,081
HIPC and MDRI debt relief (expected; flow)	-	-

Total debt (% of GDP)	60.6	63.1
Total debt service (% of exports)	9.7	17.3

Foreign direct investment (net inflows)	624	1,027
Portfolio equity (net inflows)	0	0

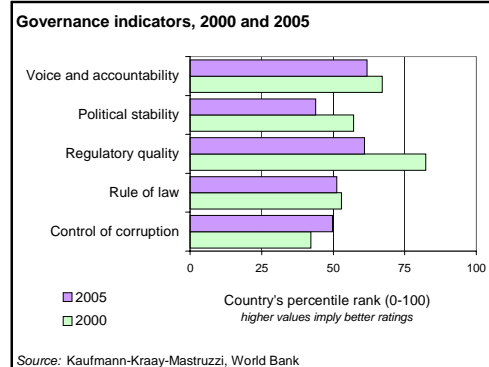


Private Sector Development **2000** **2006**

Time required to start a business (days)	-	19
Cost to start a business (% of GNI per capita)	-	23.9
Time required to register property (days)	-	44

Ranked as a major constraint to business (% of managers surveyed who agreed)		
Electricity	..	30.6
Tax rates	..	14.6

Stock market capitalization (% of GDP)	24.0	24.0
Bank branches (per 100,000 people)	..	12.9



Technology and Infrastructure **2000** **2005**

Paved roads (% of total)	34.6	..
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Fixed line and mobile phone subscribers (per 1,000 people)	285	555
--	-----	-----

High technology exports (% of manufactured exports)	0.1	0.9
---	-----	-----

Environment

Agricultural land (% of land area)	29	30
Forest area (% of land area, 2000 and 2005)	57.9	57.7
Nationally protected areas (% of land area)	..	17.6

Freshwater resources per capita (cu. meters)	..	45,613
Freshwater withdrawal (% of internal resources)	0.6	..

CO2 emissions per capita (mt)	1.9	1.9
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GDP per unit of energy use (2000 PPP \$ per kg of oil equivalent)	7.0	8.4
---	-----	-----

Energy use per capita (kg of oil equivalent)	875	801
--	-----	-----

World Bank Group portfolio **2000** **2005**

(US\$ millions)

IBRD		
Total debt outstanding and disbursed	283	212
Disbursements	22	9
Principal repayments	24	39
Interest payments	21	12

IDA		
Total debt outstanding and disbursed	-	-
Disbursements	-	-
Total debt service	-	-

IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	226	219
Disbursements for IFC own account	117	173
Portfolio sales, prepayments and repayments for IFC own account	84	40
	2	63

MIGA		
Gross exposure	0	0
New guarantees	0	0

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. .. indicates data are not available. - indicates observation is not applicable.

Panama
Selected Indicators* of Bank Portfolio Performance and Management
As of 7/25/07

Indicator	2005	2006	2007
Portfolio Assessment			
Number of Projects Under Implementation ^a	3	3	7
Average Implementation Period (years) ^b	4.4	5.4	5.1
Percent of Problem Projects by Number ^{a, c}	33.3	33.3	0.0
Percent of Problem Projects by Amount ^{a, c}	51.3	47.7	0.0
Percent of Projects at Risk by Number ^{a, d}	33.3	33.3	0.0
Percent of Projects at Risk by Amount ^{a, d}	51.3	47.7	0.0
Disbursement Ratio (%) ^e	11.7	14.8	31.2
Portfolio Management			
CPPR during the year (yes/no)	No	Yes	Yes
Supervision Resources (total US\$'000)	240.7	322.4	300.4
Average Supervision (US\$'000/project)	80.2	80.6	100.2

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	35	6
Proj Eval by OED by Amt (US\$ millions)	804.8	112.6
% of OED Projects Rated U or HU by Number	39.4	33.3
% of OED Projects Rated U or HU by Amt	24.9	21.7

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

IBRD Program Summary: Panama
As of 07/30/2007

Proposed IBRD Lending Program

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards (H/M/L)*</i>	<i>Implementation Risks (H/M/L)*</i>
Carry over Projects from Interim Strategy Note				
	Basic Education (Additional Financing)	5.4	M	L
	Social Protection Project	24.0	H	H
	Water & Sanitation in Low-income Communities	32.0	M	M
	Total	<u>61.4</u>		
2008	Competitiveness and PFM Development Policy Loan I	75.0	M	L
	Education III	30.0	H	M
	Health Project	30.0	H	M
	Subtotal	<u>135.0</u>		
2009	Competitiveness and PFM Development Policy Loan II	75.0	M	L
	Land Access	45.0	H	M
	Rural Microfinance	25.0	M	M
	Sustainable Tourism	30.0	H	H
	Subtotal	<u>175.0</u>		
2010	<i>Optional Development Policy Loan</i>	75.0	H	M
	Social Protection II	20.0	H	H
	Urban Transport	50.0	H	H
	Public Policy Reform TA II	10.0	M	L
	Subtotal	<u>155.0</u>		
	TOTAL	465.0		

* For each project, a rating is given to indicate whether strategic rewards and implementation risks are expected to be high (H), moderate (M) or low (L).

IFC and MIGA Program, FY 2004-2007
As of 6/30/07

	2004	2005	2006	2007
IFC commitments (US\$m)	55.3	65.0	1.1	26.0
Sector (%)				
Finance & Insurance	100		45	100
Transportation and Warehousing		100	55	
Total	100	100	100	100
Investment instrument (%)				
Loans	99	100		96
Equity	1			
Quasi-Equity				
Other			100	4
Total	100	100	100	100
MIGA guarantees (US\$m)	3.3	0.0	0.0	0.0

Summary of Nonlending Services: Panama
(As of 7/25/07)

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
ECONOMIC AND SECTOR WORK AND POLICY NOTES				
Recent completions				
Country Financial Accountability Assessment/Procurement Assessment Review	FY06	134	G,B	KG,PS
Public Expenditure Review	FY07	298	G,B,PD	KG,PS
Poverty Assessment	FY07	304	G,D,B,PD	KG,PD,PS
Urban Transport Study	FY07	165	G,B,PD	KG,PS
Underway				
Country Economic Memorandum /Investment Climate Assessment	FY08	150	G,B,PD	KG,PD, PS
Planned				
Country Environmental Analysis	FY08	165	G,B,PD	PD,PS
Poverty Assessment	FY09	191	G,D,B,PD	KG,PD,PS
Urban Development Study	FY09	335	G,B,PD	KG,PD,PS
Policy Notes	FY09	100	G,D	PD
Regional Studies				
Rural Microfinance	FY08	112	G, D, PS	PD, PS

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

Panama Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	1999-05	Latin America & Carib.	Upper-middle-income
POPULATION					
Total population, mid-year (<i>millions</i>)	2.2	2.7	3.2	551.4	598.7
Growth rate (<i>% annual average for period</i>)	2.2	2.0	1.8	1.4	0.6
Urban population (<i>% of population</i>)	52.1	60.0	70.8	77.2	72.0
Total fertility rate (<i>births per woman</i>)	3.3	2.8	2.6	2.5	1.9
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	36.8	..	..
Urban headcount index	..	..	20.0	..	..
Rural headcount index	..	..	62.7	..	..
INCOME					
GNI per capita (<i>US\$</i>)	2,360	2,900	4,640	4,008	5,625
Consumer price index (<i>2000=100</i>)	87	94	105	139	126
Food price index (<i>2000=100</i>)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	46.9	..	..
Lowest quintile (<i>% of income or consumption</i>)	..	..	4.0	..	..
Highest quintile (<i>% of income or consumption</i>)	..	..	51.9	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (<i>% of GDP</i>)	..	..	6.5	..	3.7
Education (<i>% of GDP</i>)	..	..	4.9	..	5.2
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	..	94	95	93
Male	..	..	..	..	94
Female	..	..	..	..	93
Access to an improved water source					
<i>(% of population)</i>					
Total	..	90	90	91	94
Urban	..	99	99	96	98
Rural	..	79	79	73	82
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	84	84	99	92	91
DPT	73	86	99	91	94
Child malnutrition (<i>% under 5 years</i>)	16	6	7	7	7
Life expectancy at birth					
<i>(years)</i>					
Total	71	73	75	72	69
Male	69	71	73	68	66
Female	74	76	78	75	73
Mortality					
Infant (<i>per 1,000 live births</i>)	30	27	19	27	23
Under 5 (<i>per 1,000</i>)	39	34	24	31	28
Adult (15-59)					
Male (<i>per 1,000 population</i>)	172	146	156	219	286
Female (<i>per 1,000 population</i>)	117	94	87	124	150
Maternal (<i>per 100,000 live births</i>)	..	..	160	194	91
Births attended by skilled health staff (%)	..	86	93	88	95

CAS Annex B5. This table was produced from the CMU LDB system, with updated figures from the 2003 LSMS for certain categories.

07/31/07

Note: 0 or 0.0 means zero or less than half the unit shown.

Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2002	2003	2004	2005	2006	2007	2008	2009	2010
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	8	8	8	8	8	7	7	7	7
Industry	16	14	18	18	19	16	16	16	16
Services	76	79	74	74	73	77	77	77	77
Total Consumption	79	76	78	76	78	78	77	76	76
Gross domestic fixed investment	14	17	17	17	18	22	24	27	29
Government investment	2	3	3	2	5	2	3	3	3
Private investment	11	14	14	14	13	20	22	24	26
Exports (GNFS) ^b , excluding CFZ	8	8	8	8	9	8	8	7	7
Imports (GNFS), excluding CFZ	19	19	20	21	22	23	25	27	30
Gross domestic savings	21	24	22	24	22	22	23	24	24
Gross national savings ^c	21	20	17	19	17	18	19	19	19
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	12272	12933	14179	15483	17097	19274	21788	24379	27285
GNI per capita (US\$, Atlas method)	3820	3930	4310	4640	4960	5370	5950	6580	7210
Real annual growth rates (% , calculated from 82 prices)									
Gross domestic product at market prices	2.2	4.2	7.5	6.9	8.1	8.5	8.8	7.9	7.1
Gross Domestic Income	3.2	8.8	3.6	8.8	3.2	6.2	5.8	7.4	6.5
Real annual per capita growth rates (% , calculated from 82 prices)									
Gross domestic product at market prices	0.3	2.3	5.6	5.1	6.4	6.7	7.0	6.1	5.3
Total consumption	5.3	5.4	2.1	5.3	3.8	5.1	2.8	4.9	4.1
Private consumption	5.0	6.8	2.5	5.7	4.4	4.7	0.9	4.7	3.9
Balance of Payments (US\$ millions)									
Exports (GNFS), excluding CFZ	970	992	1149	1285	1470	1561	1678	1804	1964
Imports (GNFS), excluding CFZ	2352	2459	2779	3174	3710	4452	5382	6680	8104
Net current transfers	244	246	228	243	258	250	220	140	80
Current account balance	-64	-503	-1075	-782	-378	-1079	-1467	-2207	-2997
Net private foreign direct investment	99	771	1012	1027	2560	1415	1526	1645	1767
Long-term loans (net)	349	221	173	543	928	362	964	2009	3174
Official	31	3	-38	-71	11	320	380	305	263
Private	318	218	211	614	917	42	584	1704	2911
Other capital (net, incl. errors & omissions)	-324	-746	-489	-1310	-3276	-396	-812	-1230	-1697
Change in reserves ^d	-60	257	379	521	166	-303	-211	-218	-247
<i>Memorandum items</i>									
Resource balance (% of GDP)	-11.3	-11.3	-11.5	-12.2	-13.1	-15.0	-17.0	-20.0	-22.5

Key Economic Indicators (continued)

Indicator	Actual			Estimate			Projected		
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Nonfinancial Public Sector Indicators (as % of GDP at market prices)^e									
Revenues excluding PCA	21.1	22.3	21.1	22.3	25.3	25.6	24.6	24.5	24.3
Expenditures excluding PCA	26.0	27.0	26.0	24.9	24.8	25.1	24.9	24.9	24.6
Overall Balance, excl. PCA	-4.9	-4.7	-4.9	-2.6	0.5	0.5	-0.2	-0.4	-0.3
Primary Balance, excl. PCA	-0.7	-0.3	-0.7	1.8	4.8	4.7	3.5	3.2	2.7
Monetary indicators									
M2/GDP	76.6	76.1	75.3	74.7	83.3	83.3	83.3	83.3	83.3
Growth of M2 (%)	-0.3	4.8	8.4	8.3	23.1	12.7	13.0	11.9	11.9
Private sector credit growth / total credit growth (%)	155.0	-70.2	57.8	141.7	99.4	100.0	100.0	100.0	100.0
Price indices(YR82 =100)									
Real exchange rate (US\$/LCU) ^f	104.9	99.0	93.0	92.5	92.8	93.8	94.8	95.6	97.2
Real interest rates									
Consumer price index (% change), avg.	1.0	1.4	0.5	2.9	2.5	3.7	3.6	3.8	3.9
GDP deflator (% change)	1.7	1.1	2.0	2.1	2.1	3.9	3.9	3.7	4.5

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services." Excludes Colon Free Zone.

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. NFPS.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

External Debt Exposure Indicators

Indicator	Actual			Estimate			Projected		
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total debt outstanding and disbursed (TDO) (US\$m):									
Total Public	7818	8148	9358	9630	9865	9961	10080	10224	10373
External Public Sector	6345	6505	7217	7587	7779	8514	8675	8969	9223
Debt and debt service indicators (%):									
Total Public (% of GDP)	63.7	63.0	66.0	62.2	57.7	51.7	46.3	41.9	38.0
External Public Sector (% of GDP)	51.7	50.3	50.9	49.0	45.5	44.2	39.8	36.8	33.8
IBRD exposure indicators (%):									
IBRD DS/public DS	3.3	6.6	4.7	6.8	4.6	6.5	6.2	8.4	8.6
Preferred creditor DS/public DS (%) ^a	10.6	22.8	17.4	27.2	18.5	30.5	25.8	33.3	34.7
IBRD DS/XGS	0.5	0.6	0.5	0.4	0.4	0.3	0.4	0.4	0.3
IBRD TDO (US\$m)	287	270	246	212	185	248	300	389	499
Share of IBRD portfolio (%)	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.5

a. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

Operations Portfolio (IBRD and Grants)
As of date 7/30/2007

Closed Projects 44

IBRD/IDA *

Total Disbursed (Active)	59.89
of which has been repaid	6.86
Total Disbursed (Closed)	948.20
of which has been repaid	950.29
Total Disbursed (Active + Closed)	1,008.09
of which has been repaid	957.15
Total Undisbursed (Active)	134.05
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	134.05

Active Projects

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions				
		Supervision Rating			IBRD	IDA	GRANT	Cancel.	Undisb.
		<u>Development Objectives</u>	<u>Implementation Progress</u>						
P083045	PA -GEF Rural Productivity	S	S	2006			6		6.00
P052021	PA BASIC EDUCATION II	S	S	2001	35				5.22
P050595	PA LAND ADMINISTRATION	MS	MS	2001	47.9				27.22
P055844	PA Public Policy Reform TA Project	S	S	2002	16.5				6.21
P064918	PA Rural Productivity (former 2nd Rur Po	S	S	2007	39.4				39.40
P098328	PA Social Protection project	#	#	2008	24				24.00
P082419	PA-Water&Sanitation in Low-Income Comm.	#	#	2008	32				32.00
Overall Result					194.8		6		140.05

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

**Statement of IFC's
Committed and Outstanding Portfolio
As of 6/30/2007
(In US\$ Millions)**

FY Committed	Company	Committed					Outstanding				
		Loan	Equity	RM	Total IFC	Partic	Loan	Equity	RM	Total IFC	Partic
2003	Aguas Panama	4.1	-	-	4.1	5.7	4.1	-	-	4.1	5.7
1998/2000	Banco General S.	25.0	-	-	25.0	-	25.0	-	-	25.0	-
	Banco Uno - Panama	-	-	1.0	1.0	-	-	-	-	-	-
2007	Banvivienda	25.0	-	-	25.0	-	-	-	-	-	-
1993/2004	Continental-PANAMA	30.0	-	-	30.0	-	30.0	-	-	30.0	-
2005	Copa Airlines	15.0	-	-	15.0	-	-	-	-	-	-
1995/2000/2005	Manzanillo	50.0	-	-	50.0	-	40.9	-	-	40.9	-
2000	PCRC	9.5	-	0.6	10.1	12.6	9.5	-	0.4	9.9	12.6
2003/2004	UBCI	-	47.2	-	47.2	-	-	47.2	-	47.2	-
Total Portfolio:		158.5	47.2	1.6	207.3	18.2	109.4	47.2	0.4	157.0	18.2