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AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY

(FY2011-FY2014)

FOR

THE REPUBLIC OF PANAMA

August 24, 2010

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

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ABBREVIATIONS AND ACRONYMS

AA	Associate Agreement
AAA	Analytical and Advisory Activities
ACND	Acuerdos de la Concertación Nacional para el Desarrollo
ACP	Panama Canal Authority
AECI	Agencia Española de Cooperación Internacional
AMP	Panama Maritime Authority
CAF	Cooperación Andina de Fomento
CAIR	Calculo Alternativo del Impuesto sobre la Renta
CAT-DDO	Catastrophe Deferred Drawdown Option
CCT	Conditional Cash Transfer Program
CGR	Comptroller General
CFAA/CPAR	Country Financial Accounting Assessment/Country Procurement Assessment Report
CFZ	Colon Free Trade Zone
CPS	Country Partnership Strategy
CSS	Social Security Institute
DGCP	General Directorate of Public Procurement
DPL	Development Policy Lending
DRM	Disaster Risk Management
EC	European Commission
GDP	Gross Domestic Product
GEF	Global Environment Fund
GoP	Government of Panama
GPSP	Government of Panama Strategy Plan
ESW	Economic and Social Work
FS	Fiscal Sustainability
IBRD	International Bank for Reconstruction and Development
IDAAN	Instituto de Acueducto y Alcantarillados Nacionales
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMAE	Monthly Index of Economic Activity
IMF	International Monetary Fund
INADEH	Instituto Nacional de Formación Profesional y Capacitación para el Desarrollo Humano
IPCC	Intergovernmental Panel on Climate Change
JICA	Japan International Cooperation Agency
LSMS	Living Standards Measurement Survey
MEF	Ministry of Economy and Finance
M&E	Monitoring and Evaluation

MIDES	Ministry of Social Development
MINSA	Ministry of Health
MITRADEL	Ministry of Labor
MoF	Ministry of Finance
MOP	Ministry of Public Works
NFPS	Non-Financial Public Sector
OECD	Organization for Economic Cooperation and Development
REDD	Reducing Emissions from Deforestation and Forest Degradation
SDMC	International Trade Declaration System
SERCE	Second Regional Study for Learning Assessment
SIAFPA	Panama Integrated Financial Management System
SIECA	Economic Integration Process in C.A.
SINAPROC	National Civil Protection System
TA	Technical Assistance
TPA	Trade Preference Agreement
UN	United Nations
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development
VAR	Vector Autoregressive
WB	World Bank
WEF	World Economic Forum

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PANAMA

COUNTRY PARTNERSHIP STRATEGY FY2011-2014

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PANAMA - COUNTRY PARTNERSHIP STRATEGY FY11-14 (CPS)

I. INTRODUCTION

1. **The Martinelli administration took office in July 2009 with a strong mandate for change.** President Ricardo Martinelli was sworn-in for a five-year term on July 1, 2009, backed by an unprecedented 60 percent election victory and a majority in the National Assembly (42 of 71 seats). The new administration is the fifth democratically elected administration in Panama since the ouster of Manuel Noriega in 1989. The Martinelli administration hopes to build on the strengths and lessons of prior governments by combining administrative experience from both the private and public sectors to enhance the country's development prospects.

2. **The Government has committed to addressing key development challenges including bottlenecks to growth as well as expanding economic opportunities for the poor.** Martinelli's administration is looking toward leveraging private sector economic development with public investment to assist with some of the country's most difficult challenges. Compared to the prior 5 years, the Government is planning to more than double public investment (to over US\$13 billion), a third of which will be invested in projects to improve Panama's competitive advantages (logistics, tourism, and agriculture). Moreover, it has committed to deepening the impact of the country's flagship poverty reduction conditional cash transfer program, *Red de Oportunidades*, improve the efficiency and effectiveness of all public spending, and is hoping to make significant inroads to improving security, public transportation, educational opportunities, health care, and water and sanitation. To ensure fiscal sustainability and improve equity, the Government has begun implementation of a broad-based tax reform that is expected to net an additional 2 percent of GDP per year.

3. **In its first six months, the Government has delivered on several of its key goals.** These goals have been referred to as the *metas imperdonables* "goals to be met with no excuses." Advances have included: (i) presentation of its 5-year economic development and tax reform strategy to the National Assembly, (ii) implementation of its tax reform strategy, (iii) increasing police salaries and the minimum wage; (iv) implementing a program to deliver US\$100 per month for citizens 70 years or older with no pension, called "100 a los 70"; (v) creating the Metro Secretariat and a plan for a 14 km Panama City metropolitan subway system; and (vi) achieving an investment grade sovereign credit rating from the three main international rating agencies. The Government is also making significant progress on negotiating 16 bilateral tax information sharing agreements (more than the required 12) and expects to meet OECD requirements by the end of 2010. Recognizing the challenges of implementing its ambitious program, the Government is also working to improve its governance and transparency through results based budgeting, enhanced financial management, and procurement reforms.

4. **Unlike many other governments in the region that face a much more divided legislature and fractured polity, the Martinelli administration has been able to quickly pass reforms.** While this has permitted the implementation of an ambitious development program and allowed for significant policy changes to deliver on campaign commitments, it has also generated some concerns about a lack of broad consultation. In mid-June 2010, the Government passed a package of legal reforms as a means to facilitate the implementation of its ambitious

development plan.¹ Although the package was presented to promote the speed of public investment, it has also raised concerns among some civil society groups about limits to labor rights and the potential easing of environmental regulations. In response, the Martinelli administration has committed to opening a broad National Dialogue about the new legislation to provide the opportunity to amend it. The challenge for the Government will be to balance its commitment to deliver its ambitious development program with the need to develop a broad consensus in the country on the legal changes required to meet those commitments in a timely manner.

5. This Panama CPS (FY2011-14) is built around three pillars aimed to support Panama in confronting its development challenges: 1) Economic growth that builds on Panama's competitive advantages, 2) Providing greater opportunities for all, and 3) Transparent and efficient public sector that provides returns to society. The third pillar is cross-cutting and helps support growth and provide for a more efficient and effective public sector. The World Bank Group (WBG) support within each of these pillars is focused on areas in which the WBG has a strong comparative advantage by virtue of prior successful programs in Panama or relevant regional and global experience. The demand-driven partnership program included in the CPS is intended to be flexible and responsive to changing client needs.

II. COUNTRY CONTEXT

A. ECONOMY AND GROWTH

6. Panama is an upper-middle income country with a dollarized economy and a per capita gross national income of US\$6,740. The country has about 3.5 million people; nearly three-quarters of them live in urban areas, mostly around the Panama Canal. About 10 percent of the population is of indigenous origin and primarily reside in remote rural areas.

7. Panama has an open economy traditionally centered on the Canal, trade and financial services. Panama is one of the most open economies in the region, with both exports and imports as a share of GDP above 60 percent. Wholesale and retail trade and financial services are concentrated in urban areas and have accounted for 40 percent of GDP and over 80 percent of the country's total exports. Panama's international service sector rests on five main activities including the Panama Canal operations, ports and logistics, tourism, re-exports of the Colon Free Zone, and financial intermediation. Most industry production is agro-industrial and has traditionally been concentrated in special economic zones that enjoy privileged tax treatment on inputs for export.

8. Panama's growth performance has been comparatively strong. Over the last 50 years, Panama's real GDP growth has averaged about 5 percent, which has ranked it among the faster growing economies in Latin America. With an ethnically diverse population, a world famous canal, and a modern financial and trade sector, Panama has been a prime benefactor of the increasingly globalized world economy. In the four years prior to the global economic crisis in 2008, Panama saw growth averaging 8.5 percent per year and the unemployment rate falling from 13.8 percent to 5.6 percent. Growth was fueled not only by the buoyant global economy, but also by strengthened domestic policies that improved fiscal balances, reduced financial sector

¹ Particularly the June 16, 2010 ratified Law 30, which includes changes to labor, police, and environmental law.

vulnerabilities, and enhanced productive investment. In addition, through a historic national referendum in 2006, Panama approved a US\$5.25 billion expansion of its canal (See Box 1). These factors contributed to strengthened investor confidence, lower interest rates, and greater stability, which allowed the economy to weather the global crisis better than most countries.

Box 1: Panama Canal

Under Panamanian management, both operational and financial performance of the Canal significantly improved. On December 31, 1999, the control of the Canal was transferred to Panama and since then the Canal has been managed and operated by the Panama Canal Authority (“ACP”) an autonomous entity of the national Government. Over 14,700 vessels passed through the Canal every year, carrying over 300 million tons or 5 percent of the world seaborne cargo trade. The main users of the Canal are US, China, EU, and Japan, but it is also important to Central and South American economies.

The Canal is the greatest economic asset of the Panamanian nation. ACP’s transfers to the National Treasury in 2009 represented about 3.4 percent of country’s GDP and about 12.5 percent of its fiscal revenues.

The capacity of the original Canal, with all improvements, is currently close to its maximum. To address the capacity challenge the ACP has developed a US\$5.25 billion expansion program that by its completion in 2014 would double the Canal capacity and enable the use of much larger and more efficient vessels.

Preliminary estimates suggest a permanent 0.6 to 0.8 percentage-point boost to real GDP growth after expansion. The improvements would also stimulate international trade and reduce global transportation costs.

The IFC Board approved a US\$300 million loan for the Panama Canal Authority (ACP) in late 2008 as part of the US\$5.25 billion financing package for the canal’s expansion. IFC’s participation ensured the successful structuring of this complex transaction. At the moment, the expansion project is continuing on schedule.

B. POVERTY

9. **A key development challenge facing Panama is to ensure that economic growth is maintained and that benefits are broadly shared.** Indeed, Panama’s economic development has been characterized by a high degree of inequality. Growth has traditionally benefited mainly the capital-intensive service sectors concentrated geographically in the Panama and Colon provinces, while generating little economic opportunity for low-income members of society.² Moreover, while Panama does spend a relatively large share of GDP on social programs compared to other countries in the region, the effectiveness of these programs in reducing poverty by creating opportunities for all remains a challenge.

10. **A large share of the population continues to live in poverty, including about 15 percent in extreme poverty (See Table 1).** Poverty in the country is concentrated in rural and indigenous areas. Nearly all people living in indigenous areas are poor (96.3 percent) and most

² There are likely many elements behind growth not translating into poverty reduction in the poor and rural areas, including the lack of education and physical capital, the tradition of communal property, and other cultural and economic factors.

are extremely poor (85 percent). Indigenous areas have close to 21 percent of the total poor population and close to 42 percent of the extreme poor. In non-indigenous rural areas, half of the population is poor. The country has thus one of the highest indexes of inequality in the region and the world (0.47 Gini coefficient), with the richest 20 percent of the population responsible for half of the country's total consumption.

Table 1: Incidence and Number of Poor in Panama

	Total	Poor		Non Poor	
		Total	Extreme		Non Extreme
2008					
Incidence (Percent)	100.0	32.7	14.4	18.3	67.3
Number of people (Thousands)	3,334	1,090	481	609	2,244
2003					
Incidence (Percent)	100.0	36.8	16.6	20.2	63.2
Number of people (Thousands)	3,063	1,128	509	620	1,935

Source: ENV 2003 and 2008. MEF and INEC-CGR

11. **While social outcomes and access to services have improved, there is a need for greater efficiency and effectiveness in public investment to create greater opportunities for all.** Life expectancy has increased significantly over the years; however, malnutrition remains a major challenge, particularly in indigenous areas where 62 percent of children under five are chronically malnourished; in contrast to 11 percent in urban areas. Malnutrition rates in indigenous areas have increased since 2003, when 57 percent of children were chronically malnourished. Average years of schooling among adults have increased significantly; yet, there are major socioeconomic and ethnic differences in school enrollment, especially in secondary education. For example, while in the urban province of Colón secondary net enrollment rate was 70 percent in 2007, in the Ngäbe Buglé and Kuna Yala indigenous areas it was only about 30 percent.³ In terms of the quality of basic education, there are also significant challenges to overcome. In a recent regional student learning assessment (SERCE), Panamanian primary school students in third and sixth grade scored well below the average among the 16 participating countries, ahead only of Dominican Republic and Guatemala.⁴ Access to water and sanitation services has improved (the Government estimates that 84 percent of the total population has access to potable water through connections) but it is much less in rural areas.⁵

12. **To address these challenges, Panama has introduced various programs to reduce poverty and increase access to services.** The *Red de Oportunidades* conditional cash transfer program, for instance, targets the poorest households with children to improve standards of living and access to basic social services. This program transfers resources to the poorest mothers so that their children can go to school and receive basic health and nutrition services. This program benefits mainly people living in indigenous and poor rural areas. The Government has also strengthened programs that offer health and education services to the poor in rural areas.

³ MEDUCA statistics. 2007.

⁴ UNESCO, 2008. "Los Aprendizajes de los Estudiantes de América Latina y el Caribe."

⁵ See Plan Estratégico de Gobierno 2010-2014.

13. **The Martinelli administration is committed to deepening the impact of these programs and generating opportunities for all.** The administration has expressed support to these social programs as well as providing the public investment needed for greater employment and human development opportunities outside the traditional urban areas. The administration has also committed additional resources to social protection programs, such as “100 a los 70” that provides US\$100 for retirees 70 years or older not covered by pension programs.

C. GENDER

14. **Panama is making steady progress on gender equality as measured by education, health, and labor force participation indicators disaggregated by sex.**⁶ Progress toward gender equality from a legal and institutional standpoint has also been significant. In terms of human capital accumulation, women have surpassed men in both secondary and tertiary education achievements. This trend is common in Central America (with the exception of Guatemala and El Salvador), but it is especially strong in Panama. Younger generations of women are now more likely than their male counterparts to complete secondary school.

15. **While women’s wages still fall behind men’s in Panama, the overall wage gap has narrowed for younger generations.** Women still earn between fifty to sixty percent of men’s wages, which is below Latin America’s average of 67 percent in 1994. This gap is a result not solely of differences in gender endowments (including education), but of also how these endowments are rewarded, a pattern which has in part crowded women out of the formal sector (See Annex E1). The Martinelli administration has expressed its concern and commitment for narrowing these gaps by enhancing formal sector job market training for underserved segments of the population. The National Institute of Women (*Instituto Nacional de la Mujer*, INAMU), which was created and approved by Law 71 on December 23, 2008 is an autonomous entity that supports gender equity. The Martinelli administration is providing ongoing support to the Institute through the First Lady’s Office and the Ministry of Social Development. The World Bank Group partnership with Panama aims also at decreasing these gender gaps. Two Bank financed projects support maternal and reproductive health services; another project supports the CCT program which transfer resources to mothers to improve their families’ living standards. Finally, the Bank will also provide technical assistance to enhance the formal sector job market training for underserved segments of the population.

D. GOVERNANCE AND TRANSPARENCY

16. **President Ricardo Martinelli won the election on a campaign focused on change and better governance and transparency.** Prior to elections in 2009, “inefficient government bureaucracy” and “corruption” were the top two cited “problematic factors” for doing business in Panama.⁷ To improve the situation, the Government Strategic Plan includes a cross-cutting axis aiming precisely at improving the efficiency of the public sector as well as governance and transparency.

17. **The Government of Panama has demonstrated its willingness and commitment to improve transparency and governance by supporting a stronger legal framework.** The approval of the Fiscal Responsibility Law (Law no. 22, 2008), coupled with improvements made to the Procurement Law (Law no. 22, 2006), and the Law of Access to Information and Habeas

⁶ World Bank. 2007. Panama Poverty Assessment.

⁷ WEF’s 2008 firm surveys.

Data (Law no. 16, 2002), which encompasses information held by the state that is specific to an individual citizen, provide a sound legal framework for future governance and transparency work, and help improve public perception and trust in the Government.

18. **Efforts led by the *Dirección General de Contrataciones Públicas (DGCP)* have also led to improving transparency and governance.** For instance, the DGCP, with World Bank support, created *PanamaCompra*, an e-procurement platform that reduces payment times to suppliers of goods and services, and *PanamaTramita* and *PanamaEmprende* that simplify business processes. The Government of Panama has strengthened the public procurement system not only by increasing its transparency through the use of *PanamaCompra* but also by significantly increasing its efficiency through the introduction of framework agreements for commonly used goods.

19. **Although much progress has been made to improve budgetary management in recent years, gaps remain and the administration is working to increase effectiveness in budget preparation and efficiency in budget execution.** Panama's financial management and budgetary systems are fairly comprehensive and transparent, and the medium term budget formulation reflects the country's main priorities. Budget monitoring and execution is timely and transparent and extensive financial performance information is made public. However, the Government recognizes the need to strengthen a number of key initiatives that include: (i) development of a "bottom-up" budgeting process incorporating sector strategic business plans; and (ii) compliance with public investment programming procedures during budget preparation. With respect to budget execution, the Government would like to strengthen its capacity to properly follow procurement plans and control within-year budget modifications to assure predictability of expenditures.

20. **The country's public financial management and public procurement systems are adequate for ongoing and expected future operations.** The Bank prepared a CFAA/CPAR in December 2006 to document the current state of public financial management in the country, including recommendations to enhance the public expenditure efficiency and strengthen the impact of the public expenditure. The Government advanced on some of these recommendations. While challenges remain, the Government is moving ahead to further strengthen its public fiduciary control framework. Public financial management processes have been supported by the Bank through previous development policy lending operations as well as an ongoing technical assistance operation. The Bank is also engaged in policy dialogue with the Government to follow up on priorities identified in the CFAA/CPAR.

21. **To build on progress made, the Government is working to further strengthen accountability and utilize performance metrics.** The allocation of public resources and the efficiency of public institutions can be improved by linking public spending to outcomes and strengthening key functions, such as sector planning and budgeting, as well as the targeting and allocation of public resources. A critical gap that the administration is working to narrow is the lack of systematic monitoring and evaluation of programs and projects. The consolidation of a comprehensive monitoring and evaluation system is recognized as a vital step to achieving increased effectiveness, impact, and transparency of public spending.

E. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

22. **Despite the global crisis, Panama has continued to see growth, albeit modest.** Compared to a regional average output contraction of 2.5 percent in 2009, Panama did relatively well with growth of about 2.4 percent in 2009 (See Figure 1). The direct effects from the global crisis were modest and the financial system remained stable. However, the economy was indirectly affected through declines in credit growth, reduced trade financing, and a halt in new real estate construction, which, in turn, was felt in sectors such as agriculture, transport, trade and construction. Reflecting the decline in demand, the current account was balanced in 2009, from a deficit of 11.6 percent in 2008. Going forward, growth is expected to accelerate to over 6 percent and the current account deficit is expected to widen to about 8.0 percent of GDP in 2010-2011 as internal demand picks up and imports associated with the canal expansion increase.

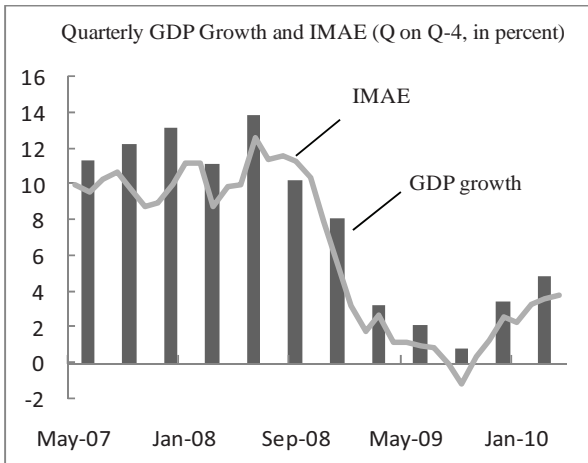
23. **During 2010 and beyond, economic activity is expected to accelerate.** The Panamanian economy is expected to see 4.8 percent growth in 2010 (See Table 2). The thrust of the modest acceleration in growth should be based on ongoing high domestic investment rather than a return to booming external demand. The key elements stoking the domestic economy are likely to come from the ongoing investment in the Panama Canal expansion project (which by mid-2010 should begin its more intensive phase. See Box 1) and the implementation of the Government's overall investment plan, including initiation of the project to build the Metro. Stronger credit growth and firmer commodity prices should also contribute to a recovery in agriculture and industrial output in 2010-11, with efforts to boost infrastructure improving construction output. Unemployment is expected to fall in 2010 as construction picks up and financing constraints ease. Based on increased investment and a return to ongoing recovery in the global economy, annual growth is projected to rise to above 6 percent in 2011-12.

24. **The Government's investment plan for the 2010-2014 period amounts to US\$13.6 billion, which is significantly higher than during prior administrations.** About US\$7.3 billion will be invested in the social sectors, of which US\$2.9 billion will be invested towards training and social assistance. Most of the investment will be done in the regions outside Panama City (about US\$4.2 billion) but the single most important investment project will be the metro for the City of Panama (about US\$1.8 billion). Other expected investments outside urban areas include irrigation projects, roads to enhance logistical advantages and interconnection with ports, and rural electrification. The investment program represents an increase of about 1 percent of GDP in capital expenditures per year.

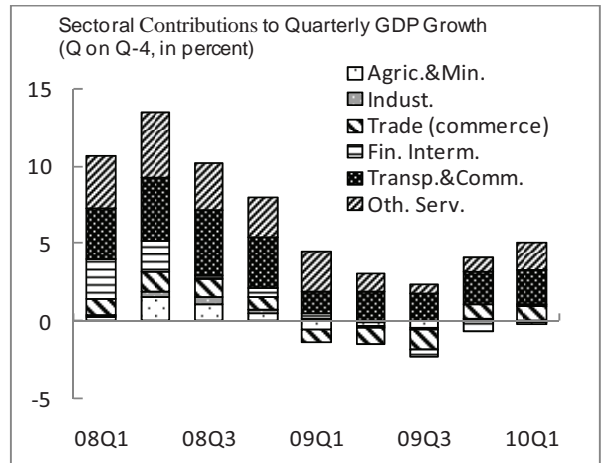
25. **Tax reform approved by the National Assembly is expected to increase tax collections.** The first of the two phases of the tax reform was implemented before the end of 2009 and included an increase in taxes for casinos and taxes on income of companies operating in the Colon Free Trade Zone. The total increase in tax collection for the Central Government for this phase is estimated at 1 percent of GDP per year. The second phase of the reform was approved by the National Assembly on March 15, 2010 and includes higher taxes on consumption and lower taxes on personal and corporate income (See Box 2 for more details). The Government is expected to collect an additional 1 percent of GDP per year from this most recent reform. Both the first and second phases of reform will bring about 2 percent of GDP in additional revenues, which will be sufficient to finance the additional capital expenditures required by the new investment plan. The tax reform was planned to be neutral in terms of equity but the VAT increase may have a very modest impact on the poor. The Bank will work with the Government to improve the targeting of social expending in order to compensate for this measure.

Figure 1: Panama: Recent Developments

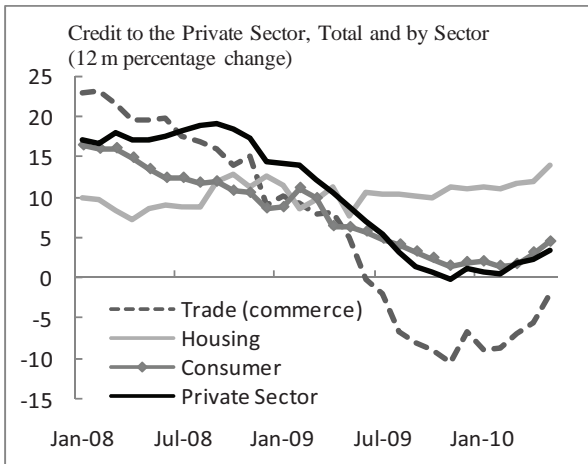
Economic growth is slowing up as a result of the external demand recovery.



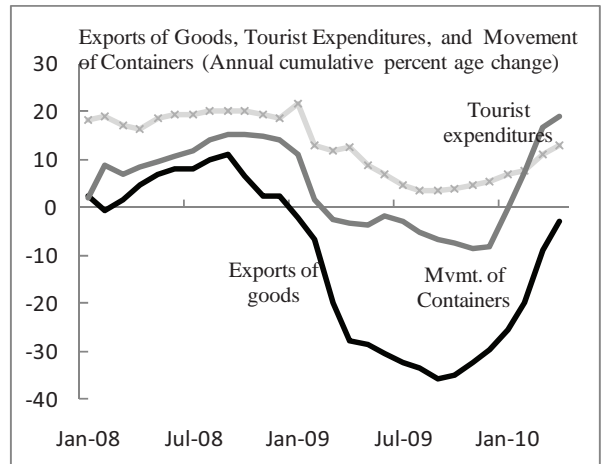
Commerce, transporta and construction are the sectors driven up the economy...



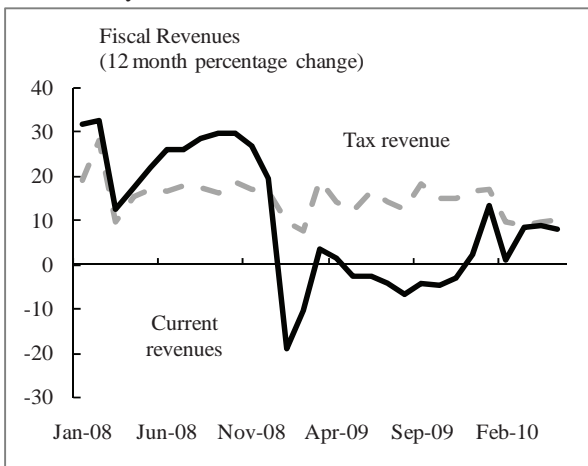
...while financial conditions keep worsening.



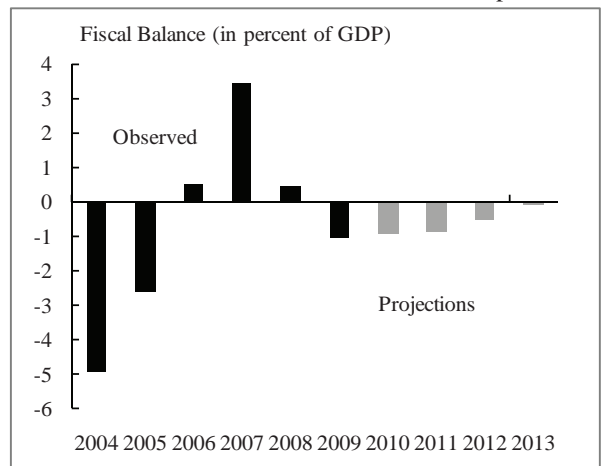
The recovery of the external demand is affecting all major export segments.



Fiscal revenues are beginning to increase as a result of the recovery...



...but despite relaxing the fiscal deficit rule, the new administration remains committed to fiscal discipline.



Sources: Contraloría General de Panamá, Superintendencia Bancaria, and WB staff calculations.

Table 2: Panama: Key Macroeconomic Indicators, 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
				prelim.	proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	<i>(annual percentage change)</i>									
National income and prices										
Real GDP	8.5	12.1	10.7	2.4	4.8	6.3	6.5	6.2	6.2	6.5
Inflation (eop)	2.2	6.4	6.8	1.9	3.0	2.7	2.5	2.5	2.5	2.5
	<i>(in percentage of GDP)</i>									
Savings and investment										
Gross national savings	16.3	16.9	15.8	24.8	18.7	20.2	19.8	20.0	21.1	22.1
Gross fixed investment	19.5	24.1	27.4	24.8	26.7	28.2	28.3	27.8	26.9	26.6
Fiscal accounts										
Non financial public sector										
Total revenues and grants, including ACP 1/	26.8	29.7	29.2	27.4	27.8	29.0	28.7	28.7	28.6	28.8
Total expenditures	25.6	25.0	26.7	27.9	29.8	30.9	30.7	29.9	28.4	27.7
Overall balance, including ACP 1/	1.2	4.8	2.5	-0.5	-2.0	-2.0	-2.1	-1.1	0.2	1.1
Overall balance, excluding ACP 1/	0.5	3.4	0.4	-1.0	-0.9	-0.9	-0.5	-0.1	0.3	0.5
Total public debt (net)	52.6	45.6	38.8	39.4	40.4	38.8	37.4	35.2	31.9	28.5
Central Government										
Total revenues and grants	18.6	19.2	19.7	18.0	18.9	19.7	19.7	19.6	19.6	19.8
Tax Revenues	10.3	10.6	10.5	10.7	11.7	12.5	12.5	12.5	12.5	12.5
Total expenditures	18.4	18.0	19.4	19.5	20.0	21.1	20.8	20.5	20.4	20.2
Capital Expenditures	2.5	4.0	5.6	6.2	6.3	7.6	7.2	7.1	7.1	7.1
Overall balance	0.2	1.2	0.3	-1.4	-1.1	-1.4	-1.1	-0.8	-0.8	-0.4
	<i>(annual percentage change)</i>									
External sector										
Merchandise Exports	14.3	11.7	5.2	-27.1	19.8	9.3	11.7	12.2	12.3	12.7
Merchandise Imports	18.2	40.7	18.9	-15.2	22.7	14.9	13.5	8.7	3.3	6.3
	<i>(in percentage of GDP)</i>									
Net exports, from CFZ	3.4	2.3	0.0	8.2	3.3	3.2	3.3	3.4	3.4	3.4
Current account balance	-3.1	-7.2	-11.6	0.0	-7.9	-8.0	-8.5	-7.7	-5.9	-4.5
Foreign direct investment	14.6	9.6	10.4	7.2	7.7	7.9	8.0	8.0	8.1	8.1

Source: WB staff calculations based on data from Contraloría General de Panamá and IMF.

1/ Panama Canal Authority

26. A combination of a gradual rise in revenue and a containment of current expenditure should allow the authorities to expand public investment while keeping public debt sustainable in coming years (See Debt Sustainability Analysis in Annex D1).⁸ The fiscal adjustment since 2005 and higher GDP growth resulted in a fall of the consolidated public debt-to-GDP ratio from 62.2 percent in 2004 to 38.8 percent in 2008. But in 2009 the debt stock increased to about 39.4 percent of GDP owing to slower growth and lower revenues. The Government expects to maintain the deficit within the bounds of the Fiscal Sustainability Law, which implies a deficit of less than 2.0 percent of GDP in 2010 and a stock of the public debt that rises slightly to around 40 percent of GDP over the next three years and thereafter begins to decline, which is fiscally sustainable. In particular, the increase in investment will be financed by the additional revenues collected by the new tax reform, while at the same time current expenditures are contained.

⁸ Current expenditures are expected to remain constant as a share of GDP.

Box 2: Tax Reform

Key changes to the corporate income tax:

- Rates would fall from 30 to 27.5 percent in 2010, and to 25 percent in subsequent years.
- The CAIR (the alternative corporate tax of 1.4 percent of a firm's turnover) will not be eliminated but will be levied on firms with gross incomes above US\$1 million per year.
- Utilities, casinos, banking, insurance, cement and mining will continue to be taxed at 30 percent.
- The collection of the corporate income tax proceeds will now be made monthly (instead of yearly), at 1 percent of gross revenues, and excess payments at the end of the year could be credited towards the following year.
- Telecommunications and airlines will pay taxes on global income.
- Remittances to non-residents (currently taxed at 15 percent) could be exempted if the foreign beneficiaries are registered in Panama.
- Banks will pay new taxes ranging from ½ percentage point of their net worth, or a minimum of US\$100,000, to a maximum of US\$5 million.

Main changes to the personal income tax:

- Maximum marginal tax rates for individuals will fall from 27 to 15 percent.
- About 17,000 of the lowest-paid workers will be exempt from personal income tax, due to the increase in the threshold of compliance from US\$6,000 to US\$11,000.

Primary adjustment to indirect taxes:

- The tax on final sales of goods and services and the tax on CIF imports will rise from 5 to 7 percent.

27. **The financial sector has shown significant stability.** The banking system's role in the region has expanded in recent years, with nonresidents deposit growth providing the main source of expansion for nonresident's credit. Panama is an important offshore financial and business center, with financial intermediation dominated by the banking sector. Holding companies of the largest Central American financial groups are domiciled in Panama. During the recent global economic crisis, the financial sector showed remarkable stability underpinned by high capitalization and liquidity levels.⁹ The levels of solvency and liquidity of the banking sector will allow the financial system to support the economic recovery through a credit expansion, as economic prospects continue to improve.

28. **Enhancements to the financial sector supervision and legal framework have been implemented.** A new Banking Law reinforcing the legal and supervision framework became effective in August 2008. These measures, supported by the World Bank, strengthen the powers to regulate and supervise conglomerates, enhance the process of resolution of troubled institutions and provide legal protection to supervisors. Auditing standards, criteria for the valuation of collateral and liquidity regulations were also upgraded. Looking ahead, a regional approach to dealing with potential stress of financial groups needs to be developed and consolidated and cross-border supervision needs to be strengthened. Also, it is important to develop contingency plans to deal with situations of financial distress. There continues to be scope for improvements in non-bank financial supervision and the institutional framework for

⁹ The banking sector is considered stable and resilient but there are always external vulnerabilities due to large foreign deposits and lending, large shares of foreign banks and the sheer size of banking sector (as percentage of GDP). Capital adequacy ratio remains at comfortable levels at 11.4 percent, while non-performing loans remain low at 1.4 percent and are fully provisioned. A regional crisis simulation exercise is scheduled for 2010 in which the Panamanian banking supervisory authorities will participate. A regional approach to consolidated supervision would help to deal with potential stress of financial groups with cross-border holdings.

insurance and securities which could further the regional financial integration process. Access to finance by SMEs is limited and the demand for rural microfinance services is not being served. A planned Financial Sector Assessment (FSAP) will provide valuable input for the authorities in designing their financial sector reform program.

29. **The authorities are moving toward greater tax information sharing with bilateral agreements.** Panama is seeking to negotiate more than the required 12 bilateral double taxation and information exchange treaties by the end of 2010 to be removed from the OECD's "grey-list" of tax havens. Panama has successfully negotiated 8 tax agreements with France, Italy, Belgium, the Netherlands, Qatar, Spain, Mexico, and Barbados (the last two have also been ratified). It is also negotiating with South Korea, Ireland, Portugal, Canada, Chile, Luxemburg, Czech Republic, and Singapore and has plans to extend to additional countries.

30. **Since March 2010, Panama achieved investment grade status from Fitch, Standard & Poor's and Moody's credit rating agencies.** Panama's credit rating upgrade reflects a sustained improvement in public finances, underpinned by recent tax reforms, and the economy's resilience to the global financial crisis and associated recession. By achieving investment grade, the country hopes to lower the cost of borrowing and increase access to additional financing from institutions and investors that are restricted to high-grade investments.

31. **Panama is actively pursuing greater trade linkages with global markets.** The US-Panama Trade Preference Agreement (TPA) was signed on June 28, 2007 and ratified by Panama's National Assembly a month later, but is still pending approval by the US Congress. Apart from commercial issues, it incorporates economic, institutional, intellectual property, labor and environmental policies, among others. Panama also launched negotiations with the EU and the other Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) in June 2007 for an Association Agreement (including free trade) to build on the EU-Central America (CA) Political Dialogue and Co-operation Agreement of 2003. While the active participation of Panama in the negotiations is to be subject to a formal decision to join the Economic Integration Process in CA (SIECA), Panama has been an observer in the negotiations. For Panama to become a SIECA member it will have to undertake constitutional changes that can go beyond the actual negotiations of the EU-CA Associate Agreement (EU-CA AA).

F. ENVIRONMENT AND DISASTER MITIGATION

32. **Environmental degradation is a challenge in Panama; it increases vulnerability to natural disasters and undermines the natural resource base for sustained economic growth.** Although Panama is relatively less vulnerable to hurricanes and other catastrophic events than other countries in the region, it is frequently affected by floods; and with climate change the frequency of extreme weather events in the region is expected to rise. Panama faces growing degradation of its urban environments and its natural resources, such as forests, soil and water. The Government is taking steps to mitigate these problems, including large investments in improving water quality of Panama Bay and efforts to implement a series of regulatory and institutional reforms to strengthen environmental sustainability, but Panama still faces ongoing environmental challenges, such as: (i) the deterioration of water quality; (ii) a high incidence of waterborne diseases and respiratory illness linked with indoor and outdoor air pollution, particularly among the poor; (iii) deforestation and the expansion of the agricultural frontier; (iv) the loss of biodiversity on land and in coastal areas; and (v) pressures on natural resources from the extractive industries and real estate construction.

33. **The Government is planning a series of investments in large-scale infrastructure to sustain economic growth, enhance competitiveness, and facilitate the planned expansion of the tourism sector and further growth of maritime and other commercial services.** These mega-projects include construction of new ports, large tourism projects, infrastructure and mining projects, oil refineries and hydroelectric power plants, road construction, and expansion of the Panama Canal. Effective environmental management and strong institutional capacity is a fundamental component in resolving potential environmental problems that are often associated with these types of investments. Consequently, the development of effective mechanisms is critical for setting environmental priorities, adequate environmental information systems, strong environmental regulation and enforcement systems, and a legal framework to facilitate community participation in the consultative processes and policy coordination across agencies.

34. **The Government of Panama is making important efforts in the Strategic Plan 2010-2014 (GPSP) toward mainstreaming environmental protection in the sectoral planning processes, although recent legal changes may increase uncertainty.** The GPSP recognizes that current efforts to promote sustainable land use have been incomplete, with poor planning, and without effective enforcement of zoning regulations. It also highlights the need for protecting the country's natural resource base as a fundamental ingredient for maintaining the growth performance of key economic sectors, including the operation of the Panama Canal and tapping the very high potential of the country's tourism industry to induce economic growth and generate employment. Nonetheless, recent changes in the country's legal framework, particularly the option to exempt projects with a "social interest" from an environmental impact study and instead use best practice guidelines, may have caused uncertainty over the Government's environmental policy stance. While the Government has committed to reevaluating the recent legal changes through a National Dialogue, and amending them if needed, it has stated its strong commitment to utilizing global best practices and guidelines in addressing and mitigating potential environmental impacts. Moreover, for all its projects financed by the World Bank, the Government has reiterated its commitment to follow all the operational and safeguard policies required of the World Bank supported projects.

35. **In terms of disaster risk management, the Government acknowledges that there is a need to strengthen institutions and policies.** Actions to improve disaster risk management include: (i) strengthening the National Civil Protection System (SINAPROC)'s institutional capacity; (ii) reducing vulnerability in urban areas; (iii) developing the country's risk assessment and monitoring capacity; (iv) developing risk reduction strategies for emergency response and diversified risk management instruments; and (v) strengthening environmental institutions.

36. **Another strategic area high on the Government's agenda is the response to the challenges posed by climate change and tapping into the opportunities that it offers.** The GoP recognizes the need to devise an effective climate change mitigation and adaptation strategy with buy-in from the country's diverse groups of stakeholders and sectors; a strategy to facilitate the adoption of innovative technologies in the energy sector and agriculture, encourage private sector investment in clean technology, promote the use of renewable energy, sustainable land use and reduced deforestation. On the adaptation side, priority areas are the reduction of vulnerability to natural resource and climate shocks and the spread of vector-borne diseases. On the mitigation side, key opportunities include facilitating the use of low-carbon technologies with cooperation from other countries, such as Brazil or Mexico, that have pioneering experiences in this area. The GoP is looking to identify opportunities to tap into global climate change finance,

e.g. the emerging and growing markets for carbon offsets and REDD credits, and the opportunities to address other environmental concerns by tapping into instruments such as the Climate Investment Fund and other innovative means.

III. GOVERNMENT STRATEGIC PLAN 2010-2014

37. **The Government presented its Strategic Plan to the National Assembly in December 2009.** Adhering to the new Social Fiscal Responsibility Law of 2008, the Government provided details of its plan for growth and social development within its first six months in office. This is the first time a government has detailed a plan that includes a description of key challenges, priority programs, and the fiscal and investment plan to ensure that the strategy is implemented and achieves its goals within the resource envelope available to the country. This plan is composed of an economic growth strategy, a social strategy, and a cross-cutting axis of improving governance and transparency.

38. **The first component of the Government Plan, the economic growth strategy, aims to develop tourism, logistics, and the agri-business industry.** These sectors are considered to have a competitive advantage compared to other sectors and their expansion through additional public investment, within the context of careful environmental management, would produce a clear economic and social return. The sectors were also selected as a means to promote opportunities in less developed parts of the country, to reduce inequalities, and to generate self-reinforcing clusters of growth. This growth strategy mainly supports areas outside the traditional growth engines of Panama and Colon province and looks to invest in those areas of the country that have a high economic potential that has yet to be realized. By doing so, the strategy aims to reduce the dual structure of the Panamanian economy to ensure that all benefit from economic opportunities.

39. **As a means to kick start development in those areas with high growth potential, the economic growth strategy establishes an ambitious investment plan to overcome critical bottlenecks in infrastructure and institutions (such as poor access to roads, policy and regulatory disincentives).** To develop logistical advantages, the Government strategy proposes building connecting infrastructure and streamlining and modernizing processes. As a means to facilitate the growth of the tourism industry, the Government aims to generate needed infrastructure, expand land titling, attract anchor tenants, and launch a marketing campaign based on a country brand. To develop agriculture, the Government strategy aims to build production and access roads, expand irrigation, develop cold chain and storage facilities, restructuring incentives and assistance policy, and creating an institution to promote exports (PanExport). As a way to maintain the country's comparative advantage in the financial services industry, the strategy aims to improve the policy and regulatory environment to improve transparency and manage financial sector risk.¹⁰

40. **The second component of the Government Plan, the social strategy, has two parts, generation of human capital and social inclusion.** This strategy aims at reducing the stark inequalities that exist in Panama by investing heavily in human capital so that all Panamanians may benefit from economic opportunities. In addition, the social strategy aims to strengthen the

¹⁰ The World Bank and IMF will assist Panama with these efforts through analytical support under the Financial Sector Assessment Program (FSAP).

country's social protection programs to protect vulnerable groups, including additional support to elderly retirees without pensions.

41. **The first part of social strategy (generating human capital) aims to improve the quality of education by giving equal opportunities to all and strengthening training to generate the skills needed in the country's priority sectors.** This component includes the following strategies: (i) making pre-school education universal; (ii) improving access to basic education through distribution of scholarships and increasing the supply of middle schools; (iii) developing "Effective or Quality Schools"; (iv) transforming and modernizing curricula; and (v) monitoring and evaluating these strategies. Strengthening training is expected to be achieved through: (i) generating coordination mechanisms between INADEH, the training institute, and the Ministry of Labor (MITRADEL); (ii) strengthening the institutional capacity of both agencies to generate a system to effectively identify demand for training and employment; and (iii) generating mechanisms to consult and address the demands of the productive sector.

42. **To ensure that economic growth generates opportunities for all, the social strategy also has a comprehensive social inclusion program.** This component is composed of seven activities aimed at: (i) eradicating malnutrition; (ii) extending coverage of potable water to 90 percent of the population; (iii) increasing the coverage and quality of health services with a focus on basic health care; (iv) increasing access to suitable housing; (v) generating a safe and efficient public transportation system in Panama city through the construction of the first subway line; (vi) ensuring public safety; and (vii) strengthening social protection to vulnerable people through conditional cash transfers and support to the elderly.

43. **The Government's strategic plan includes a cross-cutting axis designed to improve the governance and transparency of the public sector.** This cross-cutting strategy aims to improve the efficiency, distribution, and targeting of social spending; and to strengthen institutional capacities to improve planning and management, including strengthening the financial management system and continuing the public procurement reform. Government efforts to reform the national procurement system will focus on: i) linking procurement and budget planning; ii) improving the legal framework for public procurement; iii) strengthening monitoring and evaluation systems; and iv) developing the capacity of Government procurement officials to handle complex transactions and take advantage of savings strategies such as the use of framework contracts.

44. **To date, the Government has been able to quickly pass reforms to implement its program, but this speed may slow to provide more time for broader consultations.** The administration's strong mandate and majority in the National Assembly has permitted the implementation of an ambitious development program and allowed for the passage of significant policy changes to deliver on campaign commitments, but it has also generated some concerns about a lack of broad consultation. Indeed, legal reforms in mid-June 2010 were passed to promote the speed of public investment, but they also raised concerns among some civil society groups about limits to labor rights and the potential easing of environmental regulations.¹¹ In response, the Martinelli administration has committed to opening a broad National Dialogue about the new legislation to provide the opportunity to amend it. The Government is attempting to balance its commitment to deliver its ambitious development program with the need to develop a broad consensus on important legal changes to meet those program commitments in a timely manner.

¹¹ Particularly the June 16, 2010 ratified Law 30, which includes changes to labor, police, and environmental law.

IV. WORLD BANK GROUP-PANAMA PARTNERSHIP STRATEGY

A. LESSONS LEARNED FROM THE LAST CPS (FY08-FY10) AND ISN (FY06-07)

45. **After close to half a decade of limited presence, the CPS (FY08-FY10) and ISN (FY06-07) represented a successful re-engagement of dialogue between Panama and the World Bank and built a solid foundation for future development partnership.** The ISN was discussed with the Board for FY06-07 and represented an important first step toward a full Country Partnership Strategy (CPS). After the successful implementation of the ISN, the World Bank discussed a three-year CPS for FY08-FY10 that covered the remainder of the Torrijos administration and the first year of the new Martinelli administration. The strategy to begin with an ISN and to emphasize AAA early-on contributed to a solid design of the CPS and individual operations—particularly with respect to development policy lending. The ISN helped the alignment of the CPS with Government strategy in areas of high ownership and where the major Government initiatives had been launched.¹² The following lessons are relevant to the design and implementation of next CPS.

46. **Alignment with the political cycle can improve delivery of a CPS.** Alignment with the political cycle facilitates managing shifts in development priorities across governments, helping to deepen ownership of projects in the portfolio. This strategy can be even more effective if it is complemented with an up-front delivery of new operations so that their implementation can take-off early-on, especially given the lags between approval and full implementation. At the same time, the continuity of initiatives launched under the program can be enhanced by the dissemination of results and continuous dialogue with a broad base of country stakeholders to solidify a consensus on development strategy.

47. **Strategic use of synergies across different components of the program can help improve the effectiveness of Bank support, especially when the relative financial contribution of the program is small.** The CPS succeeded in strengthening the delivery of results by building synergies across various components of the program. For instance, the AAA provided solid background for the dialogue and design of operations approved during the CPS period. The technical assistance operations (public sector and social assistance) contributed to the design and measurement of the main program initiatives (CCT, procurement, etc.). The CCT institutional set-up helped improve the targeting of other social assistance programs. The effectiveness of the DPL profited from the quality and coverage of the AAA and the designs under the technical assistance. The impact of the next CPS will be enhanced by continued emphasis on assuring complementary across programs during design and implementation.

48. **Enhanced supervision improved portfolio performance and lessened the effect of weak implementation capacity.** During the CPS period portfolio implementation was affected by the re-engagement process (youth of the portfolio, setting up implementation systems, etc.) and the political transition. Intensive supervision helped to identify and address bottlenecks, including those related to procurement procedures. In addition, close dialogue with the MEF reduced the number of unexpected budget re-allocations and allowed for changes in project plans to minimize adverse development impact. In most cases, Government staff and consultants working directly on the implementation of Bank-financed projects were retained until the end of

¹² The CPS was composed of the following pillars: (i) reducing poverty and inequality; (ii) promoting economic growth; (iii) strengthening public financial management; and (iv) investing in human capital.

2009 and then in several cases replaced. The two operations, the Rural Productivity project and the Water and Sanitation in Low Income Communities project, which underwent the most significant changes in the staff involved in project implementation had not yet recovered implementation performance by June 2010. Despite the effects of the transition on implementation, the new administration confirmed that the portfolio of Bank –financed projects is well aligned with the priorities of the new administration.¹³ The Bank expects that with continued intensive supervision and capacity building support, the portfolio will return to zero projects at risk by January 2011 and that the disbursement ratio will rise above 20% in FY11. As a means to deepen development results, facilitate implementation, and better gauge impact (both intended and unintended), project teams should strengthen dialogue with project beneficiaries as well as authorities.

49. Focus on results design, monitoring and evaluation enhances the development dialogue and serves to gauge progress on development outcomes and Bank contribution to results. While in some cases the results proposed under the previous CPS centered on intermediate indicators, analytical work was available to track impact, such as the LSMS survey that allowed assessment of the targeting accuracy of the CCT program. However, this may not always be the case; therefore, it is important to assure the quality and comprehensiveness of the result framework. As the program with Panama matures, it should be possible to focus CPS results on development outcomes rather than on outputs. The results framework should incorporate the major strategic concerns of the CPS, which includes consistency between the results matrix and the priorities stated in the main text of the CPS document. In addition, it is important to assure that the results framework is tractable and that it is traced regularly and used in the dialogue with Government.

50. In Panama, the World Bank Group can be very effective when it concentrates on the delivery of a mix of lending, technical assistance, private sector support and knowledge products. The experience in Panama shows that the Bank’s relevance is amplified when the delivery of lending operations is supported by knowledge products. In turn, technical operations must continue to strengthen their focus on the development of high quality designs that incorporate lessons from experiences in other countries, as has been done in the CCT where Panama absorbed lessons from other programs and went on to build one of the best targeted programs in the LAC region. In addition, positive experiences in Panama, such as in public procurement, enrich the Bank’s knowledge base in assisting other countries. A strong AAA program has also helped contribute to the design of Development Policy Lending which has proven to be a useful instrument in Panama in support of key Government priorities.

B. COUNTRY PARTNERSHIP STRATEGY: FY11-FY14

51. The objective of the CPS is to support Government and private sector efforts to improve Panama’s productive capacity and reduce poverty. In a context of rapid economic growth, Panama’s public infrastructure has lagged behind and is becoming itself a constraint to future growth. While at one time public sector institutions, financial management, and procurement systems may have been sufficient to manage a nascent economy, their capacity to manage, monitor and evaluate public investment and spending need to be strengthened to better support Panama’s new economy.

¹³ One exception was the Quality of Education project, which the Government did not find to be well aligned with the new education strategy.

52. **Strategic objectives and areas of engagement.** The proposed CPS aims to provide Panama with flexible, demand-driven and focused assistance to achieve its development goals. The shared strategy between Panama and the World Bank Group includes reducing poverty and inequality by expanding opportunities for the poor, particularly the most vulnerable, via sustainable and broad-based growth. The proposed CPS will cover approximately four years (i.e., August 2010 to June 2014) to align the program with Panama’s political cycle.

53. **The proposed CPS takes into account the lessons learned from the prior CPS and ISN, and will feature a mix of instruments to best support Panamanian development needs.** The strategic principles embedded in the strategy include a focus on the sustainability of the ongoing program. The new administration will continue work on the core development initiatives that include: social assistance targeting, modernization of procurement and public financial management, simplification of regulation, and improved service delivery. In addition, the proposed non-lending interventions will further enhance sustainability through a strong focus on timeliness, dissemination of results and continuous dialogue with country stakeholders to achieve greater impact. In terms of lending, the Bank will deliver fewer, larger operations to make room for greater non-lending support in the Bank’s administrative budget, particularly in the outer years of the CPS program (See Annex C1). Improvements in the performance of the portfolio will need to remain a focus of the Bank’s efforts during the CPS period, as well as a renewed effort to monitor results and development outcomes. The strategic framework also takes into account the role of IFC, which will continue its steady increase in support for private sector development through investments, loans, and advisory services aligned with the Government’s priorities and programs, as well as activities that promote and strengthen regional integration. This support will build on the current and potential synergies with the Bank, as appropriate.

C. KEY PRIORITIES FOR WORLD BANK GROUP SUPPORT

54. **The CPS will support Panama’s Government Strategic Plan in its two main axis, economic growth, greater opportunities for all, and a cross-cutting axis of improving the efficiency and transparency of the public sector.** As shown in Table 3 below, the CPS will support the Government’s economic growth strategy through the first pillar of economic growth that builds on the country’s competitive advantages. This pillar will support the Government in enhancing the environment for investment and productivity. The second CPS pillar, generating opportunities for all, aims at supporting the Government’s social strategy in two areas of generating human capital and improving social inclusion. Through the proposed new operations and AAA activities and those in the current ongoing portfolio, the CPS will support Panama in ensuring broad-based and equitable growth opportunities. Finally, the implementation of Panama’s Strategic Plan would not be possible without strengthening institutions and public procurement and financial management system. The last pillar of the CPS, aims precisely at enhancing public sector transparency and efficiency by supporting the introduction of results-based budgeting and supporting the financial management, procurement, and tax reforms.

Table 3: CPS Program Objectives and Select Areas of Action

Broad objectives to which the CPS will contribute		
Economic Growth That Supports Competitive Advantages <i>(Enhancing the environment for investment and sustainable growth and productivity, Training for Competitiveness and Employment)</i>	Greater Opportunities for All <i>(Access to Water and Sanitation, Basic Health and Nutrition)</i>	Enhanced Public Sector Transparency and Efficiency <i>(Results based budgeting, Financial Management, Procurement Systems, Tax Reforms)</i>
Selected Programs and Areas of Support		
<ul style="list-style-type: none"> • Maintain macroeconomic sustainability and enhance productive capacity outside traditional urban areas. • Improve access and quality of rural and urban roads. • Improve higher education, innovation systems, and training for competitiveness. • Create a sustainable environment for economic development and conserving globally important ecosystems. • Manage the risk of natural disasters and adaptation to climate change. • Finance private sector renewable energy and energy efficiency projects, and logistics and export-oriented agri-business projects. 	<ul style="list-style-type: none"> • Improve quality and access to rural and urban water and sanitation services. • Improve quality and access to basic health and nutrition services, especially among rural and indigenous populations. • Enhance targeting and monitoring and evaluation of social programs. • Expand access to finance for SMEs and low income groups. • Increase employment through support for private sector investments. 	<ul style="list-style-type: none"> • Enhance transparency and efficiency of public spending and reduce red-tape. • Create effective monitoring and evaluation of public sector programs. • Create results based budgeting processes. • Modernize financial management and procurement systems. • Improve collection and efficiency of property taxes. • Strengthen country's internal capacity to manage debt.

55. ***Economic growth that supports competitive advantages.*** Under this objective, the CPS program is focused on results in five broad areas: (i) promoting macroeconomic stability by matching public investment and spending needs with fiscal resources; (ii) improving access and quality of urban and rural roads; (iii) improving higher education, innovation systems, and training for competitiveness; (iv) promoting the productive capacity of the country in underserved regions; and (v) managing the risk of climate change and natural disasters. Expected results include the maintenance of fiscal sustainability consistent with the Social Fiscal Sustainability Law, increased productivity of small scale agricultural producers, as well as enhanced capacity to manage climate change and responsiveness to natural disasters.

- **Lending:**

- *Programmatic Broad-Based Growth and Efficiency Development Policy Loans.* This series will be an umbrella operation that will support major policy actions and technical achievements under the three pillars of the CPS (Growth, Opportunities, and Public Sector Transparency and Efficiency).
- *Rural Productivity Project and Consolidation of the Atlantic Mesoamerican Biological Corridor Project:* This project is currently active. It aims at (i) contributing to increased productivity among organized rural small-scale producers and (ii) conserving globally important biodiversity and important forest, mountain, coastal and marine ecosystems.
- *Road Asset Preservation Project:* This project is currently under preparation and aims at improving the condition of secondary roads.

- *Catastrophic Risk Deferred Draw-Down Operation (CAT-DDO)*. The CAT-DDO would offer Panama a rapid source of funds in the event of a major natural disaster, enabling a quick response to address emergency needs. This would be accompanied by the implementation of comprehensive disaster and climate change mitigation measures.
- **Analytical and Advisory Activities:**
 - *Quick Response/On Demand Analytical Support*: This would provide for two short-term reports per year at the discretion of the Government to support this or the other CPS pillars.
 - *Higher Education and Innovation for Global Competition*. This will provide an analytical support for improving national systems of innovation, and higher education covering the following issues: (i) the implications for Panama's higher education and innovation system resulting from increasing regional integration and globalization, and the associated mobility of labor or capital; (ii) benchmarking the higher education system in terms of its contribution to skill development and knowledge adaptation and innovation against comparator countries and/or OECD countries; (iii) assessment of the objectives, role and level of public funding, provision and regulation; (iv) analysis of the needs for quality assurance and accreditation to increase access through the private sector; and (v) assessment of the strengths and weaknesses of the innovation system.
 - *Non-Lending Technical Assistance (TA) to Improve the Regulatory Framework and Financing of Technical and Vocational Training Programs*. This would be a TA to improve the activities of INADEH and MITRADEL. This task would support: (i) the design of a financing mechanism for training to ensure long-term sustainability. The effort would be to promote partnerships and cost-sharing with industry and re-assess the function of the Training Fund; (ii) the strengthening of coordination mechanisms between INADEH and MITRADEL; and (iii) the design of an information system that monitors training outcomes and evaluates impacts on a continuous basis.
- **IFC's Activities:**
 - *IFC's activities in the country focus on supporting further development of Panama's financial markets and infrastructure, and on investments oriented to low-income groups*. The Corporation expects to selectively increase its investments in sectors where Panama has a competitive advantage, and to support the Government's reform agenda and mid-term strategic plan. Given the growing importance of Panama to regional economic integration, the Corporation is looking at investment opportunities that increase regional competitiveness, efficiency, and connectivity. At the end of FY2010, the Corporation had US\$478 million in total commitments in the country, with US\$114 million in investments outstanding.
 - *IFC is aiming to increase its engagement outside the financial sector*. The Corporation expects to increase support for non-financial sector projects that advance Panama's competitiveness and regional economic integration. The focus of IFC's activity will be on: (i) logistics and infrastructure projects, both private and PPPs, building on opportunities offered by Panama's growth as a regional transportation hub, (ii) support the development of export-oriented agribusiness and food producers, particularly by addressing cold storage chains and high value-

added agricultural products, and (iii) continue to support investments that increase the share of alternative energy, renewable sources, and climate change-related projects in the region's energy matrix. This would build on IFC's recent commitment of its first investment to develop two small/medium size hydro power projects with a combined 85 MW generating capacity. IFC also aims to support corporate clients pursuing either a regional consolidation strategy or are expanding their reach to lower-income groups, as in the case of low income housing.

- *Subnational finance represents IFC's largest exposure in Panama, with US\$300 million outstanding at the close of FY 2010, equivalent to 70 percent of the committed balance. This commitment consists of a single transaction to support the Panama Canal expansion project. IFC has committed a further US\$50 million to telecom and US\$47 million to infrastructure projects.*
- *IFC's activities in the financial services industry will continue to be focused on strengthening Panama's leading position in the region. In the financial sector, IFC's focus is to: (i) support those institutions with a pan-regional presence in neighboring Central American and Andean markets; (ii) support financial institutions that focus on local SMEs and provide banking services for underserved low-income groups; and (iii) support the development of Panama as a hub for the region's insurance and re-insurance industry. Financial services represent IFC's second largest exposure in Panama, with US\$80 million in commitments to financial institutions, or 17 percent of its committed portfolio in FY 2010.*

56. ***Greater Opportunities for all.*** The CPS program will contribute to this objective in three ways: (i) improve access to and quality of basic health and nutrition services, with a focus on reproductive and child services benefiting rural and indigenous populations; (ii) strengthen social protection programs; and (iii) improve quality and access to rural and urban water and sanitation services. Primary expected results include, among others, increased access to health services, particularly prenatal services for women and vaccinations for children, increased access to water and sanitation services for rural and peri-urban areas, and improved effectiveness and targeting of social protection programs.

- **Lending:**

- *Strengthening the Network of Basic Health and Nutrition Services.* This operation would support the Social Strategy of the Government Strategic Plan through strengthening the provision of basic reproductive and child health and nutrition services. This operation would finance: (i) Support for the functioning of Innovative Primary Health Care Centers known as MINSA-CAPSI, one of the President's "*Imperdonables*" projects; (ii) The continued support to MINSA's Health Extension Coverage Strategy in rural areas through a results based financing scheme; (iii) The strengthening of MINSA's institutional capacity to exercise its stewardship role in the health sector; and (iv) improvement in procurement and delivery of pharmaceuticals.
- *Strengthening Panama's Social Protection System Technical Assistance Loan.* This operation would support the second axis of the GOP's Social Strategy, the social inclusion axis, by improving the efficiency and effectiveness of the social protection system. This operation will support two main activities: (i) improving the efficiency and targeting of social programs; and (ii) providing support to the

Government's flagship program "100 a los 70", which is a non-contributory pension, offering a subsidy of US\$ 100 a month to people above 70 years of age who are living under poverty and who do not receive any other transfer.

- *Health Equity and Performance Improvement Project:* This project is currently active. This operation main objective is to increase access of populations in selected underserved rural communities to quality basic health services known to improve maternal, reproductive, and child health; and to improve health system performance. This operation benefits rural communities where an important share of indigenous peoples lives.
 - *Social Protection Project - Support to the Red de Oportunidades:* Improves the management and operation of the Conditional Cash Transfer Program (Red de Oportunidades) to increase demand for education and maternal and child health services with a focus on indigenous areas.
 - *Water and Sanitation in Low income communities:* This project is currently active. It aims at increasing access to sustainable water supply and sanitation services in participating communities.
 - *Metro Water and Sanitation Improvement Project:* This project was recently approved by the board. Its objective is to increase the quality, coverage and efficiency of water supply and sanitation services for lower-income areas in the Panama Metropolitan Region.
- **Analytical and Advisory Activities:**
 - *Making Progress on Reducing Poverty and Inequality (Poverty Assessment):* This study would be part analytical and part technical assistance utilizing the findings of the recent LSMS, and sectoral knowledge to build a road map for implementing structural policies to address hard to reach pockets of poverty, particularly in rural and indigenous areas.
 - *Quick Response/On Demand Analytical Support.*

57. **Enhanced Public Sector Transparency and Efficiency.** The CPS would contribute to the achievement of this objective in four key areas: (i) enhance transparency and efficiency of public spending and reduce red-tape; (ii) create effective monitoring and evaluation of public sector programs; (iii) create results-based budgeting processes; (iv) modernize financial management and procurement systems; and (v) improve collection and efficiency of property taxes. The key results expected under this pillar include: improved budgeting processes to ensure accurate budget execution and evaluation of outcomes and outputs, increased savings in public procured goods and services as measured by the reduction in operational costs, and higher efficiency in property tax collections.

- **Lending:**
 - *Enhanced Public Sector Efficiency Technical Assistance Loan.* This loan would provide ongoing support to the MEF, Sectoral Ministries, DGCP, *Oficina de Metas Presidenciales*, and CGR to improve transparency, effectiveness, and efficiency in the public sector. The loan continues support initiated under the *Public Policy Reform Loan* that recently closed on June 30, 2010 and expands into new areas. This operation would include support for starting the implementation of performance-informed budgeting, financial management strengthening, targeting of programs, monitoring and evaluation of public sector spending, and public procurement reforms. In addition, the loan would support

reforms to the administration of property taxes and would contain two fundamental elements: (i) developing a strategy for property tax administration reforms and (ii) providing support for implementation of new cadastre system.

- **Analytical and Advisory Activities:**

- *Public Sector Expenditure and Institutions Review:* Mapping of functions, coverage, and efficiency of public sector programs. Currently, there are numerous programs with overlapping mandates. Besides being costly, this creates a lack of coordination and responsibility for public sector outcomes. This study will evaluate optimal organization of the public sector and make recommendation for reforms. It will also identify structural and overarching institutional hurdles and bottlenecks that prevent optimal use of public resources and potential options for moving forward.
- *Public Credit Advisory Services (fee for service).* This fee for service activity is offered by the World Bank Treasury as a means to support the Government's ongoing efforts to build capacity and tools to manage the validation of cost-risk tradeoffs and preparation of risk reports. This activity could also support the Government's plan to strengthen the development of a domestic market for Government securities.
- *Public Expenditure and Financial Accountability (PEFA) Review:* The objective of this activity is to evaluate the current situation of processes, systems, and institutions related to Public Financial Management (PFM) in the country and compared them with international best practices. This review will use the PEFA methodology based on objective indicators for PFM performance to be able to assess the condition of country PFM systems and develop a practical sequence of reforms and capacity-building actions, in a manner that encourages country ownership; reduces transaction costs; enhances donor harmonization; allows monitoring of progress of country PFM performance over time; better addresses developmental and fiduciary concerns; and leads to improved impact of reforms.
- *Quick Response/On Demand Analytical Support.*

D. WORLD BANK GROUP PROGRAM OF SUPPORT

58. **The ongoing portfolio is highly relevant to country needs and is consistent with the new Government's four-year (2010 – 2014) Strategic Plan.** The IBRD holds a small portfolio in Panama, which comprises six lending operations and a GEF grant; totaling US\$181.4 million. Two operations recently closed in May and June 2010: the Land Administration Project (US\$47.9 million) and the Public Policy Technical Assistance (US\$15.2 million). The portfolio includes operations in health, social protection, rural development, and infrastructure (see Table 4). Portfolio performance slowed slightly after the Progress Report, due in part to delays in implementation attributed to the transitory impact of the change in Government. The current undisbursed balance is US\$156.0 million. With the exception of the GEF, there are currently no trust funds under implementation in the Bank's portfolio in Panama.

Table 4: Current and Recently Closed IBRD Portfolio

Strategic Objective	Project	Closing Date	Original Amount (US\$M)	Undisb (US\$M)
<i>Economic growth that supports competitive advantages</i>	Rural Productivity	31JAN13	39.4	30.7
	GEF Rural Productivity	28JUN13	6.0	4.5
	Land Administration	30JUN10	47.9	1.9
<i>Greater Opportunities for All</i>	Social Protection	30JUN12	24.0	16.6
	Health Equity and Performance Improvement	30JUN13	40.0	33.1
	Water and Sanitation in Low-Income Communities	30MAY12	32.0	26.5
	Metro Water and Sanitation Improvement	30SEP15	40.0	40.0
<i>Enhanced Public Sector Transparency and Efficiency</i>	Public Policy Reform TA (includes US\$6.0M of an Additional Financing)	31MAY10	15.2	2.7
TOTAL			244.5	156.0

59. IFC's investments have climbed steadily every year since 2006 when the Corporation made just US\$1.1 million in commitments to Panama. IFC's committed portfolio as of June 30, 2010 totaled US\$477.91 million over nine clients (Table 5). Consistent with IFC's regional priorities, infrastructure/sub-national finance accounted for 73 percent of the portfolio, financial markets for 17 percent, and information and technology for 10 percent.

Table 5: Panama IFC Committed Portfolio (as of June 30, 2010)

Debt/Gtee/RM (US\$ mn)	Equity (US\$ mn)	Quasi-Equity (US\$ mn)	Total (US\$ mn)
421.82	31.09	25.0	477.91
Investment Business - Top Sectors and Clients			TA Business - Top Sectors
Sector 1	Infrastructure/sub-national finance (\$300m)		Sector 1 Corporate Advice
Sector 2	Financial markets (\$81m)		Sector 2 -
Sector 3	Information and technology (\$50m)		Sector 3 -
Top Clients (Sectors)	Panama Canal Authority – Sub-national finance (\$300m) Digicel – Telecommunications (\$50m) Electron – Infrastructure (\$25m)		Percentage of economy in the informal sector: 44.4%
Ranking in Doing Business Report: 77 (2010)			

60. **The list of possible operations is indicative and will continue to feature a mix of DPL and investment lending.** There is greater certainty with respect to the early years where Government priorities are clearer (see Table 6). The CPS proposes a flexible approach to programming for the outer years of the CPS, when lending is expected to be at lower levels than during the early years. Overall lending will depend on Government demand and performance in the course of the CPS period as well as the IBRD's overall lending capacity and demand by other borrowers. There are some early indications of possible areas of support, and the Progress Report will provide an opportunity for adjustments as needed. It is anticipated that the program areas supported will reflect a certain degree of continuity with the areas supported under the previous CPS, in line with the lessons learned in the CPS Completion Report.

Table 6: Proposed Lending Program for FY11-12¹⁴

	Proposed Lending	FY11	FY12
<i>Economic growth that supports competitive advantages</i>	Programmatic Broad-Based Growth and Efficiency DPL	US\$50 million	US\$50 million
	Catastrophic Risk Deferred Draw-Down Operation (CAT-DDO)		US\$ 50 million
	Roads Asset Preservation	US\$110 million	
<i>Greater Opportunities for All</i>	Strengthening Panama's Social Protection System Technical Assistance Loan	US\$50 million	
	Social Protection Additional Financing	US\$15 million	
<i>Enhanced Public Sector Transparency and Efficiency</i>	Enhanced Public Sector Efficiency Technical Assistance Loan	US\$75 million	
	Total	US\$300 million	US\$100 million

61. **There will continue to be a strong focus on analytical and advisory services, to be agreed in partnership with the Government.** In line with the lessons learned in the Completion Report, the Bank will continue to focus on the delivery of a mix of products. A strong AAA program will be particularly important to inform future Development Policy Lending and support key Government priorities. Analytical and advisory services will also be important to lay the foundation for future lending, as well as to support monitoring and evaluation efforts for key Government programs. The Government has also expressed an interest in just-in-time policy notes and technical assistance to inform policy discussions and enrich the quality of the Bank engagement in Panama. Finally the Bank also stands ready to provide policy and technical advice in the growing Global Public Goods agenda, where the Bank has a comparative advantage.

E. RESULTS MONITORING

62. **The Bank will continue to support results-based monitoring, including the production of reliable and timely statistical data.** In line with lessons identified in the CPS Completion Report, individual operations will be closely monitored and the program will track

¹⁴ Given the demand driven nature of IFC's program, the specific future activities are not listed due to their intrinsic uncertainties.

the specific milestones and outcomes that the CPS is designed to support over the next four years (see the CPS Results Matrix Annex B1). In addition, the Bank will also 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. The Bank will continue to support the Comptroller General and the Ministry of Economy and Finance under the new Enhanced Public Sector Efficiency Technical Assistance Loan to improve the content of financial, budgetary and fiscal data in line with international best practice. Direct support will be provided to the various line-ministries 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 Bank-financed loans.

F. COUNTRY SYSTEMS AND DONOR HARMONIZATION

63. **Country Systems.** As part of the fiduciary environment for project implementation, the GoP has largely relied on the use of fiduciary agents for project implementation, resulting in difficulties in obtaining accurate execution data and limitations on the application of budgetary and external control and procurement regulations. The Martinelli administration wants to strengthen country systems to progressively move away from fiduciary agents. The Bank has aligned with this initiative and is supporting the GoP to examine ways to strengthen capacity at sectoral level, reduce transaction and financial cost, and increase sustainability on the Bank supported projects. The GoP with World Bank support is currently developing a project execution budgetary module for SIAFPA, named SIAFPA Proyecto.

64. **Donor Harmonization.** The Government has been in close dialogue with main multilateral partners, such as the Inter-American Development Bank (IDB), the Andean Development Corporation (CAF), the European Commission (EC), the UN agencies, and the World Bank, as well as bilateral agencies like USAID, JICA (Japan), and AECI (Spain) to discuss financial and technical support. Several new operations will be implemented jointly and/or coordinated closely with IDB and CAF in this new CPS, including the Metro Water and Sanitation Improvement Project which will start implementation the first half of FY11. In addition, the IDB and the WB are jointly supporting the Conditional Cash Transfer Program (*Red de Oportunidades*) providing parallel financing using harmonized fiduciary, procurement, and monitoring and evaluation systems.

65. **As part of the overall initiative to use country systems and the principles set in the Paris Declaration and in the Accra Agenda for Action, the Bank aims to pursue further harmonization with other donors to reduce transaction costs.** This includes specific initiatives to adopt a unique financial reporting with IDB under the leadership of the "*Dirección de Contabilidad*" of MEF. As the size of the World Bank program in Panama has grown, coordination and harmonization has become an important focus, especially with USAID, IDB and CAF to ensure complementariness among the programs. The Directorate of Technical Cooperation at the Ministry of Economy and Finance is responsible for donor coordination. 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 Government's strategic needs are being met. Donors then coordinate amongst themselves in complementary or overlapping program areas.

G. CONSULTATIONS

66. **The proposed activities supported by this CPS have been widely consulted with country stockholders.** Since the 2009 presidential election the Panamanian society continues to be consulted and shows board support to the policy platform under implementation by the current administration. This CPS is being developed closely with the Government in consultation with civil society and will support the Government's Strategic Plan for the next years. The proposed activities presented in this document were all requested by the Government, taking into account the possible resources of the Bank and its competitive advantage.

67. **The consultation process for the proposed CPS program included major stakeholders and Government authorities.** Formal consultation meetings were organized the week of May 24 in Panama City and included sectoral Government representatives, as well as representatives of business, the international donor community, think tanks, universities, indigenous communities, and civil society organizations (See Annex F1). Some informal consultations took place earlier. These informal consultations included Panamanian authorities (MEF and Presidency), different sectoral Government representatives (MINSA, IDAAN, MOP, DGCP, Contraloria, MEF, INADEH, MIDES, Metro Secretariat), members of think tanks (e.g. INDESA), indigenous groups, and the donor community (CAF, IDB, UNDP, and USAID).

68. **During the formal consultations, participants considered the Bank to be an important partner in Panama's development agenda, thus, some issues and priorities were raised for the Bank to consider in the CPS.** These areas included: 1) The importance of building a program that is participatory and benefits all Panamanians, including indigenous peoples and small farmers. There is a general concern that the speed of the Government's program is not adequately allowing for sufficient dialogue among various stockholders. 2) The need to strengthen human capital. Participants in various groups highlighted the importance to enhance the quality of basic education and capacity building to ensure sustainable growth that will benefit all. Some representatives of indigenous groups mentioned among its priorities the implementation of bilingual intercultural education for improving educational outcomes. During consultations the importance of increasing the competitiveness of Panama's labor force was discussed, in particular the productivity of small scale-producers by promoting and empowering them to participate in international markets. 3) Crime and violence was also mentioned as a key development challenge for the country. Participants were concerned about the increasing levels of crime and violence, particularly in Panama City and its peri-urban areas, as well as Colon city. Stakeholders expressed their interest in learning about crime prevention programs that the Bank has supported and it was noted that that the security issue in Panama must be of critical importance in the National agenda to ensure the effectiveness of the Government Plan.

69. **The Bank will continue its consultation process with the Panamanian stakeholders on a regular basis,** including in the preparation of specific projects, and will incorporate to the extent possible recommendations made during the CPS consultations meetings into the design of specific projects.

V. RISKS TO PANAMA CPS

70. **Economic:** Panama was one of the few countries in the region that experienced economic growth in 2009, although it was a significant slowdown from prior years. To a large degree, near-term growth is expected to follow the global economic recovery and surpass many

countries in the region as pre-financed investment spending (particularly in the Canal) accelerates. However, there is a risk that growth may remain lower than expected, particularly if external demand does not pick up and tax resources available to the Government are constrained. Less than expected tax collections, due to slower than expected growth and/or less than anticipated results from tax reforms, could either constrain the Government's investment program and/or put pressure on fiscal balances. This, in turn may slow execution of projects. This risk is mitigated by the steps the Government is taking to ensure adequate fiscal resources through its already approved tax reform plan as well as steps it is taking to maintain investment grade credit rating on its sovereign borrowing.

71. **Institutional:** The Government has committed to implement its wide-reaching development strategy before its tenure ends in 2014. The speed of the process may, however, be more rapid than the ability of current institutional capacity to cope, and hence, implementation bottlenecks may occur as well as the potential for procurement errors and other costs. These risks will be mitigated by strengthened supervision of Bank financed projects, but also through technical assistance support the Bank is providing for financial management processes, transparency, and procurement processes to the Ministry of Economy and Finance, the General Accounting Office, and the General Directorate of Public Procurement.

72. **Political:** The rapid speed of implementation and wide-reaching nature of the development plan may also lead to political concerns that there is a lack of transparency and adequate consultation on development projects. Particularly, historically marginalized groups such as the indigenous and poor may be given less voice in the development process if implementation is emphasized over consultation and planning. This, in turn, may solidify and strengthen political opposition to all projects, regardless of their merit and, hence, slow project implementation. Indeed, recent changes to the labor and environmental codes led to wide-spread protests.¹⁵ To its merit, the Government has responded by opening a National Dialogue on the recent changes to the law in order to seek a broader consensus within the country and make any changes if needed. To mitigate this risk in the context of the CPS strategy, the Bank will work jointly with authorities to conduct broad consultations within Bank supported projects.

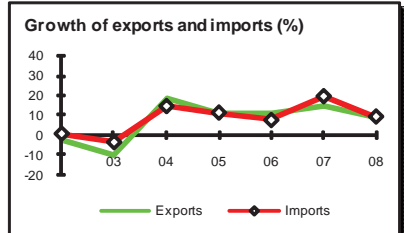
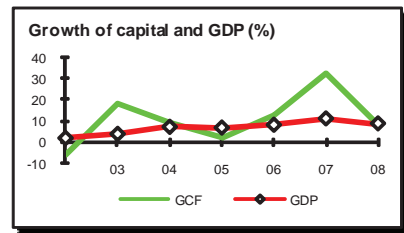
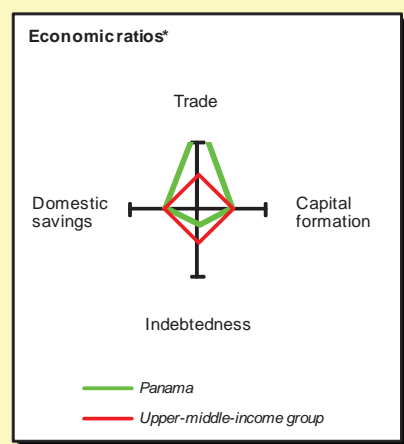
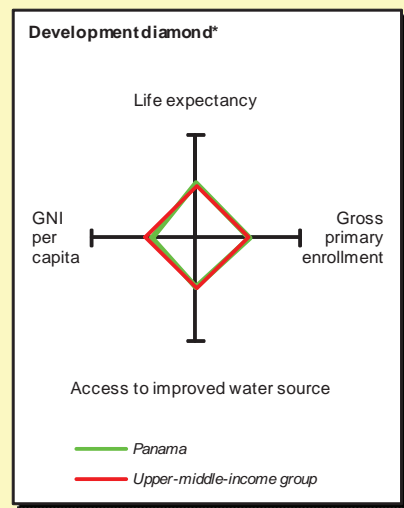
73. **Environmental and Natural Disaster:** The Government's ambitious investment plan, as well as the proposed operations supporting this plan, could be delayed due to natural disaster risks, environmental concerns, and uncertainty about environmental policies. As in any large program of infrastructure development, the scope for unexpected delays due to potential environmental and natural disaster challenges is a risk for program implementation. This is particularly the case of Panama with such a large number of projects in the Government's strategy. In addition, recent changes to environmental policies and norms may also delay the implementation of the Government's strategy as institutions adjust and the potential effects are evaluated.¹⁶ To reduce this risk, the Bank will be working closely with the client to ensure that all environmental evaluations as well as mitigation strategies are timely implemented during the early stages of Bank project design. The Bank will also be supporting Panama's development of a natural disaster risk mitigation strategy.

¹⁵ Law 30 allows for "good-practice" guidelines to be used in place of environmental impact assessments if a project was deemed in the "social interest" and, in terms of the labor code, makes it illegal for non-voluntary union dues and allowed for temporary workers to replace striking union members, among other changes.

¹⁶ Law 30 also authorizes the adherence to 'Good Environmental Practices' in lieu of an Environmental Impact Assessment as previously prescribed by Article 23 of Ley 41 of 1998.

Annex A1: PANAMA AT A GLANCE

POVERTY and SOCIAL	Panama	Latin America & Carib.	Upper-middle-income	
2008				
Population, mid-year (millions)	3.4	565	949	
GNI per capita (Atlas method, US\$)	6,690	6,781	7,878	
GNI (Atlas method, US\$ billions)	22.7	3,833	7,472	
Average annual growth, 2002-08				
Population (%)	1.7	1.2	0.8	
Labor force (%)	2.2	2.2	1.7	
Most recent estimate (latest year available, 2002-08)				
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	71	79	75	
Life expectancy at birth (years)	76	73	71	
Infant mortality (per 1,000 live births)	19	22	21	
Child malnutrition (% of children under 5)	..	5	..	
Access to an improved water source (% of population)	92	91	94	
Literacy (% of population age 15+)	93	91	94	
Gross primary enrollment (% of school-age population)	111	117	110	
Male	113	119	112	
Female	109	115	108	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	1988	1998	2007	2008
GDP (US\$ billions)	4.9	10.9	19.5	23.1
Gross capital formation/GDP	7.5	27.2	23.5	23.2
Exports of goods and services/GDP	75.2	79.2	80.0	74.9
Gross domestic savings/GDP	24.1	25.3	28.5	24.1
Gross national savings/GDP	..	21.9	23.0	26.2
Current account balance/GDP	..	-11.0	-8.1	-12.1
Interest payments/GDP	0.3	3.4	3.7	3.3
Total debt/GDP	124.2	58.6	52.6	46.4
Total debt service/exports	..	7.4	5.6	9.3
Present value of debt/GDP	..	..	58.0	43.5
Present value of debt/exports	..	..	68.9	55.4
	1988-98	1998-08	2007	2008
<i>(average annual growth)</i>				
GDP	5.3	5.5	11.5	9.2
GDP per capita	3.2	3.6	9.7	7.4
Exports of goods and services	3.0	5.6	15.0	9.2
STRUCTURE of the ECONOMY				
	1988	1998	2007	2008
<i>(% of GDP)</i>				
Agriculture	9.5	7.4	6.7	6.4
Industry	16.7	18.8	16.5	17.2
Manufacturing	9.5	11.1	7.1	6.7
Services	73.8	73.7	76.8	76.3
Household final consumption expenditure	55.0	62.0	60.1	65.0
General gov't final consumption expenditure	20.9	12.7	11.5	10.9
Imports of goods and services	58.6	81.1	75.0	74.0
	1988-98	1998-08	2007	2008
<i>(average annual growth)</i>				
Agriculture	2.5	4.6	1.7	6.0
Industry	7.0	3.5	11.7	14.2
Manufacturing	5.1	-0.2	5.5	3.8
Services	4.9	6.1	11.7	8.9
Household final consumption expenditure	6.2	5.8	10.4	9.2
General gov't final consumption expenditure	1.0	4.3	5.9	9.2
Gross capital formation	22.6	3.9	33.2	9.2
Imports of goods and services	5.6	5.1	19.3	9.2



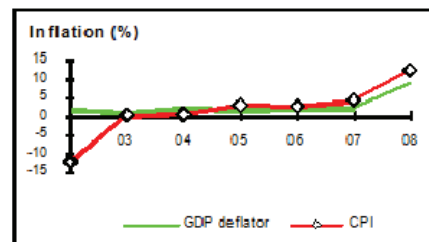
Note: 2008 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

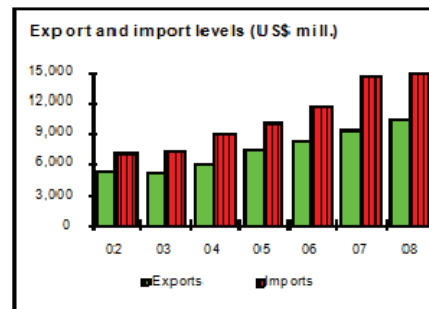
PRICES and GOVERNMENT FINANCE

	1988	1998	2007	2008
Domes tic prices				
<i>(% change)</i>				
C onsum er prices	0.6	0.6	4.2	12.1
Implicit GDP deflator	-0.2	1.0	1.9	8.5
Government finance				
<i>(% of GDP, includes current grants)</i>				
C urrent revenue	..	16.2	26.4	28.2
C urrent budget balance	..	-0.3	7.0	9.6
O verall surplus/deficit	..	-4.2	3.4	2.5



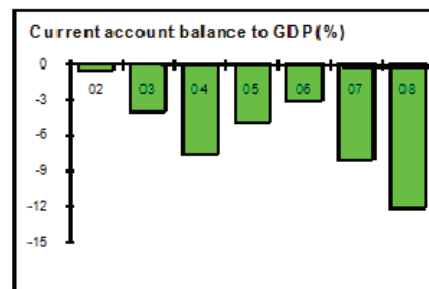
TRADE

	1988	1998	2007	2008
<i>(US\$ millions)</i>				
T otal exports (fob)	..	6,350	9,312	10,360
B ananas	..	139	111	..
S hrimp	..	137	56	..
M anufactures	..	5,897	8,789	9,739
T otal imports (cif)	795	8,358	14,508	14,930
F ood	113	326	..	..
F uel and energy	146	185	..	..
C apital goods	168	891	1,596	2,041
Export price index (2000=100)	69	106	125	126
Import price index (2000=100)	71	103	119	122
Terms of trade (2000=100)	97	103	105	103



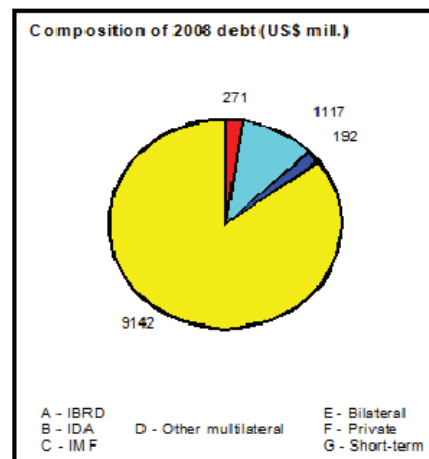
BALANCE of PAYMENTS

	1988	1998	2007	2008
<i>(US\$ millions)</i>				
Exports of goods and services	..	8,047	14,240	16,153
Imports of goods and services	..	8,884	14,720	17,604
Resource balance	..	-837	-481	-1,452
Net income	..	-525	-1,355	-1,579
Net current transfers	..	159	259	238
Current account balance	..	-1,202	-1,577	-2,792
Financing items (net)	..	998	965	3,377
Changes in net reserves	..	204	611	-585
Memo:				
Reserves including gold (US\$ millions)	72	906	1,935	2,077
Conversion rate (DEC, local/US\$)	10	10	10	10



EXTERNAL DEBT and RESOURCE FLOWS

	1988	1998	2007	2008
<i>(US\$ millions)</i>				
T otal debt outstanding and disbursed	6,052	6,406	10,243	10,722
IBRD	478	279	216	271
IDA	0	0	0	0
T otal debt service	28	727	912	1,681
IBRD	5	41	56	58
IDA	0	0	0	0
Composition of net resource flows				
Official grants	6	11	29	29
Official creditors	26	135	45	144
Private creditors	23	253	463	-350
Foreign direct investment (net inflows)	-595	1,203	1,777	2,402
Portfolio equity (net inflows)	1	0	0	0
World Bank program				
Commitments	0	78	100	156
Disbursements	4	91	74	99
Principal repayments	3	26	43	45
Net flows	1	65	30	54
Interest payments	2	15	13	13
Net transfers	-1	50	17	41



Note: This table was produced from the Development Economics LDB database.

12/9/09

Annex B1: Panama FY11-FY14 Results Monitoring Framework

Government Objectives FY11--FY14	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
CPS Objective 1: Economic Growth That Supports Competitive Advantages (<i>Enhancing the environment for investment and productivity</i>)				
A. Maintain macroeconomic stability and enhance Panama's productive capacity to expand opportunities for job growth outside the traditional urban centers.	Panama requires large infrastructure investment to enhance productive capacity outside of traditional urban centers. In order to achieve ambitious plans in the context of macroeconomic sustainability, the country will need to supplement public funds with enhanced private domestic and foreign direct investment. In addition, the government will need to increase fiscal revenues and improve efficiency of the tax collections.	Government maintains fiscal sustainability by maintaining fiscal deficit within the limits of the Fiscal Sustainability Law. [Baseline: 1 percent fiscal deficit to GDP in 2009, Source MEF]	Tax reforms are completed to lower tax rates and widen the tax base. Key changes to corporate income taxes include: i) rates fall from 30 to 27.5 percent in 2010, and to 25 percent in subsequent years and, ii) the collection of the corporate income tax proceeds to be made monthly (instead of yearly), at 1 percent of gross revenues, and excess payments at the end of the year may be credited toward the following year. Changes to the personal tax include: i) maximum marginal tax rates for individuals will fall from 27 to 15 percent, and ii) about 17,000 of the lowest-paid workers will be exempt from personal income tax, due to the increase in the threshold of compliance from US\$6,000 to US\$11,000. Primary adjustments to indirect taxes include the tax on final sales of goods and services and the tax on CIF imports will rise from 5 to 7 percent.	Programmatic Broad-Based Growth and Efficiency DPL (FY11) Enhanced public sector efficiency technical assistance loan (FY 11)
	Agricultural productivity has decreased in recent years due to low investment in infrastructure and technologies, reflecting low land tenure security, inadequate access to credit, inefficiencies in the agricultural technical assistance system, and high levels of protection.	Increased agricultural productivity of small scale producers targeted by the program; measured by 25% increase in sales receipts of small scale producers via PRORURAL financed productive alliances [Baseline US\$153,933.00 in 2009]	60 productive alliances formed and receiving financing to access markets	Rural productivity project (GEF) (on-going) Rural productivity project (on-going)

Government Objectives FY11--FY14	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
	<p>Poor condition of roads increases costs and travel time and reduces production efficiency. Only 26 percent of the total road network is in good condition.</p>	<p>Percentage of paved secondary roads in good condition is increased by 20 percent. [Baseline: 55 percent in 2007. Source MOP]</p>	<p>The proportion of paved secondary roads in good condition increases by 5 percent every year for four years.</p>	<p>Road Asset Preservation Project (FY11) (under preparation) Road Asset Preservation Project II (FY13)</p>
<p>B. Improve the higher education and innovation system to generate the skills and knowledge needed to support globally competitive industries</p>	<p>The quality of the higher education and innovation systems is low and has not adapted to the needs of a dynamic global environment. Lack of labor force skills constrains firm growth in international markets and limits productivity growth and thus employment opportunities.</p>	<p>Government adopts enhanced policy framework that helps to provide the basis for improved higher education, innovation and vocational and technical training.</p>	<p>A strategy for reform of the higher education, vocational and technical training and innovations systems is completed.</p>	<p>Higher Education and Innovation for Global Competition AAA (FY 12) Non-Lending Technical Assistance to Improve the Regulatory Framework and Financing of Technical and Vocational Training Programs (FY 12)</p>
<p>C. To create a sustainable environment for building tourism and conserving globally important biodiversity, forests, and marine-coastal ecosystems</p>	<p>Natural ecosystems and global biodiversity at risk from deforestation and lack of sustainable conservation policies.</p>	<p>The Government ensures effective conservation (protection and sustainable management) of at least 50,000 ha of forest and other natural ecosystems of global biodiversity significance in the buffer zones of Protected Areas and biological corridors [Baseline 28,400 in 2010.]</p>		<p>Rural Productivity and Consolidation of the Atlantic Mesoamerican Biological Corridor Project. (GEF CBMAP II) REDD+ as part of the World Bank's Forest Carbon Partnership Facility (FCPF)</p>
<p>D. Manage the risk of natural disasters and adaptation to climate change</p>	<p>Risk of disasters caused by adverse natural events and climate change is high and may affect fiscal costs. Every year floods generate large fiscal liabilities. These types of events cause social, environmental, and economic damages that mainly affect the poor.</p>	<p>Government improves capacity to respond to disasters and climate change under implementation of new disaster risk management and climate change adaptation plan. [Baseline: Panama has no comprehensive disaster risk/climate change mitigation plan in 2010]</p>	<p>Disaster risk management and climate change adaptation plan drafted.</p>	<p>CAT-DDO (FY12) Central American Probabilistic Risk Assessment (CAPRA) ongoing TA support to Central America, including Panama.</p>

Government Objectives FY11--FY14	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
CPS Objective 2: Greater Opportunities for all				
A. Improve access to quality water and sanitation facilities	Despite improved water and sanitation services, 17 percent of rural households still lack access to safe water and 49 percent to improved sanitation [JMP 2008]. The poor and indigenous population are the most affected	Increased access to water and sanitation services in rural and indigenous areas; measured by 77,000 additional people in target areas with access. [Baseline 0 in 2008] Improved access to reliable water services in targeted lower income peri-urban areas; measured by 100,000 additional people with access in these areas. [Baseline 0 in 2010]	Strategic plan for the water sector elaborated and broadly discussed. WSS master plan for selected areas of PMR developed under a participatory approach. Contract for efficiency improvements in the WSS services provision for the city of Colon designed	Water supply and sanitation in low income communities (on-going) Metro water and sanitation improvement project (pending effectiveness)
B. Improve poor households' access to quality basic health and nutrition services	Access to basic health services remain a challenge as the high levels of malnutrition in indigenous areas can attest.	Improved access to women and children to critical health services as indicated by 95 percent of children younger than 1 year old with complete vaccination scheme [Baseline 70% in 2009, source: MINSA administrative data] and 80 percent of pregnant women with at least 3 prenatal controls. [Baseline 70% in 2009 source: MINSA administrative data]	Background studies for the preparation of new operation are completed. National Health Plan completed and broadly consulted.	Health equity and performance improvement project (on-going) Strengthening the Network of Basic Health and Nutrition (FY13) Social Protection Project (on-going)
C. Strengthen social protection of the vulnerable	The actual size of the Conditional Cash Transfer (CCT) program is limited when compared to the amount of eligible extreme poor households. The Government has recently launched a non contributory pension to people 70 years and older. Its targeting mechanism needs strengthening.	Improved consumption levels of the poor through wider implementation of Conditional Cash Transfer (CCT) program as measured by an increase of 40 percent in the number of beneficiaries. [Baseline 72,000 of beneficiary households in 2010] Improved effectiveness and targeting of the non contributory pension program. [Baseline: program is not targeted in 2010]	Management information system monitoring the CCT fully functional with 66 percent of households recertified and a net increase in the number of beneficiaries of 20 percent. A new operational rule for the non contributory pension program is in place and almost 50 percent of beneficiaries recertified.	Social Protection Project (on-going) Strengthening Panama's Social Protection System Technical Assistance Loan (FY 11). Programmatic Broad-Based Growth and Efficiency DPL (FY11)

Government Objectives FY11--FY14	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
CPS Objective 3: Enhanced Public Sector Transparency, Effectiveness, and Efficiency				
A. Improve efficiency of public expenditure	Panama's expenditure in the social sector is one of the highest in the region but outcomes are comparatively low showing low efficiency.	Improved mechanism in place in sector ministries to ensure correct budget execution and evaluate success based on outputs and outcomes. [Baseline: Lack of sector incentives, targets, indicators and evaluation in public programs]	Government implements a unique register of beneficiaries of main social programs Evaluation of pilot public programs is carried out A program of M&E oriented to results is implemented in pilot social sectors.	Programmatic Broad-based growth and efficiency DPL (FY11) Enhanced public sector efficiency technical assistance loan (FY 11) Public sector expenditure and institutional review AAA (FY12) Social Protection Project (on-going) Strengthening Panama's Social Protection System Technical Assistance Loan (FY 11).
B. Modernize financial management and procurement systems, and introduce performance focus in the public sector	Lack of adequate fiscal and financial information for planning and budget execution. Lack of performance culture and no quality results information in the public administration Lack of strategic planning of budget resources, weak monitoring of executing and no evaluation of public programs Need to build the capacity to manage cost-risk tradeoffs and strengthen the development of a domestic market for government securities to lower financing costs	Improved capacity to make budget decisions based on the systematic provision of information on performance of public programs [Baseline: Currently, there are no clear rules and procedures that promote the production and reporting of performance information]	Implementation of new version of the Panama Integrated Financial Management System SIAFPA. Pilot ministries have trained staff to strategically plan, monitor program progress and carry out evaluations, and selected public programs have stronger design with baselines, indicators and targets The Government has a vision on how to institutionalize performance based budgeting, is generating tools for producers and users of performance information (PI) and has a system in place that allow to monitor Presidential Goals New capacity and tools to manage the validation of cost-risk tradeoffs and risk reports is implemented in Crédito Público.	Enhanced public sector efficiency technical assistance loan (FY 11) Programmatic Broad-Based Growth and Efficiency DPL (FY11) Public Credit Advisory Services (FY11-13 (fee for service)).

Government Objectives FY11--FY14	Issues and Obstacles	Outcomes the Bank Program Expects to Influence	Milestones	Bank Program Instruments
	<p>Although achieved significant improvements, Public Procurement processes needs to be further developed to fully become an efficient system, generating transparency and savings in alignment with the government investment objectives.</p>	<p>The Comptroller General has improved the efficiency of budget execution processes by reducing unnecessary ex ante control mechanisms. [Baseline: Existence of three ex ante and ex post controls over public expenditures making difficult execution]</p> <p>Government has increased institutional capacity to handle improved public procurement processes [Baseline: currently there is no human resource policy or ongoing training program].</p> <p>Increased savings in public procured goods and services, as measured by the reduction in the average unit and/or operational costs of key items tracked by DGCP. [Baseline: Currently the government has not developed the tools to measure savings and operational costs, this will be done with support from the project]</p>	<p>The Comptroller General is making significant progress on its reducing ex ante controls on budget execution.</p> <p>The Government has developed a human resource policy, and implemented sustainable training programs for the private and private sector. It has also designated and implemented standard procurement documents being adopted by DGCP and rolled-out by the government agencies.</p> <p>The Government has increased the number of Framework Agreements for common use of goods and standard services. Functional transactional e-procurement being in place and used by the public sector. Surveys conducted to measure public views of the procurement system.</p>	

Annex B2: Selected Indicators of Bank Portfolio Performance and Management

As Of Date 8/24/2010

Indicator*	2007	2008	2009	2010
Portfolio Assessment				
Number of Projects Under Implementation ^a	5	7	8	6
Average Implementation Period (years) ^b	5.1	3.9	3.1	2.5
Percent of Problem Projects by Number ^{a, c}	0.0	0.0	11.1	33.3
Percent of Problem Projects by Amount ^{a, c}	0.0	0.0	15.0	39.4
Percent of Projects at Risk by Number ^{a, d}	0.0	0.0	11.1	33.3
Percent of Projects at Risk by Amount ^{a, d}	0.0	0.0	15.0	39.4
Disbursement Ratio (%) ^e	31.2	24.6	16.9	16.0
Portfolio Management				
CPPR during the year (yes/no)	Yes	Yes	Yes	Yes
Supervision Resources (total US\$)	306	700	970	974
Average Supervision (US\$/project)	76	70	88	89

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	36	3
Proj Eval by OED by Amt (US\$ millions)	864.8	135
% of OED Projects Rated U or HU by Number	36.1	0.0
% of OED Projects Rated U or HU by Amt	21.4	0.0

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.

Annex B3: IBRD Program Summary Panama

As Of Date 8/24/2010

Proposed IBRD/IDA Base-Case Lending Program ^a

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
Carry over Projects from the CPS FY2008 -2010				
	Rural Productivity	39.4	M	M
	GEF Rural Productivity	6.0	M	M
	Water & Sanitation in Low-Income Communities	32.0	M	M
	Social Protection	24.0	H	M
	Health Equity and Performance Improvement	40.0	H	M
	Metro Water and Sanitation Improvement	40.0	M	M
	Result	181.4		
2011	Strengthening Panama's Social Protection System TA	50.0	H	M
	Enhanced Public Sector Efficiency TA	75.0	H	H
	Social Protection Additional Financing	15.0	M	M
	Road Asset Preservation	110.0	M	H
	Programmatic Broad-based growth and efficiency DPL I	50.0	M	L
	Result	300.0		
2012	Programmatic Broad-based growth and efficiency DPL II	50.0	M	L
	Catastrophic Risk Deferred Draw-Down Operation (CAT-DDO)	50.0	H	M
	Result	100.0		
2013	Programmatic Broad-based growth and efficiency DPL III	TBD	M	L
	Secondary Roads Development	TBD	M	H
	Strengthening the Network of Basic Health and Nutrition Services	TBD	H	M
	Result	TBD		
2014	TBD	TBD	M	L
	Result	TBD		
Overall Result		581.4 (through FY12 only)		

Annex B4: PANAMA: IFC Investment Operations Program

	2007	2008	2009	2010
Commitments				
(US\$m)				
Gross	26	72	390	105
Net**	26	72	390	105
<u>Net Commitments by Sector (%)</u>				
CGF	100	100	10.2	17
CIN/CSF			77	73
CIT			12.8	10
Total	100	100	100	100
<u>Net Commitments by Investment Instrument (%)</u>				
Equity		44	4	9
Guarantee			6	39
Loan	96	56	90	24
Quasi equity***	--	--	--	24
Risk Product	4	--	--	5
Total	100	100	100	100

** IFC's Own Account only

*** Quasi Equity includes both loan and equity types

Annex B5: Summary of Nonlending Services - Panama

As Of Date 8/24/2010

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent completions				
Report on the Observance of Standards and Codes	FY10	100	G, D, B, PD	K, PD
Underway				
Poverty Assessment 2008 (draft)	FY10	191	G, D, B, PD	KG, PD, PS
Central American Probabilistic Risk Assessment (CAPRA)	FY12	500	G, D, B, PD	KG, PD, PS
Planned				
Making Progress on Poverty and Inequality	FY11	TBD	G, D, B, PD	KG, PD, PS
Higher Education and Innovation for Global Competition	FY13	TBD	G, D, B, PD	KG, PD, PS
Improve the Regulatory Framework and Financing of Technical and Vocational Training Programs	FY12	TBD	G, D, B, PD	KG, PD, PS
Public Sector Expenditure and Institutional Review	FY12	TBD	G, D, B, PD	KG, PD, PS
Public Credit Advisory Services (fee for service)	FY11	TBD	G, D, B, PD	KG, PD, PS
Public Expenditure and Financial Accountability (PEFA)	TBD	TBD	G, D, B, PD	KG, PD, PS
Central America Regional Competitiveness Study	FY11	TBD	G, D, B, PD	KG, PD, PS
Quick Response/On Demand Analytical Support	TBD	TBD	G, D, B, PD	KG, PD, PS

a. Government, donor, Bank, public dissemination.

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

Annex B6: Panama - Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	7	7	7	6	6	6	6	6	6
Industry	17	16	17	17	17	18	19	19	20
Services	76	77	77	76	76	76	75	75	74
Total Consumption	75	73	69	67	59	65	65	65	64
Gross domestic fixed investment	18	19	24	27	25	27	28	28	28
Government investment	4	4	6	8	9	11	12	12	11
Private investment	14	15	19	19	16	16	16	16	17
Exports (GNFS) ^b	75	77	81	81	77	79	79	78	79
Imports (GNFS)	69	69	74	75	61	72	73	71	70
Gross domestic savings	25	27	31	33	41	35	35	35	36
Gross national savings ^c	13.4	16.3	16.9	15.8	24.8	18.7	20.2	19.8	20.0
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	15465	17137	19794	23184	24711	26689	29282	32164	35266
GNI per capita (US\$, Atlas method)	4650	4950	5560	6290	6590	7039	7611	8220	8837
Real annual growth rates									
Gross domestic product at market prices	7.2	8.5	12.1	10.7	2.4	4.8	6.3	6.5	6.2
Gross Domestic Income	9.8	6.8	9.1	9.0	11.4	-2.3	5.8	6.1	6.7
Real annual per capita growth rates									
Gross domestic product at market prices	5.3	6.7	10.2	8.9	0.8	2.7	4.5	4.6	4.4
Total consumption	6.2	2.4	-0.3	4.3	-0.1	3.3	3.0	4.9	3.2
Private consumption	6.9	2.6	-0.8	4.9	-0.2	2.9	2.5	5.0	3.1
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	10808	12416	14292	16149	16343	14992	16469	18372	20581
Merchandise FOB	7591	8478	9338	10323	10904	11970	12825	13884	15074
Imports (GNFS) ^b	10688	11918	14646	17490	15097	20734	23681	26731	29036
Merchandise FOB	8907	10190	12521	14869	12931	16124	17744	19496	21059
Resource balance	121	498	-354	-1341	1246	-5742	-7213	-8359	-8455
Net current transfers	245	253	253	238	210	227	249	274	300
Current account balance	-759	-535	-1430	-2687	-12	-2121	-2356	-2721	-2717
Net private foreign direct investment									
Long-term loans (net)	2498	1907	2402	1773	2060	2315	2560	2826	3121
Official	543	928	362	-441	0	0	0	0	0
Private	-46	37	45	144	53	64	17	-56	-110
Private	589	891	318	-585	-53	-64	-17	56	110

Indicator	Actual			Estimate			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Other capital	-1607	-2129	-723	1934	-1355	-95	96	195	-104
Change in reserves ^d	-675	-172	-611	-579	-693	-100	-300	-300	-300
<i>Memorandum items</i>									
Resource balance (% of GDP)	0.8	2.9	-1.8	-5.8	5.0	-21.5	-24.6	-26.0	-24.0
Public finance (as % of GDP)									
Current revenues	22.1	24.7	26.4	24.5	24.4	24.6	26.2	26.2	26.4
Current expenditures	21.9	21.3	19.4	18.5	18.7	19.0	18.8	18.8	18.7
Current account surplus (+) or deficit (-)	0.2	3.4	6.9	6.0	0.0	5.7	5.6	7.4	7.4
Capital expenditure	3.0	3.1	4.9	7.0	7.1	7.2	8.5	8.2	8.0
Foreign financing	5.1	0.1	2.4	0.7	6.4	0.7	-0.9	0.8	0.5
Monetary indicators									
M2/GDP	74.9	82.1	82.4	83.6	83.6	83.6	83.6	83.6	83.6
Growth of M2 (%)	8.5	21.5	15.9	18.5	13.4	10.0	10.2	9.8	9.6
Private sector credit growth / total credit growth (%)	13.3	12.9	18.2	14.6	0.8	9.1	10.2	10.4	8.9
Price indices(YR82 =100)									
Real exchange rate (US\$/LCU) ^f	92.7	92.3	90.8	89.7	84.4	81.9	79.9	78.8	77.7
Real interest rates									
Consumer price index (% change)	3.4	2.2	6.4	6.8	1.9	3.0	2.7	2.5	2.5
GDP deflator (% change)	1.7	2.1	3.0	5.8	4.1	3.0	3.2	3.2	3.2

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

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

Annex B7: Key Exposure Indicators - Panama

Indicator	Actual			Estimated			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US\$m) ^a	9255	9114	10243	10722	11208	11707	12484	12956	13401
Net disbursements (US\$m) ^a	811	1947	352	1043	487	498	777	473	445
Total debt service (TDS) (US\$m) ^a	1438	1619	1161	1238	874	1240	1326	2389	1441
Debt and debt service indicators (%)									
TDO/XGS ^b	76.4	64.6	62.2	59.4	61.3	56.6	58.1	57.6	43.3
TDO/GDP	59.8	53.2	52.6	46.4	44.7	43.6	43.5	40.9	33.7
TDS/XGS	11.9	11.5	7.1	6.9	4.8	6.0	6.2	10.6	4.7
Concessional/TDO	2.9	2.6	2.1	2.0	2.2	2.5	2.6	2.6	2.5
IBRD exposure indicators (%)									
IBRD DS/public DS	2.9	2.2	6.6	3.6	5.6	6.0	4.3	3.1	5.7
Preferred creditor DS/public	11.1	8.6	25.5	13.3	27.7	28.1	19.4	14.1	22.7
IBRD DS/XGS	0.4	0.4	0.3	0.3	0.2	0.2	0.3	0.3	0.3
IBRD TDO (US\$m) ^d	212	185	216	271	435	453	540	615	651

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

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

d. Includes present value of guarantees.

Annex B8: IBRD/IDA - Panama

CAS Annex B8 - Panama

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 6/3/2010

Closed Projects 52

IBRD/IDA *

Total Disbursed (Active)	66.14
of which has been repaid	13.59
Total Disbursed (Closed)	381.35
of which has been repaid	295.30
Total Disbursed (Active + Closed)	447.48
of which has been repaid	308.89
Total Undisbursed (Active)	151.93
Total Undisbursed (Closed)	2.92
Total Undisbursed (Active + Closed)	154.85

Active Projects

Project ID	Project Name	Supervision Rating		Fiscal Year	Original Amount in US\$ Millior			Undisb.	Orig. Frm Rev'd	Difference Between Expected and Actual Disbursements ^{a/}
		Development Objectives	Implementation Progress		IBRD GRANT	Cancel.	Disbursements ^{a/}			
P083045	PA GEF Rural Productivity	MS	MS	2006	6			4.51122779	-0.38877221	2.2612278
P106445	PA Hlth Equity & Performance Improvement	S	S	2009	40			33.09421195	15.58421195	
P050595	PA LAND ADMINISTRATION	MU	U	2001	47.9			2.98115511	2.98115511	2.9811551
P119694	PA Metro Water and Sanitation Improvemen	#	#	2010	40		40			
P064918	PA Rural Productivity (former 2nd Rur Po	MS	MU	2007	39.4			31.97727807	11.29227807	
P098328	PA Social Protection project	MS	MS	2008	24			16.63343057	7.32343057	
P082419	PA-Water&Sanitation in Low-Income Comm.	U	U	2008	32			27.24550487	9.24550487	
Overall Result					223.3	6		156.4428084	46.03780836	5.2423829

Annex B9: IFC - Panama

MIS International Finance Corporation Report Run Date: 07/14/2010

Statement of IFC's Committed and Outstanding Portfolio

Amounts in US Dollar Millions

Accounting Data As Of: 06/30/2010

Country: Panama Page 1

Commitment Fiscal Year	Institution Short Name	LN Cmt'd-IFC	ET Cmt'd-IFC	QL+QE Cmt'd-IFC	GT Cmt'd-IFC	RM Cmt'd-IFC	All Cmt'd-IFC	All Cmt'd-Part	LN Out-IFC	ET Out-IFC	QL+QE Out-IFC	GT Out-IFC	RM Out-IFC	All Out-IFC	All Out-Part
2003	Aguas Panama	1.95	-	-	-	-	1.95	0.81	1.95	-	-	-	-	1.95	0.81
1998/ 2000	Banco General S.	15.00	-	-	-	-	15.00	-	15.00	-	-	-	-	15.00	-
2010	Del Istmo Re	-	9.00	10.00	-	-	19.00	-	-	-	-	-	-	-	-
2009	Dioicel (Panama)	49.88	-	-	-	-	49.88	-	49.88	-	-	-	-	49.88	-
2010	Electron	25.00	-	15.00	-	5.00	45.00	-	-	-	-	-	-	-	-
2008/ 2009	Grupo Mundial	-	22.09	-	-	-	22.09	-	-	22.09	-	-	-	22.09	-
2009/ 2010	Multi Financiel	-	-	-	25.00	-	25.00	-	-	-	-	25.00	-	25.00	-
2009	PCA/ACP	300.00	-	-	-	-	300.00	-	-	-	-	-	-	-	-
2003/ 2004	UBCI	-	0.00	-	-	-	0.00	-	-	0.00	-	-	-	0.00	-
Total Portfolio:		391.82	31.09	25.00	25.00	5.00	477.91	0.81	66.82	22.09	0	25.00	0	113.91	0.81

Note: LN is Loan, ET is Equity, QL is Quasi loan, QE is Quasi equity, GT and RM are Guarantee and Risk Management products.

Annex C1: Panama Baseline Scenario

Panama – CPS Baseline									
Pillars	Active Portfolio (Closing Date, US\$Undisbursed)	FY11		FY12		FY13		FY14	
		Lending	Analytical and Advisory Services	Lending	Analytical and Advisory Services	Lending	Analytical and Advisory Services	Lending	Analytical and Advisory Services
Economic Growth That Builds on Competitive Advantages	Rural Productivity(1/13, US\$32m) Rural Productivity(GEF) (6/13, US\$4.5m) Roads Maintenance (Under preparation, US\$110m)	Broad-Based Growth and Efficiency DPL I Road Asset Preservation		Broad-Based Growth and Efficiency DPL II CAT-DDO		Broad-Based Growth and Efficiency DPL III Road Asset Preservation II			
Greater Opportunities for All	Rural Water and Sanitation (5/12, US\$27.6m) Urban Water and Sanitation (9/15, US\$40m – pending effectiveness) Social Protection (6/12, US\$16.6m) Health Equity Performance Improvement (6/13, US\$33m)	Enhanced Targeting of Social Protection Programs TA Social Protection Additional financing	Making Progress on Poverty and Inequality AAA		Non-Lending Technical Assistance to Improve the Regulatory Framework and Financing of Technical and Vocational Training Programs	Strengthened Health and Nutrition Services	AAA on higher education		
Transparent and Efficient Public Sector		Enhanced Public Sector Efficiency Technical Assistance Loan	Public Credit Advisory Services (fee for service).		Public Expenditure and Institutions Review		Public Credit Advisory Services (fee for service).		

Annex D1: Public Debt Sustainability Analysis

1. The debt sustainability analysis presented in this annex is based on the macroeconomic framework summarize in Table 2 of the main document. The analysis uses both a deterministic model and stochastic simulations. The analysis applies two different concepts of public debt: (1) Non Financial Public Sector (NFPS) debt, excluding the accounts of the Panama Canal Authority (ACP); (2) NFPS debt including debts of the ACP.¹⁷ Both definitions define debt on a net basis by excluding public debt instruments held by the Fiduciary Fund and the Institute of Social Security (CSS) from gross public debt.

2. The economy is expected to recover from the global crisis to a growth rate of 6.5 percent in 2012 (up from a 2.4 growth rate in 2009). In the baseline scenario, the fiscal deficit of the NFPS, excluding the ACP will remain below 1 percent of GDP with the exception of 2010 as stipulated in the Social and Fiscal Responsibility Law. GDP inflation to remain at 2.5 percent.

3. Table D1.1 presents the evolution of the stock of the NFPS debt from 2005 to 2009 providing a breakdown by credit for the stock of debt. Panama's public debt is mainly external (93 percent of total debt). Domestic debt corresponds to about 7 percent to the total debt.

Table D1.1: Panama: Composition of NFPS Debt, 2005-2009
(In US Million)

	2005	2006	2007	2008	2009
Domestic	2,651.64	2,664.33	2,195.04	1,960.11	822.18
o/w Private sources	1,263.54	1,312.50	995.21	827.60	519.35
o/w Public sources	1,388.09	1,351.83	1,199.83	1,132.51	302.83
External	7,579.70	7,788.33	8,275.59	8,477.29	10,150.15
o/w Multilateral	1,136.11	1,183.01	1,235.37	1,349.85	1,638.08
o/w Bilateral	259.19	237.20	223.96	210.26	222.74
o/w Private	79.61	8.34	6.49	169.63	218.78
o/w Bonds	6,104.79	6,359.78	6,809.78	6,747.55	8,070.55
Total NFPS debt	10,231.34	10,452.66	10,470.63	10,437.40	10,972.33

Source: Ministry of Finance

4. **Panama's public debt is projected to stay on a sustainable path over the period 2010-2015.** Table 3 indicates that a zero primary balance, on average, between 2010 and 2015 would result in a gradual decline in the public debt to GDP ratio from 40.1 percent of GDP by the end of 2009 to 35.8 percent by end-2015.

5. **Although the debt outlook under the baseline scenario looks fairly stable, there are still some potential economic risks that could arise in the medium term.** To examine the potential implication of these risks, Table D1.2 present projected debt dynamics for the Non-Financial Public Sector (excluding. ACP) under most pessimistic alternative scenarios:

¹⁷ The Panama Canal Authority is an autonomous agency with fiscal accounts separate from that of the Non-Financial Public Sector. ACP debt is not explicitly guaranteed by the sovereign.

- Considering tighter financial market conditions reflected in higher real interest rates for public debt over 2010-2011- scenario B 1- projected debt indicators for 2011 would be 1.7 percentage points higher than under the baseline scenario.
- Under a pessimistic growth scenario (2 percent contraction over 2010-2011) compared to the baseline (6.1 percent over 2010-2015)-Scenario B2- the public debt-to-GDP ratio would be 5.3 percentage point higher than under the baseline scenario in 2015.
- Assuming a looser fiscal policy-scenario B3- with an average primary deficit of 0.7 percent of GDP over 2010-2011 instead of the assumed primary surplus of 2.1 percent of GDP under the baseline scenario, the public debt-to-GDP ratio would be 4.1 percentage points higher than under the baseline scenario in 2015.
- Under a scenario of contemporaneous shocks in which GDP growth, the primary balance and real interest rates are affected- scenario B 4- the public debt-to-GDP would reach 32.1 percent in 2015 or 7.3 percentage points higher than in the baseline scenario.

Table D1.2: Panama Debt Sustainability Analysis, excluding ACP (Alternative Scenarios)

	2009	2010	2011	2012	2013	2014	2015
Baseline	39.4	37.4	35.2	32.8	30.2	27.6	24.8
A1. Key variables are at their historical averages in 2010-15	39.4	36.6	34.4	32.1	29.2	26.3	23.1
A2. No policy change (constant primary balance) in 2010-15	39.4	37.4	35.0	32.4	29.3	26.2	22.8
B1. Real interest rate is at historical average plus two standard deviations in 2010 and 2011	39.4	38.1	36.9	34.3	31.3	28.3	25.0
B2. Real GDP growth is at historical average minus two standard deviations in 2010 and 2011	39.4	40.1	41.3	38.8	35.9	33.1	30.0
B3. Primary balance is at historical average minus two standard deviations in 2010 and 2011	39.4	40.1	40.3	37.9	35.0	32.1	28.8
B4. Combination of 1-3 using one standard deviation shocks	39.4	40.9	43.0	40.7	37.8	35.1	32.1
B5. One time 30 percent real depreciation in 2010	39.4	50.3	64.0	60.9	57.3	53.7	49.9
B6. 10 percent of GDP increase in other debt-creating flows in 2010	39.4	36.6	34.4	32.1	29.2	26.3	23.1
Second most extreme stress test (B5)	39.4	40.9	43.0	40.7	37.8	35.1	32.1
Most extreme stress test (B6)	39.4	50.3	64.0	60.9	57.3	53.7	49.9

6. The second part of the analysis incorporates the accounts of the Panama Canal Authority and the canal expansion borrowing schedule for the period 2010-2015. The ACP is an

autonomous entity which has fiscal accounts separate from the rest of the Panamanian public sector. Nonetheless, the ACP has close ties to the public sector, and has contributed to the annual revenues of the NFPS by an average of 3.3 percent of GDP during 2005-2009. Due to the expansion of the Panama Canal, ACP debt will increase noticeably over the next few years.

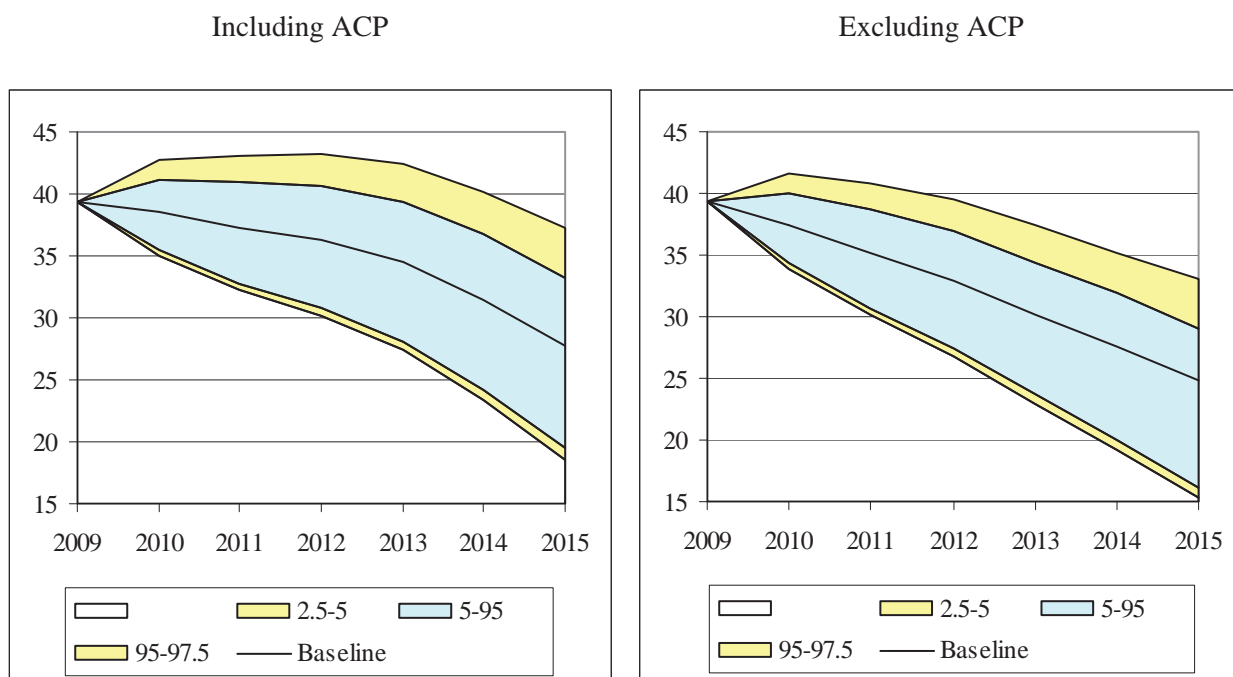
7. The debt sustainability analysis for the NFPS, including the ACP (Table D1.3), indicates that an average 1 percent of GDP primary surpluses between 2010-2013 would lead the debt-to-GDP ratio to gradually decline to 27.8 percent of GDP in 2015. This figure is 3 percentage points of GDP higher than the NFPS debt excluding the ACP. The most severe test, which assumes a combined shock on the growth rate, interest rate and primary balance, the public debt-to-GDP ratio would reach 35.2 percent in 2015. However, it is noteworthy, that the projected debt-to-GDP ratio declines under all other stress tests.

Table D1.3: Panama Debt Sustainability Analysis, including ACP
2009 2010 2011 2012 2013 2014 2015

	2009	2010	2011	2012	2013	2014	2015
Baseline	39.4	38.5	37.3	36.2	34.4	31.5	27.8
A1. Key variables are at their historical averages in 2010-15	39.4	37.5	36.2	35.1	33.1	30.0	26.0
A2. No policy change (constant primary balance) in 2010-15	39.4	38.5	37.2	36.0	33.9	30.7	26.5
B1. Real interest rate is at historical average plus two standard deviations in 2010 and 2011	39.4	39.0	38.7	37.6	35.6	32.4	28.3
B2. Real GDP growth is at historical average minus two standard deviations in 2010 and 2011	39.4	41.3	43.5	42.5	40.7	37.6	33.7
B3. Primary balance is at historical average minus two standard deviations in 2010 and 2011	39.4	40.9	41.8	40.7	38.9	35.7	31.8

8. **Stochastic simulations assign a low probability to a sharp increase in the debt ratio.** Stochastic simulations produce confidence intervals for the public debt ratios corresponding to varying degrees of uncertainty for four key macroeconomic variables: (a) domestic interest rates, (b) the growth rate, (c) the exchange rate, and (d) the foreign interest rate. Assuming an average 0.9 percentage point of GDP primary balance including ACP and (2.1 percentage points of GDP primary surplus excluding ACP) in the period 2010-2015, there is a 97.5 percent probability that the public debt-to-GDP ratio will remain between 18.6 (15.3) and 37.3 (33) percent by end-2015 (Figure D1.1).

Figure D1.1: Public debt-to-GDP ratio.



Fiscal Sustainability Framework (FS)

9. The level of public debt is said to be sustainable whenever it does not exceed the present value of future primary surpluses. In simple terms, an upward trend in public debt to GNP ratio is regarded as a signal of unsustainability. The deterministic models of FS are based on some accounting identities. The first step of the analysis is to produce a baseline scenario projection for public debt-to-GNP ratio based on some specific macroeconomic and fiscal policy forecasts. The next step is to conduct stress tests in order to determine the bounds of debt ratio under less favorable assumptions. A declining trend in debt ratio is deemed favorable for sustainability, but judgment critically depends on the soundness of the underlying forecasts of the key macroeconomic variables. Although the analysis is practical and the interpretation of its results is quite straightforward, the framework has many shortcomings. The main drawback is the ignorance of the interaction among the variables; a shock to a specific variable is assumed to have no repercussions on other key variables. This apparently implies that the final impact of a shock on the debt ratio could be underestimated.

10. A more recent approach to fiscal sustainability is utilizing a stochastic simulation tool.¹⁸ This framework takes the interactions among key variables into account, contrary to the deterministic approach. The common practice is to estimate a VAR model in order to obtain the correlation matrix of the key macroeconomic variables that are assumed to have an impact on

¹⁸ See for example, Celasun et al. (2007) IMF Staff Papers, Vol. 53, No.3

debt ratio. The next step is to use these correlations to carry out Monte Carlo simulations with an aim to generating large sample of bound tests. As a result, frequency distributions of the debt ratio can be derived for each year of projection, which provides a probabilistic assessment of debt sustainability. The aim of the analysis is not to determine the path of the public debt ratio but to produce “fan charts” that display confidence bands for varying degrees of uncertainty around a median projection. More simply, the analysis produces the probability that the simulated debt ratio exceeds a certain level.

11. The following is a brief discussion of the methodology developed by Bandiera et al (2006)¹⁹. The crucial element of the analysis is to determine the interactions among key variables that are assumed to have significant impacts on public debt ratio. These key variables are real interest rate on foreign and domestic debt, real GDP growth rate, and the change in real exchange rate. The primary step is to estimate an unrestricted VAR model composed of the above key variables:

$$X_t = c + B(L)X_t + v_t$$

$$X_t \equiv (r_t^d, r_t^f, g_t, \hat{e}_t)$$

$$v_t \sim N(0, \Omega)$$

where r_t^d : real domestic interest rate, r_t^f : real foreign interest rate (yield on US treasury bills), g_t : growth rate of real GDP, \hat{e}_t : change in real effective exchange rate, X: vector of state variables, v_t : reduced form residuals distributed multinomial with mean zero and covariance matrix Ω , $B(L)$: coefficients of the lags. The estimated variance-covariance matrix for Panama is as follows:

	Real depreciation	Domestic interest rate	Foreign interest rate	Real growth rate
Real depreciation of the Peso	0.001223	0.005791	0.004464	0.00867
Domestic interest rate	0.005791	1.291822	0.121524	-2.30877
Foreign interest rate	0.004464	0.121524	0.876422	-0.51882
Real growth rate	0.008670	-2.308770	-0.518820	24.33847
<i>Source: Staff estimations.</i>				

12. The next step is to carry out Monte Carlo simulations in order to generate random numbers for these four key variables, each of which has a standard normal distribution. Then, shocks are created for these variables with a joint distribution given by the estimated covariance

¹⁹ See Bandiera, Budina, Klijn, and Wijnbergen (2006) for details.

matrix. The results of the simulations summarized in the fan charts. The fan charts represent the frequency distribution of the public debt paths generated by the simulations.

Table D1.4: Public Sector Debt Sustainability Framework

Public Sector Debt Sustainability Framework, 2004-2015

(In percent of GDP, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	I. Baseline Projections											
Public sector debt	62.3	58.7	52.6	45.6	38.8	39.4	38.5	37.3	36.2	34.4	31.5	27.8
o/w foreign-currency denominated (gross)	47.6	45.5	40.5	37.4	32.7	37.2	35.4	32.7	32.2	30.6	28.1	24.5
Change in public sector debt	2.2	-3.6	-6.1	-7.0	-6.8	0.6	-0.9	-1.2	-1.0	-1.8	-3.0	-3.7
Identified debt-creating flows	-1.2	-4.6	-7.0	-13.4	-9.5	-1.1	-0.9	-1.2	-1.0	-1.8	-3.0	-3.7
Primary deficit	-0.3	-3.4	-5.5	-8.2	-5.6	-2.4	-1.0	-0.6	-0.6	-1.5	-2.5	-3.3
-Seignorage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+Automatic debt dynamics:	-0.8	-1.2	-1.5	-5.2	-4.0	1.3	0.1	-0.6	-0.4	-0.3	-0.5	-0.4
Contribution from interest rate/growth differential	-1.6	-1.3	-1.5	-4.4	-1.9	1.4	0.7	-0.4	-0.4	-0.2	-0.3	-0.3
Of which contribution from real interest rate	2.6	2.9	3.1	1.3	2.5	2.3	2.5	1.9	1.9	1.9	1.7	1.7
Contribution from domestic real interest rate	1.0	0.9	1.0	-0.1	0.1	0.4	0.5	0.4	0.4	0.4	0.3	0.3
Denominator = 1+g+p+gp	1.1	1.1	1.1	1.2	1.2	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Contribution from real interest rate on foreign debt	1.7	2.0	2.1	1.4	2.4	1.9	2.0	1.5	1.5	1.5	1.4	1.3
minus Contribution from real interest rate on net foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which (-) contribution from real GDP growth excl. OSF	-4.2	-4.2	-4.6	-5.7	-4.4	-0.9	-1.8	-2.3	-2.3	-2.1	-2.0	-1.9
Contribution from real exchange rate depreciation	0.7	0.2	0.0	-0.8	-2.1	-0.1	-0.6	-0.2	-0.1	-0.1	-0.2	-0.2
Denominator = 1+g+p*+gp*	1.1	1.1	1.1	1.2	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
-Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	3.4	1.0	0.9	6.4	2.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Key Macroeconomic and Fiscal Assumptions												
Real GDP growth (in percent)	7.5	7.2	8.5	12.1	10.7	2.4	4.8	6.3	6.5	6.2	6.2	6.5
Average nominal interest rate on public debt (in percent)	7.7	8.8	8.1	7.5	8.0	7.8	8.2	7.4	7.8	7.9	7.3	7.7
Average real interest rate	6.0	5.2	5.8	1.1	1.1	5.8	5.1	4.6	5.1	5.2	4.6	4.9
Change in the real exchange rate (Local currency per US dollar)	1.6	0.3	0.0	-2.1	-5.7	-0.3	-1.5	-0.6	-0.2	-0.3	-0.6	-0.6
Inflation rate (in percent)	1.6	3.4	2.2	6.4	6.8	1.9	3.0	2.7	2.5	2.5	2.5	2.5
Primary deficit	-0.3	-3.4	-5.5	-8.2	-5.6	-2.4	-1.0	-0.6	-0.6	-1.5	-2.5	-3.3

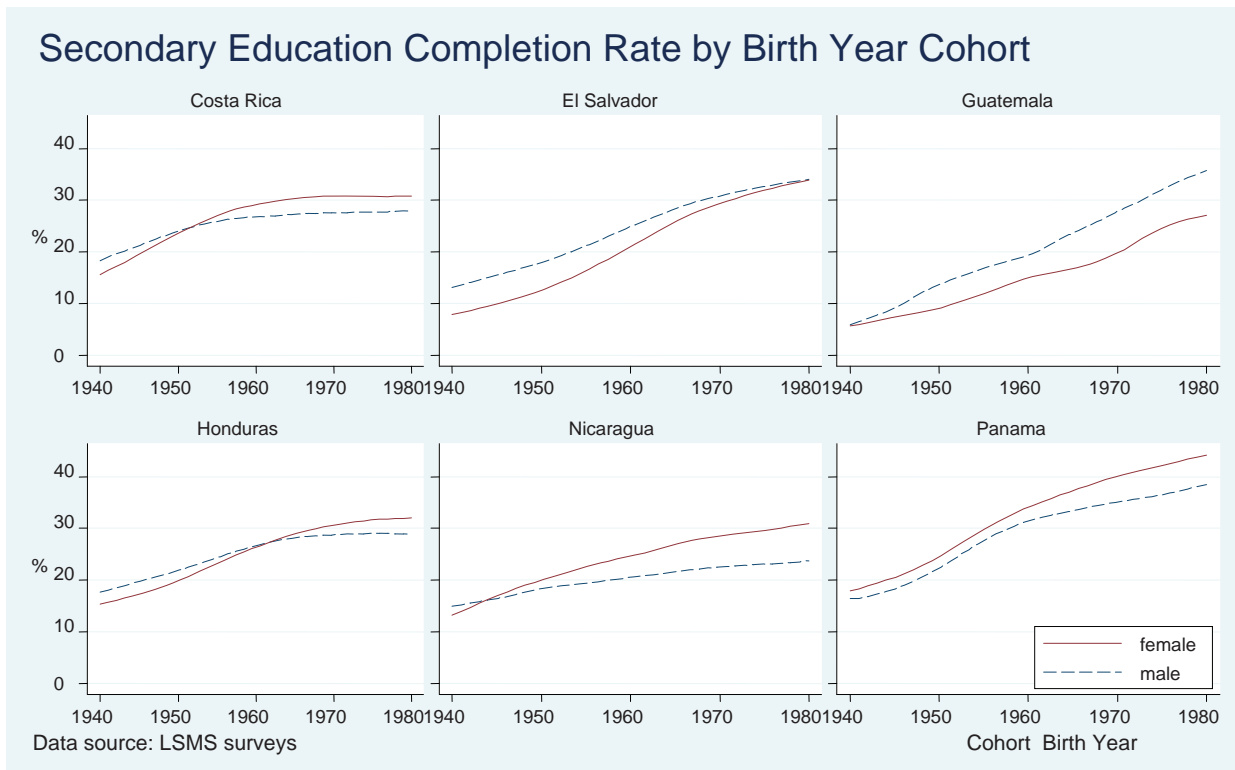
Includes ACP

Annex E1: Gender Issues in Panama

1. Panama is making steady progress on gender equality as stated on the third Millennium Development Goal and measured by a set of basic education, health, and labor force participation indicators disaggregated by sex (Panama PA 2007). Progress towards gender equality from a legal and institutional point of view has also been significant.

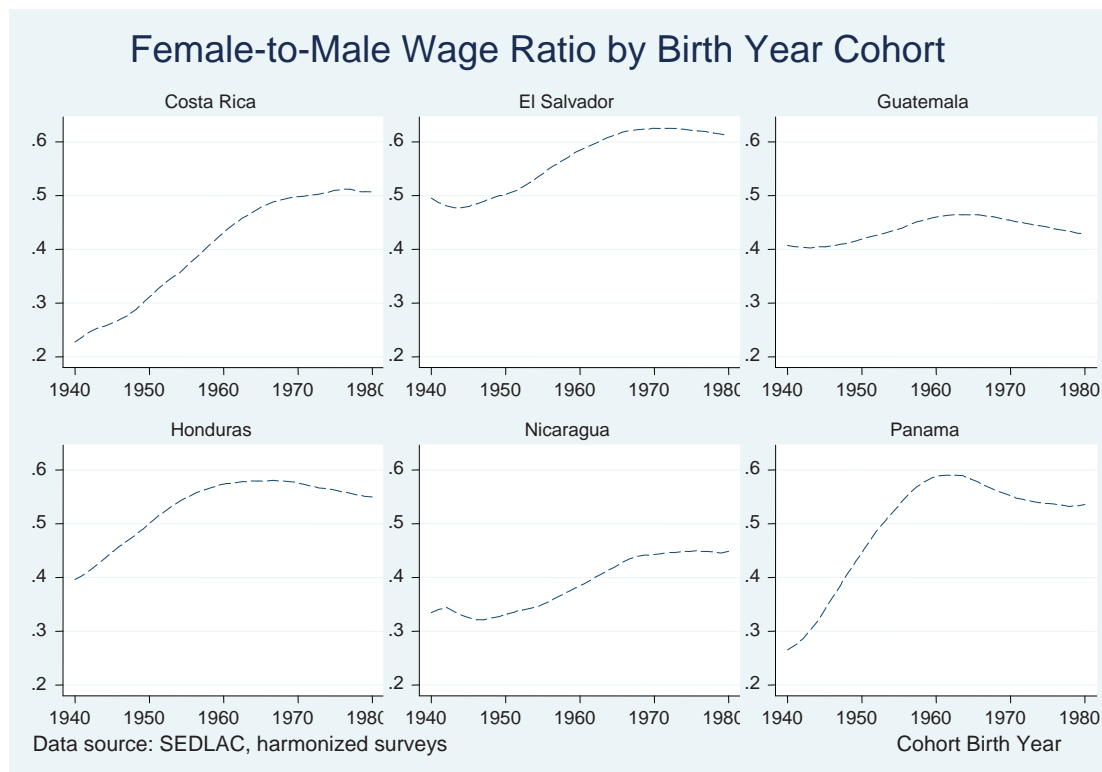
2. In terms of human capital accumulation, women have surpassed men in both secondary and tertiary education achievements in the country. As indicated in Figure 1, this trend is common in Central America (with the exception of Guatemala and El Salvador), but it is especially strong in Panama. Younger generations of women are now more likely than their male counterparts to complete secondary school.

Figure E1.1: Secondary Education Completion Rate



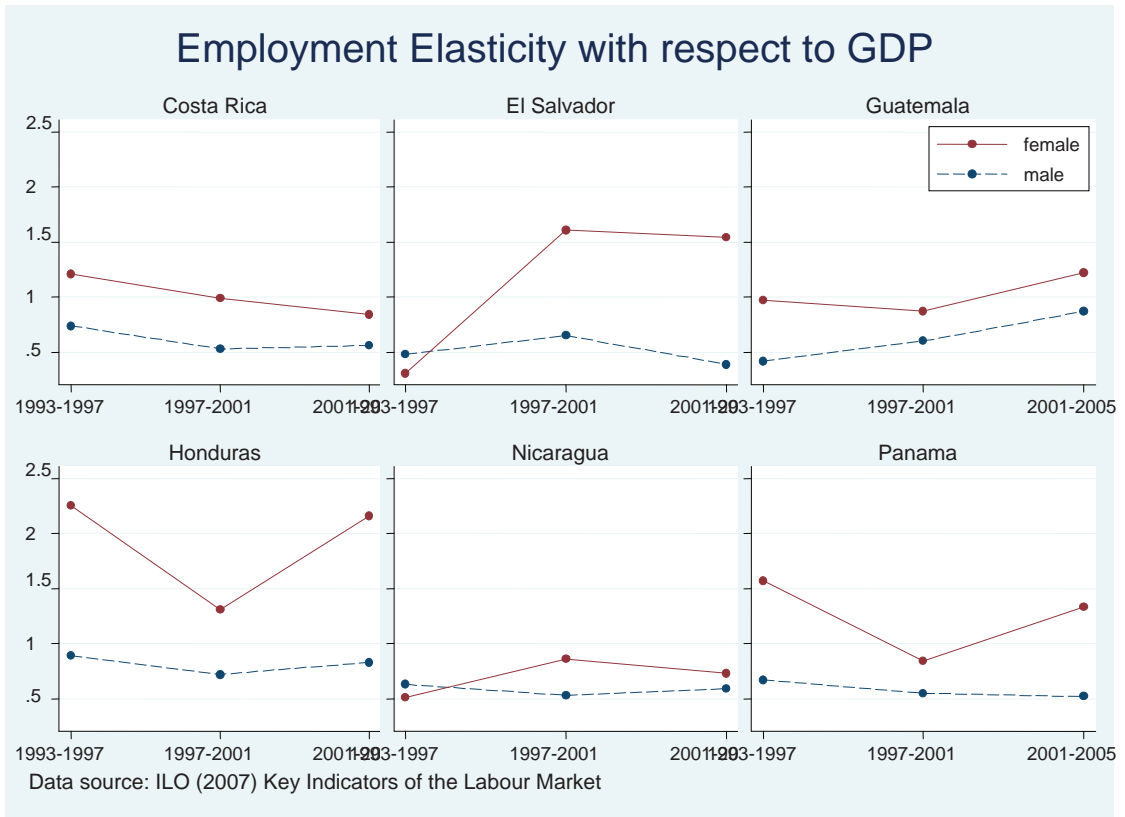
3. Despite these educational advances, women's wages still fall behind men's in Panama. As indicated in Figure 2, while the gap has narrowed for younger generations, women still earn between fifty to sixty percent of men's wages in the country. This is below Latin America's average which in 1994 was 67% of men's wages. This gap is a result not of differences in gender endowments (including education), but of how these endowments are rewarded, a pattern which has in part crowded women out of the formal sector.

Figure E1.2: Female-to-Male Wage Ratio



4. In addition to earning less, women are also more vulnerable to macroeconomic shocks in Panama. As depicted in Figure 3, women’s employment elasticity with respect to GDP in the region has been consistently above men’s. The current economic crisis may have disproportionately decreased women’s incomes, especially through employment cuts in export-oriented industries. This likely loss of women’s income may have long-term negative implications for the welfare of poor households in the region since women are more likely to invest a larger proportion of their income on their children.

Figure E1.3: Employment Elasticity



Annex F1: Consultation with Panamanian Stakeholders

1. Indigenous groups, think tanks, religious organizations, international financial institutions, private sector and Government representatives were convened in Panama City to participate in the CPS Consultations on May 24 – 26, 2010.
2. Discussions with the Panamanian stakeholders were based on a Power Point presentation the Bank prepared to obtain feedback on the Bank’s proposed programs and possible areas of intervention, in support of the Government’s five year Development Plan: Plan Estratégico de Gobierno 2010 – 2014. Participants consider the Bank as an important ally for Panama’s development agenda, thus, some issues and priorities were raised for the Bank to consider in this CPS as summarized below.
3. **A Government Development Plan for all.** Participants expressed during consultations their desire of a more inclusive and participatory Social and Economic Development Plan that benefits all Panamanians, including indigenous peoples and small farmers. Some stakeholders stated that the Government Investment Plan for the next four years is highly focused in mega infrastructure projects that will reinforce the dual economy in Panama and will benefit the traditional sources of growth around the Canal and the Colon Free Zone. Participants in various groups stressed the need for economic development to accompany social development.
4. **Strengthen Human Capital.** Participants in various groups highlighted the importance to enhance the quality of basic education and capacity building to ensure sustainable growth that will benefit all. Some representatives of indigenous groups mentioned among its priorities the implementation of bilingual intercultural education for improving educational outcomes. The lack of qualified Panamanian manpower is a bottleneck for growth and a loss of opportunity to take significant labor positions in the country that are generally filled by foreign work force or foreign-educated Panamanians.
5. During consultations it was discussed the importance of increasing the competitiveness of Panama’s labor force in particular the productivity of small scale-producers by promoting and empowering them to participate in international markets.
6. Ensuring access to basic health care services is also an essential vehicle for developing human capital. Stakeholders expressed their concern that Panama has not made significant progress on health indicators, particularly the indigenous groups in rural areas.
7. **Crime and Violence.** Participants were concerned of the increasing levels of crime and violence, particularly in Panama City and its peri-urban areas, as well as Colon city; and requested the Bank assistance in crime prevention programs for youth to drift apart from gangs and consequently reduce the percentage of drop-outs in middle and high schools. Stakeholders expressed their interest in learning about crime prevention programs that the Bank has supported in other countries like Honduras and Colombia with the program “Barrio Seguro.” It was discussed in the CPS consultations that the security issue in Panama must be of critical importance in the National agenda to ensure the effectiveness of the Government Investment Plan.

8. **Increasing Transparency and Improve Public Sector Efficiency.** Participants stressed the importance of increasing accountability in the public sector to enhance transparency and efficiency in public financial management and procurement systems, which will allow a better delivery of social services. The government representatives acknowledge the Bank assistance on public policy reform and the State modernization and encourage the Bank to continue its support in reducing bureaucratic red-tape and other regulatory burdens. Stakeholders agree with the Bank assistance through this CPS in effective monitoring and evaluation of public sector programs and results-based budgeting process to ensure accurate budget execution and evaluation of outcomes and outputs.

9. **Harmonization and Coordination in Government co-shared programs.** Participants consider the Plan Estratégico de Gobierno 2010 – 2014 a very ambitious plan and are concerned of the coordination and harmonization among Government entities to avoid overlapping responsibilities during the preparation, implementation, and supervision stages of co-shared projects, like the Metro. Thus, they would like to seek assistance from the Bank to ensure synergy in co-shared programs among Government entities. In addition, it was stated that the Government should ensure continuity of its “metas imperdonables”, which are goals to be met with no excuses reflected in its National Development Plan.

10. **Medium and Long-Term Agenda.** Some stakeholders expressed the need to strengthen the Strategic Development Plan over a long-term vision based on a country vision agreed during the “Acuerdos de la Concertación Nacional”.²⁰

11. The Bank will continue its consultation process with the Panamanian stakeholders on a regular basis, including in the preparation of specific projects, and will incorporate to the extent possible recommendations made during the CPS consultations meetings into the design of the CPS.

²⁰ This 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.

Annex G1: Completion Report

Country: Panama

Date of CPS: September 7, 2007

Date of Progress Report: March 16, 2009

Period Covered by CPS: FY2008-FY2010

1. This Annex presents the Completion Report for Panama's FY08-FY10 Country Partnership Strategy. This CPS, as well as the Interim Strategy Note ISN FY06-FY07 (Report No.32887-PA) that preceded it, supported the Torrijos administration in implementing an ambitious development strategy. In addition, the ISN and the CPS helped rebuild the presence of the World Bank in Panama after a period of over five years of limited involvement. The preparation of the Completion Report has benefited from available AAA and project documentation, including Implementation Status Reviews (ISRs). The CPS Progress Report (Report No.47725-PA), and its review of the program, has been a valuable input, as have been the Implementation Completion Reports (ICRs) available and the inputs from the sector teams.

I. Background and Challenges at the point of Design

2. The governments that followed the ouster of General Manuel Noriega at the end of 1989 dismantled a labyrinth of trade barriers and price controls and implemented a broad privatization program accompanied by anti-trust and consumer protection regulation. After a slow-down in the early 2000s, the Torrijos administration (2004-2009) infused a new dynamism to the reforms that enhanced economic performance. But, Panama 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, remained a country of stark contrasts. Most notable was the very high degree of inequality, perpetuated by dramatic educational disparities, differential access to basic services, and wide discrepancies in productivity and incomes.

3. As the CPS was designed, Panama continued to face the following challenges:

- Keeping the economy growing at a high rate;
- Incorporating the poor and the excluded; and
- Increasing the efficiency and transparency of Government and building a strong human capital base.

Keeping the economy growing

4. Previous to the FY08-FY10 CPS, the Panamanian economy had been growing fast and the expectation was that it would continue to grow at a similar pace. From 2004 to 2006 Panama's economy grew on average over 7.5 percent per year, driven by a favorable external environment and facilitated by internal reforms and macroeconomic discipline. The prospects for economic growth were enhanced by the decision, approved by Panamanians through a national referendum in October 2006, to create a third set of locks to expand the Panama Canal, with investments close to 30 percent of GDP. In addition, in June 2007, Panama and the United States

signed a Free Trade Agreement that would enhance the opportunities for international trade and investment by providing a more stable platform.

5. The challenge was then to create conditions for economic agents to profit from these opportunities, thus generating incomes and employment, particularly for the poor and excluded. Besides the need of a healthy macroeconomic environment, the Government strategy and the analytical work coincided in identifying several key priorities that included: (a) reducing the costs for business to comply with regulatory norms; (b) increasing the supply of skilled and well trained personnel; and, (c) encouraging attention to technology development and adoption, especially by the small and medium enterprise sector. Given the high levels of poverty in rural areas, incomes and productivity in the rural economy were also key concerns.

Incorporating the poor and the excluded

6. Despite being an upper-middle income country, Panama had been characterized by a high degree of inequality. Between 1997 and 2003 (years for which there were living standard measurement surveys available) the overall poverty levels, measured by individual consumption, had marginally decreased from 37.3 percent to 36.8 percent, while extreme poverty declined from 18.8 percent to 16.6 percent. But although the Gini coefficient for consumption declined from 48.5 to 46.9, the coefficient remained above the average for Latin America countries and countries with a similar level of per capita income. Moreover, during the same period, the share of the extremely poor living in indigenous areas had increased from 35 percent in 1997 to 42 percent in 2003 and the share of the poor living in urban areas had almost doubled from 9 to 16 percent. The majority of the poor (57 percent) were less than 20 years old. In addition, poverty pressures had increasingly pushed people to exploit the Mesoamerican Biological Corridor's natural resources which are among the most biologically diverse in the world, in unsustainable ways.

7. While the information on poverty incidence was likely to be obsolete by 2007, it highlighted the main challenges to reach the poor and to generate opportunities to all. This would require better access to education given that poor adult Panamanians averaged just over 5 years of schooling in 2003 and indigenous adults averaged a meager 3 years. Similarly, moving away from the traditional approach of social assistance, which relied on universal subsidies, towards greater targeting of social programs could improve the effectiveness of these programs and thus social outcomes.

Improving the quality and transparency of public expenditure

8. The CPS document emphasized that the public sector in Panama did not so much lack resources as it lacked re-distributional effectiveness. Panama was spending 17 percent of GDP in the social sectors, above other countries in Latin America, but its outcomes were not commensurate with that level of expenditure. Social assistance expenditure, around 1 percent of GDP, had historically gone to universal subsidies including price subsidies for electricity, cooking oil and piped water, services out of reach to the poor. As highlighted in the Panama Poverty Assessment (2007), the relatively high levels of poverty in Panama were not due to lack of social spending, but rather to inadequate targeting, efficiency and effectiveness of Government programs. Likewise, the state could improve its support for economic activity in

areas where it was involved: providing and maintaining infrastructure, educating the population, supporting innovation, and regulating efficiently. The 2007 Panama Country Financial Accountability and Procurement Assessment Report (CFAPAR) pointed to the need to modernize the public financial management and procurement regimes, taking stock as well as proposing a roadmap for reform.

The Government Program

9. The Government Program of the Torrijos Administration had been designed for tackling these challenges through an ambitious transformational strategy, summarized in Table 1 of the Appendix, that stood on four pillars:

- Pillar I: Reduced Poverty and Inequality;
- Pillar II: Promote Economic Growth and Employment;
- Pillar III: Reform Public Finances and Modernize the State;
- Pillar IV: Develop Human Capital

10. Building on the structural reform process that was suspended after 1999, this strategy emphasized fiscal discipline, transparency 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 set an ambitious goal of lowering poverty by one-fifth during its term in office and 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.

The FY08-FY10 CPS Program

11. The CPS and the preceding ISN supported selected aspects of the strategic vision of the Torrijos administration organized around four broad objectives as summarized in Table 1, copied from the CPS document.

Table G1.1: CPS Program Objectives and Select Areas of Action

Panama 2004-2009 Strategic Vision			
Pillar I	Pillar II	Pillar III and V	Pillar IV
Reduce Poverty and Inequality	Promote Economic Growth and Employment	Reform Public Finances and Modernize the State	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.

12. The FY06-FY07 ISN rejuvenated the Bank’s agenda in Panama after it dropped off dramatically between 2000 and 2004. The ISN’s new analytical work contributed to a robust policy dialogue and the project pipeline was rebuilt. The design of the CPS benefited from the ISN experience. At the time of CPS approval there were five projects under implementation, three of which had been approved during the previous ISN. The CPS design relied on a DPL series to support and track delivery of the bulk of the expected results. The investment and TA portfolio was to assist the Government in achieving results. Given the youth of the program, the CPS was clear that in several areas results would be coming in the follow-up CPS. The results matrix noted when this would be the case.

13. The CPS included a lending envelop of US\$390-US\$465 million over FY08-FY10, with new financing split mainly between Development Policy Lending and seven new poverty-focused investment projects. The design of the CPS was assisted by recently completed AAA: Country Financial Accountability Assessment/Procurement Assessment Review; Public Expenditure Review; Poverty Assessment; and Urban Transport Study.

14. The CPS was designed for a three year period to coincide with the political cycle.

II. Long-Term Development Outcomes during the CPS period

Table G1.2: Long-Term Development Outcomes during the CPS period	
CPS Objective 1: Reduce poverty, especially among rural poor and indigenous groups	
Pillar I: Reduce Poverty and Improve Income Distribution	
- Reduce poverty levels from 37% in 2003 to 32% in 2009.	-Poverty incidence 32.7 percent (2008).
- Reduce indigenous poverty from 98% in 2003 to 80% in 2009.	-Poverty incidence rural indigenous population 96.3 percent (2008).
- Reduce the income gap multiplier between quintiles from 42 to 35 between 2004 and 2009.	-n.a.
CPS Objective 2: Promote Broad Based Economic Growth	
Pillar II: Promote Economic Growth and Employment	
-Investment in national fixed capital/GDP increases from 17% to 25%	- Gross Domestic Investment of 24.8 percent of GDP in 2009.
- Actual net per capita exports increase from B/1,250 in 2004 to B/ 1,650 in 2009	-Exports collapsed in 2009 due to the global economic crisis.
CPS Objective 3: Establish modern public financial institutions	
Pillar III and V: Reform Public Finance and Modernize the State	
- Public debt to fall from 65.9% of GDP at end-2004 to 54% or less by end-2009	-Public Debt 39.4% of GDP in 2009;
- Fiscal deficit to fall from 5% in 2004 to 1% by 2009	--Fiscal surplus 0.5 percent of GDP in 2009
CPS Objective 4: Improve health, nutrition, and education attainment of the poor	
Chronic undernourishment falls from 22% in 2004 to 15% in 2009.	Average malnutrition rates improved from 22% in 2003 to 19% in 2008 (source: LSMS 2003 and 2008). However, chronic malnutrition in indigenous areas increased from 57% in 2003 to 62% in 2008.
Infant mortality falls from 21 per thousand live births in 2004 to 15 in 2009.	15 per 1,000 live birth
Preschool coverage increases from 58% in 2006 to 85% in 2009 (for 4 and 5 year old children)	61.7 percent in 2007.
Secondary Education coverage increases from 64% in 2006 to 75% in 2009.	64.6% in 2007.
School survival rate to grade 5 increases from 85% in 2005 to 95% in 2009.	Not available.

15. ***Sound macroeconomic management together with a positive external environment led to strong economic growth.*** Panama reduced its public debt from a peak of 62.2 percent of GDP in 2004 to 38 percent in 2008 as a result of the high economic growth and tight fiscal stance that turned from a deficit of about 5 percent of GDP in 2004 into surpluses of 3.5 percent in 2007 and 0.4 in 2008. The strong fiscal stance was aided by a strong revenue performance that included greater transfers from the Panama Canal and advances in tax policy and administration. CPI year-on-year inflation peaked at 10 percent in September 2008 driven by food and commodity prices as well as strong internal and external demand; however, it had fallen to 4.3 percent year-to-year in January 2009. In 2008, Standard and Poor upgraded Panama's long-term foreign and local currency issues default ratings from BB to BB+, while Fitch affirmed Panama's BB+ rating, revising the outlook to positive. The average economic growth in 2007 and 2008 was 11.4 percent. Recently, on March 23, 2010, Panama achieved an investment grade credit rating from Fitch for its sovereign bonds; and a few weeks later from Standard & Poor's and Moody's.

16. ***The global crisis hit Panama hard, but Panama was well prepared to deal with it.*** Panama did relatively well during the crisis with a rate of economic growth of 2.4 in 2009. The fiscal balance shifted from surplus (2006-2009) to a deficit of 1 percent in 2009. Total public debt increased from 38.8 percent of GDP in 2008 to 40 percent in 2009. Revenues and grants dropped to 27.2 of GDP but they are still higher than in 2005 (24.3 percent.) The slowdown was felt primarily by those sectors most directly affected by the fall in demand, like agriculture, trade and construction.

17. ***Poverty incidence decreased but it remains high for the level of income, especially in rural areas and among the indigenous populations.*** The poverty incidence dropped from 36.8 percent in 2003 to 32.7 percent in 2008, in line with Government expectations. During the same period absolute poverty dropped from 16.6 percent to 14.4 percent. Poverty remains high in rural areas (59.7 percent) and especially among the indigenous populations (96.3 percent)—here, the goal of the Government program was not met. The poverty gap is particularly high, at (67 percent) amongst the indigenous populations, and low in urban areas (4.7 percent). Sharing growth remains a major challenge in Panama.

18. ***Social Sectors outcomes:*** It is difficult to report on progress on social indicators given the lack of up-to-date information and the relatively short three-year period of the CPS. Taking a longer perspective (2000-2007) a varied picture emerges. The latest stocktaking of the MDGs²¹ notes that Panama is one of the countries likely to reach most of the MDG objectives. It notes likewise that the Human Development Index (UNDP) increased from 2001 to 2007 and now Panama ranks 62 amongst 177 countries. It also notes that poorest regions have been catching up. Life expectancy has increased by 4 years since 2000. Still, progress was uneven and overall economic growth has not changed fundamental structural patterns. Exclusion remains strong in rural and indigenous areas. For instance, the poorest quintile has marginally increased its share of consumption to a still low 4 percent in 2008. Quality of education is a major concern.

²¹ (Objetivos de Desarrollo del Milenio—Tercer Informe, 2009, UN and Government of Panama).

III. Delivery of CPS Results and World Bank Contribution

19. This section reports on the impact of the Bank program and is organized along the four objectives of the CPS. Each section presents the objectives and discusses the relevance of the program and then reports on the results as presented in the Annex 4 to the CPS and the discussion of the main text of the CPS. Each section ends with a summary.

CPS objective 1: Reducing Poverty and Inequality

20. *The CPS program supported efforts to reduce poverty, especially among rural poor and indigenous groups.* The focus of results was in two broad areas: improving the targeting and effectiveness of social assistance, and supporting sustainable increases in rural productivity. Support for the first area came through Public Policy Reform TA loan and Social Protection project. A Poverty Assessment was to complement work planned under the TA loan, with impact to be captured through TA loan indicators. Rural productivity was to be supported by an on-going Land Administration project and recently approved Rural Productivity Project and its GEF counterpart, which funds sustainable use of the Atlantic Mesoamerican Biological Corridor. A Rural Microfinance project, yet to be designed, was to support sustainability of outcomes in the land and rural productivity programs.

CCT

21. *The Bank supported the update of poverty information and its use to better target assistance to the poor.* When the program *Red de Oportunidades*²² was launched, information on poverty was available from the 2003 and 1997 LSMS poverty profiles and the resulting poverty maps. Based on this information, the Social Protection Project and the Poverty Assessment of 2007 contributed to the design of the targeting mechanism of the CCT. In addition, the Social Protection Project has supported the Management Information System of the program. The CCT supports efforts at reducing the "vicious" cycle of poverty by conditioning payments to the demand of services.

22. *The CCT is well targeted.* The CCT program targets beneficiaries by combining regional targeting and the application of a Proxy-Means Test to estimate the vulnerability and eligibility of households, differentiating between urban, rural, and indigenous areas. The evidence shows that the CCT subsidy is well targeted.²³ In 2008, 83.7 percent of the transfers were going to the lowest income quintile of the population. 98.4 percent went to the two lowest quintiles. The

²² In early 2006, the Government launched the *Red de Oportunidades* (RdO) with the aim of reducing both demand and supply barriers impeding access to basic social services through targeted support for the extreme poor and vulnerable households with children in Panama. The program involved five main elements: (a) a conditional cash transfer program, (b) supply of basic services linked to co-responsibilities (education, health and legal identification of beneficiaries), (c) support to beneficiary families to boost their demand for these services, (d) rural infrastructure (public works, housing, agricultural development), and (e) program management, monitoring and evaluation. The CCT linked the transfers to the most vulnerable sections of the population to investments in the education and health of the children of the beneficiary families

²³ Nota de Diálogo de Políticas Panamá: Pobreza y Protección Social---Inter-American Bank Document---June 2009.

CCT was the best targeted to the poor social assistance program in the country. The CCT program in 2008 spent 0.8% of GDP, which was a relatively small portion of the budget allocated to social assistance programs for the poor. This suggests that there is ample space to improve the impact of social assistance by utilizing the CCT framework in other programs or through the consolidation of programs.

23. ***During implementation, the CPS program was amended to support the authorities' efforts to contain the impact of the food and fuel crisis and the global economic crisis on the poor.*** The food and global crisis called for additional efforts that further advanced the implementation of the CPS program helping achieve results that were foreseen for the follow-up CPS, such as increasing the coverage of the CCT. To help mitigate the negative impact of external shocks on the poor, in 2008, the Government took important steps by adopting a three-pronged response to the external economic shocks. First, social programs were strengthened through an increase in the size of the conditional cash transfer program and an improvement in the targeting of other social programs. Second, the quality and coverage of health and nutrition services to the extreme poor were strengthened. Third, the Government committed to maintaining levels of social spending during the economic deceleration, despite overall cuts in fiscal spending. The Bank's "Protecting the Poor under Global Uncertainty" DPL (FY09), the Social Protection Project and the Health Equity and Performance Improvement Project supported these efforts.

24. ***The Government increased the coverage and the real value of the conditional cash transfers and extended the use of its data base to target other programs.*** The Government progressively expanded the *Red de Oportunidades* to cover all regions and indigenous areas and today the program covers 367,378 people (11 percent of the population). This coverage (over 70,000 families) is higher than the 60,000 poor households with children that the CPS foresaw as a target for the next strategy. Also, the Government raised the monthly transfer amount from B. /35 to B. /50 for all beneficiaries, increasing real value of the transfer. The DPL and technical assistance under the Social Protection Project helped the Government to improve targeting of other social programs by using the household registry and management information system developed for the CCT program. The social programs that currently use the CCT targeting mechanism to identify beneficiaries include: (a) income generating activities for disabled people; (b) agricultural training programs executed by INADEH; and (c) a housing improvement program for the poor.

25. ***Mechanisms are in place to assure financial resources for social priorities.*** In 2006, the Government initiated a national dialogue around priorities for the country and its development agenda. Representatives from a broad range of social, political, religious, professional, and social organizations participated in this process and endorsed the agreement. The document *Acuerdos de la Concertación Nacional para el Desarrollo* of October 2007 summarized the agreements that included using partially increased fiscal revenues arising from the Panama Canal expansion to finance social programs. Law 20 established a legal basis for the National Council for the National Development Dialogue, the Presidential Secretary of Goals and the Social Cabinet. The Council and the Secretary are responsible for verifying the implementation and goals of the *Concertación Nacional*, while the Social Cabinet is responsible for the coordination of all social agencies in the implementation of the Agreements. This initiative remains under implementation.

Rural Productivity

26. **Support for rural productivity has proceeded at a slower pace.** Delivery of outcomes has come mainly through the Land Administration project that has supported the revision of titling procedures through the Law on Massive Land Titling approved in June 2006 and its implementing regulation. An alternative conflict resolution mechanism is in place and has contributed to solve around 500 cases. Half of the country has been photographed. 56,550 parcels have been surveyed and 12,422 titles have been issued in Chiriqui, Veraguas, and Bocas del Toro, 113 percent and 104 percent of the target set under the CPS. Estimation of the time and cost it takes to register a parcel of land is in process, but not yet available. In respect of the Inspection Panel claim submitted last year, Bank staff has been meeting with both groups of Requesters (Naso and Ngäbe). The Rural Productivity Project and its GEF counterpart had faced implementation difficulties and results will come only in the next strategy. The proposed rural micro-finance operation was dropped. So was as proposed Access to Land operation.

Summary of Results and Development Impact:

27. **The Completion Report rates as satisfactory the achievement of results under the first CPS objective.** The setting in place of a targeting social assistance system covering around 11 percent of the population is a major achievement, especially when in 2006 no such targeting was in place. Targeting is good as 2008 LSMS survey results show that close to 100 percent of CCT beneficiaries are in the lowest two quintiles of the population. Coverage exceeded expectations set under the CPS. In addition, the Government, with Bank assistance, is using the CCT platform to target delivery of other programs, with a spillover impact on health and education outcomes. The new administration is committed to continue perfecting the system, increasing the targeting effectiveness and the coverage; thus the sustainability of these efforts appears assured. Further targeting improvements are underway based on the 2008 LSMS survey. As noted poverty dropped from 1997 to 2007, but it remains high particularly in rural areas and amongst the indigenous population. One of the reasons that explain the slow gains is that amongst these rural and the indigenous population the depth of poverty is quite large, which means that the efforts must be sustained and strengthened.

CPS Strategic Objective II: Promoting Economic Growth

28. ***The CPS sought to support broad-based economic growth in three priority areas:*** a more competitive national-level business environment (focusing on regulation – including more transparent and streamlined regulatory 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 specific areas. The first area was to be supported by the DPL series and the on-going Public Policy TA loan and the 2008 CEM. The programmatic DPL series was foreseen as the main instrument to deliver outcomes. Urban transport interventions were to be built on completed TA. A Sustainable Tourism project was to be guided by the planned Country Environmental Analysis and have links to the Rural Microfinance project. The Global crisis shifted attention to the financial sector, which the Bank supported through the “Protecting the Poor under Global Uncertainty DPL”.

Governance and Regulatory Frameworks

29. ***Focusing on facilitating business was highly relevant to the diversification of Panama's sources of growth in the wake of the country's FTAs and for taking advantage of new investment opportunities associated with the Canal expansion project.*** It was here that the gap was the largest with respect to international best practices in the area of regulation. The World Bank's *Doing Business* reports indicated that in Panama the levels of regulatory non-compliance and informality were higher than in the rest of LAC and the OECD and that procedures to comply with tax and labor regulations and those needed to enforce contracts were burdensome. At the same time, according to WEF and Transparency International the incidence of corruption in Panama is similar to that found in the rest of Latin America, which in turn lags considerably behind the OECD. To the contrary, in infrastructure and access to finance performance was closer to that of OECD countries than to the average for the Latin America Region (LAC). The *World Economic Forum* (WEF), for example, rated the quality of Panama's infrastructure above the average for LAC. Moreover, domestic credit to the private sector as a share of GDP was about three times as high in Panama than in the rest of Latin America.

30. ***The Government launched and the Bank supported a program to facilitate the interface between public agencies and private entities.*** Leadership for the implementation of the program was given to the "Secretariat of the Presidency for Governmental Innovation" (SPIG) and received technical support from the Governments of Chile and Korea, as well as through the Bank's Public Policy Reform Technical Assistance project.²⁴ The ambitious program was at the core of the Government's agenda to develop electronic government and has produced effective results of the ground, including important by products like facilitating on-line transactions between private parties (electronic commerce.)²⁵ The next paragraphs summarize some of the main achievements. It is worth noting that implementation has been difficult because it has required the coordination of several ministries at different stages of e-readiness. With hindsight, implementation of the strategy would have benefited from an "execution roadmap" to facilitate coordination, monitoring, control and evaluation of progress being made, particularly given the complexity of reforms supported in the area of digitalization.

31. ***The internet portal "PanamaTramita" is becoming a digital one-stop shop for over 80 transactions between Government entities, private sector enterprises, and public in general.*** In May 2006, "PanamaTramita" was launched to allow individuals to process through the internet passports, identity cards, Government-issued certificates, and similar activities. After preparing a detailed inventory of bureaucratic procedures in all Government institutions, SPIG started incorporating the option of completing selected procedures on-line. By June 2008, "PanamaTramita" already allowed 81 different types of on-line transactions. By April 2009, 90

²⁴ SPIG consulted with various civil society, private sector and Government organizations represented at the *National Competitiveness Center* and gave priority to those procedures that are more frequently used and for which administrative improvements would be expected to have a larger impact on the enterprise sector or the general population.

²⁵ Re: introduction of electronic signature through Law # 51 of Firma Digital on July 22, 2008.

different transactions have been completely digitalized.²⁶ Additionally, the portal provides information on the documentation requirements for other processes that are not yet fully digitalized.

32. ***Most new businesses in Panama only require informing the State that they are starting a new operation.*** Law 5 of January 2007, implemented in July 2007, launched the internet portal - “*PanamaEmprende*” that allows on-line registration of most firms, through the Operation Notice, which is now the only step required for starting most commercial, industrial or service activity in the country.²⁷ Operation Notice automatically triggers other registrations, such as the Taxpayer's Unique Registry (RUC) and the Registry of New Businesses before the relevant municipality. Fees can be paid electronically. According the Ministry of Commerce and Industry, the time needed to get a license dropped from 30 days to 20 minutes.²⁸ The public may access the system and obtain information on the companies doing business. By enhancing transparency, *PanamaEmprende*, a digital “one-stop window”, reduces irregular payments or undue delays in the process and facilitates formalization of economic activity, one of the main challenges in the country.

33. ***Similar efforts are underway to further facilitate international trade by migrating transactions to the internet.*** SPIG began introducing a digitalized *Ventanilla Única* with the aim to become an on-line tool for all export-import processes. Implementation has been delayed. By December 2008, a strategic design for the digitalization of the processes had been completed, but the Government decided to extend coverage beyond import-export information. This new portal, *Panamarket*, is being designed. However, digitalization of other international trade transactions has been completed: **AMP** for the registration of cargo ships, and **SDMC** to control commercial goods movements in the Colon Free Trade Zone and facilitate interaction between traders, banks, and customs.²⁹

34. ***The Government undertook other initiatives to improve the regulatory framework for doing business.*** In the area of contract enforcement, with support from the IDB, UNDP and bilateral aid agencies, the GOP is implementing an ambitious program of reform of the justice system aimed at increasing its independence, transparency and efficiency. This judicial reform program, coupled with other policy actions, aims at increasing public sector transparency and efficiency by modernizing the Government's financial management system. This reform is expected to help reduce the incidence of corruption and create further incentives for regulatory compliance. In tax administration, the Government focused on improving filing, audit and collection procedures to increase enforcement of tax regulations and facilitate tax compliance. (See discussion of taxation under the third pillar).

²⁶ It should be highlighted that through the *PanamaTramita* portal and links, the GOP has been able to reduce as of August 2008, 241 bureaucratic transactions that were either consolidated or eliminated altogether, with a positive impact on time and costs for business and individuals.

²⁷ Exceptions to the rule include regulated activities (i.e. banking, insurance, liquor sales, security services, etc.) that need to first go to their regulatory bodies before completing the Operation Notice.

²⁸ Please note that the 2010 Doing Business quotes 12 days to start a business, an improvement from 18 days in 2008, but still higher than the government quote. The difference may be due to the fact that certain regulated activities have to go to additional procedures.

²⁹ Panama rates high in trading across borders—10 in the 2010 Doing Business.

Training, skills and technology

35. ***Skills and technology were highly relevant to the continued expansion of the economy in a wide range of areas*** that included tourism, construction, and high tech services, which benefit from the transportation and telecommunications infrastructure available in the Canal area. Panamanian firms tended to invest less in workers' training and in innovation than do their counterparts from other emerging countries. Likewise, in comparison with the rest of Latin America, Panama was investing less in research and development (R&D) activities as a percent of GDP, and employing fewer researchers as a share of the population. These constraints were already being felt by the emerging non-traditional exports.

36. ***The Government launched an ambitious program to upgrade the skills of the labor force in preparation for the expected increase in demand for semi-skilled and skilled labor from the canal expansion project and the FTA with the U.S.*** Decree Law 8 of February 2006 set a new framework for training under principles that emphasized meeting the needs of the private sector and the labor market, cooperation between public and private supply, efficiency, social inclusion, transparency and accountability. The Decree Law gave a leadership role to a restructured National Training Institute ("*Instituto Nacional de Formación Profesional y Capacitación para el Desarrollo Humano*", INADEH), whose mandate included: (a) the evaluation and accreditation of public and private providers; and (b) the certification of workers participating in competency-based training. In addition, the Government consolidated all public training resources in a new National Fiduciary Training Fund, under INADEH management, and increased allocations from about US\$8 million in 2005, to US\$91 million in 2008.

37. ***Certification of training activities has advanced as planned.*** To develop a competency-based training system, INADEH has been collaborating with a bipartite non-governmental organization - the Labor Foundation ("*Fundación del Trabajo*")- and building upon the experience developed by this Foundation through a pilot program financed by IDB. INADEH has completed the norms for the issuance of competency standards for a total of 23 certifications covering selected occupations from strategic sectors of the economy - among others - tourism, construction, and agro-industry.

38. ***The overhaul of the training system has exceeded expectations.*** In October 2006, INADEH launched the National Training Plan with a target of training 200,000 workers by the end of 2008 in selected priority areas which were determined on the basis of public consultations, and include tourism, construction, agriculture, transport and other services. That target has been met and exceeded only in 2008 through over 400 training programs. (See Table 2 in the Appendix.) To assure quality, INADEH has been evaluating training providers under the supervision of the National Commission of Quality Assurance which was created by Decree Law 8.

39. ***In December 2005 the GOP issued its National Strategic Plan for the Development of Science, Technology and Innovation, which was based on extensive consultations with all stakeholders.*** The implementation of the Plan was assigned to the National Secretariat for

Science, Technology and Innovation (SENACYT).³⁰ Following on the development of the Plan, on 14th December 2007, the Law #56 established the National Research System (*Sistema de Investigación Nacional*), with mechanisms to promote research activities that are incorporated in the legislation and are similar to those already implemented in Argentina, Chile, Colombia, Mexico and Brazil. The funds to be destined to the new system would be allocated using transparent technical evaluation mechanisms similar to those used for selecting the R&D and innovation projects financed through matching grants, as defined in the original plan.

40. ***Financing for science and technology has been increased.*** To enable SENACYT to execute its responsibilities, budgetary resources were increased from about US\$1 M to US\$14 M between 2005 and 2007 and US\$22 M in 2008 (a 57 percent increase from the previous year). In addition, budget execution increased from around 77 percent during the period 2005-2006 to 93 percent in 2007 and 2008. In addition, the share of the budget allocated to investments has increased from 57 percent in 2004-2007 to 85 in 2008. With these resources, SENACYT has financed matching grants and specific R&D Innovation activities.

41. ***It is too early for an in-depth evaluation of impact.*** Given that investments in science and technology have a long maturation process and since SENACYT's matching grant and scholarship programs were introduced fairly recently, it is too early to assess the impact of these programs. However, SENACYT estimates that most, if not all, the projects supported under the innovation program will generate technological innovations in the form of new products, new services, or significant improvements in existing products or services. Over 60 percent of the funds allocated to the financing of R&D projects during the period 2004-09 have been to the bio-science and agri-business sectors. Additionally – during the same period - there have been 181 projects related to innovation and the promotion of science and technology financed for an amount of US\$5.8M. All together, this adds to a total of projects financed for US\$14.4M. Future impact evaluations would benefit from a more expeditious production of statistics.

Finance

42. ***Panama's financial sector was relatively well positioned going into the crisis and the Government took prompt actions to contain potential problems.*** A high degree of compliance with Basel core principles signaled a well regulated financial sector, where asset quality was good with non-performing loans at 1.4 percent of total loans, provisioned at 130 percent. Still, the country amended the 1998 Banking Law to strengthen regulation and supervision on a consolidated basis. The revised law gave instruments to deal with the crisis. Enhanced auditing authority increased the ability of the authorities to understand and follow the impact of the crisis. Strengthening of capital requirements and powers to modify required ratios made it possible to deal with exceptional risks. New procedures were introduced to deal with trouble banks. Finance

³⁰ SENACYT was created in 1997 and was given administrative autonomy by Law 50 in December 2005. Implementation encompasses the cooperation and interaction of the CNCYT (National Commission of Science and Technology), the CICYT (Science, Technology, and Innovation Inter-ministerial Commission), SENACYT (National Secretary for Science, Technology and Innovation), and 13 Sector Commissions representing public, private, academic, and social sectors.

sector performance remains strong after the crisis. The Bank supported these initiatives through the 2009 “Protecting the Poor” DPL. The financial sector has gone through the crisis unscathed.

Summary of Results and Development Impact

43. **The Completion Report rates as satisfactory the achievement of results under the second CPS objective.** Solid results were achieved in several areas. Most notable has been the expansion of the training system, which has exceeded expectations. The rapid response of the authorities and the Bank to take preventive actions in the financial sector to protect against the crisis are likewise noteworthy. Efforts at simplifying regulation through direct internet interface between the Government and the population cover over 90 transactions and are facilitating company registration, which is now automatic for most new companies. According to the 2010 Doing Business Panama ranks 77 in the world (83 in 2009), the best ranked country in Central America, but below neighbors like Colombia at 37. Panama does best in starting a business (27) and trading across borders (10). It is too early to judge the effectiveness of the investments in research and development. Work that the CPS foresaw in urban transport or sustainable tourism has been either postponed or cancelled.

CPS Pillar III: Strengthen Public Financial Management

44. ***The CPS supported the establishment of modern public financial management (PFM) systems and institutions.*** Bank support focused on various interrelated areas that covered (a) macroeconomic and fiscal management; (b) providing a solid institutional foundation for fiscal policy and fiscal management, including the alignment of budgetary allocation with national priorities; (c) modern and competitive procurement practices; and, (d) improved treasury effectiveness. The ambitious agenda had the support of the programmatic DPL series that also tracked improvements as well as technical assistance from the Public Policy TA loan and the Debt Management Technical Assistance program (provided by the Bank’s Treasury Department). The 2007 CFAPAR provided the technical diagnosis of most of the interventions. (Chart 1 in the Appendix reproduces information from the ICR of the DPL series that is relevant to assess the progress made in PFM).³¹

Macroeconomic and Fiscal Management

45. ***The Government maintained a stable fiscal framework in line with the Government’s debt and fiscal deficit targets.*** As already noted and confirmed by the IMF Article IV surveillance mission,³² Panama maintained a prudent fiscal management before and during the crisis and as a result has protected the international credit rating of its debt. Public debt level dropped to reach 38 percent of GDP in 2008 surpassing Government’s expectations. The new administration has substantially reduced the stock of budget arrears still in place. The

³¹ The Results Matrix of the CPS proposed to rely on PEFA indicators to track progress for some of the results under this objective. Please take note that no formal PEFA reviews have been undertaken in Panama. The 2006 Country Financial Accountability and Procurement Assessment Report took stock following a PEFA framework. The DPL Competitiveness and DPL series tracked progress following a PEFA like methodology and reported on the progress. See ICR DPL.

³² The mission took place in March 2009.

nonfinancial public sector balance remained positive during the last three years, despite a large increase in public investment of 7 percent of GDP in 2008, and additional social expenditures in the range of 1 percent of GDP to compensate for higher costs of living. This positive development was possible due to a favorable external environment, as well as fiscal reforms implemented in earlier years, which led to higher revenues. Furthermore, the Government managed to contain current spending, mostly through a reduction of the share of wages, social security deficits and pensions, but also due to lower overall interest payments. Given this positive development, which is also reflected in its EMBI spread (see Chart 1), Panama was one of the few Latin American countries that were able to tap the international capital markets in 2009.³³ The project supported reforms played an important role in achieving this overall satisfactory outcome.

46. Bank support had an impact on public debt management, but Panama needs to develop its domestic debt market. World Bank technical support helped the Government better understand the available data on debt and assess costs and risks associated with individual strategies. As a result, the Government extended the average debt maturities, and was able to lower the costs of borrowing. The pro-active reaction of Government to a drying up of the international capital markets in the fall of 2008 by seeking additional financing from donors to secure and by entering the international debt markets promptly were signs of increased debt-management capacity. Looking forward, the Government would benefit from continuous evaluation of the debt profile, the costs and the risks and the development of the local debt market, which is of particular relevance given the size and importance of the banking system in the country.

47. Fiscal Revenues increased due to higher transfers from the canal and higher tax revenue mobilization as a result of reforms in tax administration, which were supported under the DPL program. Overall public revenues increased from 15.1 percent of GDP in 2005 to 19.7 percent in 2008. Tax revenues over GDP, in turn, increased from 8.7 in 2005 to 10.6 in 2008. The administrative reforms included the development by the Dirección General de Ingresos (DGI) of monthly audit strategies that single out outliers and potential inconsistencies in reporting. Some of the results of these reforms are that growth rates for direct taxes paid by legal entities averaged around 60 percent between 2004 and 2008 and the number of legal entities filing taxes increased by 14 percent during 2005 and 2007. Additionally and mandated by law, all direct taxes now are being submitted electronically, either in the form of disks, or via on-line transfers (see Figure G1.1). This requirement has put some additional strain on the taxpayer, in particular given the low computer penetration and internet access of the population, but helped bring down internal processing times and costs. Further reforms might be warranted in the area of tax reimbursements, which continue to be cumbersome, both for the DGI and the taxpayer.³⁴

³³ Early 2009 saw some resumption of external issuances by a few of the higher-rated sovereigns in the region: Brazil, Colombia, Mexico, Panama, and Peru were all able to tap global capital markets. Panama successfully placed USD 323 million in bonds on the international bond markets in March 2009.

³⁴ Note, however, that the 2010 Doing Business ranks paying taxes low at 173, with the number of hours required unchanged. The ICR to the DPL series notes that the Doing Business survey includes a broad range of payment and hence may not capture selective simplification well.

Institutional Foundations for fiscal policy and management

48. **A Social and Fiscal Responsibility Law was enacted in June 2008, with technical support from both the IMF and the World Bank.** Building on a previous law³⁵ and taking account of accumulated experience, the Law sets a framework for fiscal management. First, it stipulated that the fiscal deficit should not be higher than 1 percent of GDP³⁶, unless economic growth drops below 1 percent, and that the total public debt should stay below 40 percent of GDP from 2015 on.³⁷ Second, the law included provisions to enhance the fiscal accounts, and to increase fiscal transparency through provisions of periodic compliance reports and increased public access to the medium-term fiscal framework. The law became effective in January 2009. As noted Panama's deficit in 2009 was below 1 percent. The Law sets a framework upon which to build solid fiscal institutions, such operating medium-term fiscal frameworks and results budgeting, thus addressing the weaknesses in place today.

Public Procurement

49. ***In 2006, Panama began a significant overhaul of its public procurement system.*** Law No. 22 of 2006 launched a major public procurement overhaul. The thrust of the reform progress has been the implementation of *PanamaCompra*—an on-line platform for Government purchases with the exception of the Panama Canal Authority (PCA), the Social Security Administration and the municipalities. *PanamaCompra* has covered publication of information on Government procurement needs and since its introduction in December 2006, more than 200,000 contracts for a total amount of around US\$2.5 billion were made publicly available through *PanamaCompra* (May 2009).³⁸

50. ***Next, Panama introduced performance contracts, with technical assistance from the Bank and the support of the DPL series.*** Suppliers bid for eligibility under the performance contract system and, if selected, their bids for the goods covered are available continuously over the internet (*PanamaCompra*) for public agencies to choose. Public agencies can then select from the available suppliers. In Panama, 21 annual framework contracts have been negotiated since 2007,³⁹ and savings in the range of US\$100 million have been reaped so far based on information from the authorities, including i.e. a US\$5 million savings for fuel purchases. Substantial gains have also been made in the time it takes to purchase goods—savings go from 59 days for small items to 33 days for major purchases.⁴⁰ A 2008 survey showed that public perception of the quality of procurement practices was higher for the national budget than for the Canal Authority.

³⁵ The Law was approved in 2002 but never really implemented in the absence of clear sanction mechanisms and deficiencies in accountability.

³⁶ Excluding the Panama Canal Authority.

³⁷ This includes debt held by the Social Security Administration, but excludes the Fiduciary Fund – a trust that was established in the 90s to invest privatization proceeds.

³⁸ Based on a recent management report of the GDCP, more than 8,219 public contracts were minor purchases whose value did not exceed US\$30 thousand, 6,928 direct purchases, 281 bids for best value, 3,293 public tenders and 31,677 purchase orders through the Electronic Products and Services Catalog *PanamaCompra*.

³⁹ Including renegotiated contracts.

⁴⁰ Solid information is available on the broad gains under the program as in available upon request.

51. **To streamline processes, in July 2008, the Government of Panama created the Dirección General de Contrataciones Públicas (DGCP), which is in charge of modernizing and coordinating the procurement process for the public sector.** The DGCP has been tracking performance of the new system and its findings confirm gains, especially through performance contracts. The DGCP introduced in April/May 2010 *PanamaCompra 2* which allows bidding online and is likely to generate additional savings and further limit the opportunities for corruption. In February 2009, the DGCP published a Strategic Plan for public sector procurement, which was developed with World Bank support. The strategy is publicly available,⁴¹ provides a road map of reforms needed to foster the digitalization of the Government's procurement processes, coordinates the implementation and harmonization in various agencies, and also provides monitoring tools to measure actual progress.

Treasury Effectiveness

52. **Budget execution has improved, especially treasury payment effectiveness.** Supported by the IDB, the Government is introducing a National Integrated Financial Management System (SIAFPA). To track processing time for payment verification, the General Comptroller's Office (CGR) introduced a reporting tool, which allows identifying and removing bottlenecks in internal processes. As a result, over 97 percent of all payments are now being verified within 15 days after reception (with the majority being approved within 2-3 days), compared to 67 percent in 2006. Payment times have been reduced from about 175 days in 2004 to close to 40 in 2008. (See Appendix Chart on Public Sector Performance).

Summary of Results and Development Impact

53. **The Completion Report rates as satisfactory the achievement of results under the third CPS objective.** Substantive achievements have been attained under this objective. First, the authorities showed skill in addressing the impact of the crisis and macro and fiscal order was kept in place, with the country maintaining the international rating of its debt. The Bank contributed to these efforts with additional budget support and technical support. Second, in a short period of time (2005 to 2009) the procurement reform in Panama has shown improvements in designing state-of-the art tools that enhance efficiency of the supply management systems, including purchasing strategies (i.e. framework contracts on fuel). Savings have been clearly established. In April 2010 the country is launching *PanamaCompra 2* that will allow bidding online. Because of the progress in procurement, the Bank selected Panama as one of three countries in Latin America for use of domestic country systems in Bank operations. The Bank has been very active in providing technical assistance to the procurement reform. Third, the Treasury is more effective in making payments and has reduced the time it takes to make a payment to around a fifth of the 2004 value. Lastly, the Fiscal Responsibility Law provides a platform for the GoP, under the leadership of the Ministry of Finance to further modernize planning and budgeting, improve monitoring and evaluation and gradually introduce performance budgeting. The Bank, jointly with the IMF, provided technical assistance in the design of the Fiscal Responsibility Law. The New administration has committed to continue working in this direction and thus the achievements under this CPS are likely to be sustainable.

⁴¹ <http://www.panamacompra.gob.pa/panamacompra/AcercaDGCP/DGCP-PlanEstrategicoCompras2009.pdf>

CPS Objective IV: Improve health, nutrition, and education attainment of the poor.

54. *The CPS sought to help improve the health, nutrition, and education attainment of the poor 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).

55. **The World Bank contributed to the increase in coverage of pre-school and secondary education.** The Second Basic Education Project and its Additional Financing (IBRD LN 7032-PA/7483-PA) contributed significantly to improvements in preschool and secondary education coverage. The preschool coverage of the 4-5 year-old children in the entire country increased from 31 percent in 2001 to 61 percent in 2007, while the enrollment of these children increased from 55,369 to 92,900 in the same period, 38,500 children as a consequence of the project. The coverage of secondary also increased as a consequence of this project. From 2000-2007, net enrolment increased 58.5 percent to 64.6 percent in secondary school (12-17 years). The number of *Telebásicas* established by the project was 3.8 times larger than the target set at appraisal (114 as compared to 30). As a consequence, the number of primary graduate students in rural areas with possibility to continue their lower secondary education (grades 7-9) went from 0 at the start of the project to 17,211 in 2008.

56. *An important by-product of the new training and skills policy is that INADEH is now complementing the education system to reach social groups and geographic areas that had not been served before.* INADEH's close work with universities is building a fruitful mutually beneficial interaction with Private Sector entities and developing recognized certification norms for selective occupations in high demand. INADEH implements its *National Plan of Technical Training* to a large extent using Ministry of Education secondary technical education centers that it supports through investments (close to 20 million). Some universities acknowledge credit for technical courses taken at INADEH sponsored classes. In addition, it is reaching – in an exceptional effort – indigenous communities and other less privileged social groups (single parents and jobless youth) to include them in its programs and tailoring their courses for the benefit of these communities.

57. *The incoming Government declined continued Bank assistance in education.* The Basic Education Quality Improvement Project was closed before it started its execution. This project was designed to help improve quality of education. This project was deemed highly relevant as a 2005 evaluation (SINECA) had shown that 50 percent of 3rd and 6th graders score “deficient” in all subjects and that the percentage increased to 70 percent in Spanish and 85 percent in mathematics among 9th and 12th grades. Reportedly, the current administration will use other approaches to remedy these deficiencies.—such as emphasis on magnet schools to improve quality.

58. *The CPS began to work in health and nutrition areas where indicators in Panama have lagged average Latin American performance.* The Health Equity and Performance Improvement Project that became effective in December 2008 is helping deliver a package of basic health care services through mobile teams in rural areas outside the indigenous autonomous areas by supporting the *Estrategia de Extensión de Cobertura* (EEC) program. The project finances capitation payments to the regional health offices for them to organize the mobile teams that provide services. By the end of 2009, most regional health offices were providing services through these mobile teams. In addition, the Social Protection Project is financing mobile teams that provide a basic package of health and nutrition services in indigenous areas that do not have access to the fixed network of health facilities. The coverage is estimated at 290,000 people.

59. *In the context of the DPL and utilizing the technical support of the Health Equity and Performance Improvement Project and the Social Protection Project, the Ministry of Health expanded the geographical coverage of the health service package delivered in isolated and poor areas through a more comprehensive inclusion of previously underserved areas.* To do so, the targeting mechanism of the *Estrategia de Extensión de Cobertura* (EEC) program was improved to cover communities more than one hour away from a health center that has, at a minimum, one doctor and one nurse. In the indigenous areas (*Comarcas*), the Ministry of Health proceeded to identify the eligible communities and to assign a health provider. In 2008, more than 400,000 families (including the 290,000 mentioned above) benefitted from the health package in rural areas, including the indigenous *Comarcas*. In addition, the Government included a comprehensive nutrition component in its package of basic health services delivered to poor and isolated communities, as a part of the National Plan to Combat Child Malnutrition (2008-15) produced by Ministry of Health and the National Nutrition Secretariat (SENAPAN). The plan confirms the inclusion of an integrated package of nutritional services in the basic package of preventive and promotion health services provided by the Coverage Extension Strategy, *Estrategia de Extensión de Cobertura* (EEC), enhancing the sustainability of the initiative.

Summary of Results and Development Impact:

60. **The Completion Report rates as moderately satisfactory the achievement of results under the fourth CPS objective.** In education, the Bank contributed to increased enrollment in pre-school and secondary education (2000-2007). Lack of updated information prevents an assessment of recent national trends, but it all seems to indicate that the Government set itself far too ambitious targets for education. As noted, significant concerns with the quality of education remain. The CPS initial design foresaw initiating support in health and nutrition with expected the bulk of results from these interventions (health, social assistance, water) to be achieved during the next strategy, but the crisis meant that the Government engaged more forcefully in health and nutrition utilizing innovative approaches that the Bank has advised and supported—the Health Equity and Performance Improvement Project and the Social Protection Project. The support in health and nutrition is utilizing the CCT infrastructure to better target interventions. The Bank is well-placed to help the authorities strengthen further efforts in health and nutrition. Lastly, the continued exclusion of the rural indigenous populations remains a critical concern that will continue to require attention, including a critical examination of the current approaches.

Overall Results Rating

61. ***The Completion Report rates as satisfactory the achievement of results under the CPS objective.*** The CR is rating three of the objectives as satisfactory and one as moderately satisfactory, which justifies the overall rating of satisfactory. This rating is consistent with the satisfactory rating proposed by the ICR for the Competitiveness and Public Financial Management Development Loan series. Overall, the rating of the CPS is warranted given that the CPS contributed to major achievements of the Government program, such as the development and putting in place of an extensive and well-targeted social assistance program; the simplification of the interface between the Government and the public; the putting in place of successful training program; the modernization of the public procurement system; the introduction of a Fiscal Responsibility Law; and innovative approaches for addressing deficiencies in health and education. Admittedly, in some areas (rural productivity, eco-tourism) progress fell below expectations partly because dealing with the potential impact of the crisis became a priority and partly because the program was overly ambitious to begin with.

IV. Bank Performance

62. ***New resources approved during the period fell below initial targets of US\$390-465 million.*** The Bank approved US\$370 million during this CPS period, of which US\$255 million were in budget support operations. The US\$35 million education project was canceled. Three projects were taken off the pipeline (land access, rural micro finance, and sustainable tourism). Urban Transport, Social Protection II and Public Policy Reform TA2 will be delivered as part of the next strategy. Six projects are under implementation now.

63. ***The Bank adjusted in the Progress Report the CPS lending program to better support Panama's response to global economic shocks.*** Specifically, the lending program was adjusted to increase the liquidity available to address actual and potential spending needs. To do so, DPL II was increased by US\$25 million to US\$100 million and it was agreed that a third US\$80 million Development Policy Loan – which had originally been seen as optional – would be processed in FY09. The single tranche DPL (Protecting the Poor) provided timely support to the Government to protect vulnerable groups in the context of the global economic crisis by mitigating the impact of economic shocks on the poor and by reducing the risks of a potential banking crisis.

64. ***Portfolio performance in FY09-10 declined through the political transition, but this effect is expected to be temporary.*** After growing to eight projects in FY09, the portfolio stabilized at five projects and a GEF grant at the close of the CPS period (end FY10). The undisbursed balance grew from US\$84.9 million at the beginning of FY08 to US\$153.2 at the start of FY11. Over the CPS period, the portfolio performance declined due to temporary effects of GOP fiscal constraints that limited activity in FY09 and from the political transition in mid-2009. Following elections in May 2009, the new administration took office July 1, 2009. In most cases, Government staff and consultants working directly on the implementation of Bank-financed projects were retained until the end of 2009 and then in several cases replaced. The two operations, the Rural Productivity project and the Water and Sanitation in Low Income Communities project, which underwent the most significant changes in the staff involved in

project implementation had not yet recovered implementation performance by June 2010. Despite the effects of the transition on implementation, the new administration has confirmed that the portfolio of Bank –financed projects is well aligned with the priorities of the new administration.⁴² The Bank expects that with continued intensive supervision and capacity building support, the portfolio will return to zero projects at risk by January 2011 and that the disbursement ratio will rise above 20% in FY11.

Table G1.3: Portfolio Performance ISN FY06-07 and CPS FY08-10

	Interim Strategy Note FY06-07		Country Partnership Strategy FY08-FY10		
Fiscal year	2006	2007	2008	2009	2010
# of projects	4	5	7	8	6
Commitment amt. (US\$ mln)	\$100.5	\$144.8	\$204.5	\$244.5	204.5
Undisbursed balance (US\$ mln.)	\$60.3	\$57.34	\$84.9	\$123.8	\$141.1
Disbursed in FY (US\$ mln.)	\$8.9	\$17.9	\$20.9	\$20.9	22.5
Disbursement ratio	14.8%	31.2%	24.6%	16.9%	16.0%
# Problem projects	1	0	0	1	2
% Projects at risk	33.3%	0	0	11.1%	33.3%

65. *The Bank worked closely with both administrations to help minimize the impact of the transition on the portfolio.* Implementation of the portfolio spanned two administrations. The Bank held a Country Portfolio Performance Review in March 2009 to benchmark progress, identify issues and plan for the transition; including making sure operational manuals and project files were up-to-date. During the transition period, the incoming administration agreed to keep contracted project staff until the end of the calendar year to support continuity in implementation. A CPPR was held with the new administration in December 2009 with follow-up “mini” CPPRs in January and March 2010. Unfortunately, these efforts were insufficient to protect the portfolio in the short-term, but have helped in building a partnership with new counterparts in both the Ministry of Economy and Finance and the line-ministries which is expected to support stronger portfolio performance over time.

66. *Good Quality AAA was delivered in line with the CPS program.* The AAA program was small, but effective. The CEM/ICA provided background for the budget support operations and enriched the dialogue with Government in the areas that the CEM covered: Investment Climate, Adjusting to Free Trade; Education and Training; and, Social Protection. Its messages, further streamlined in the Policy Notes, contributed to the dialogue with the new administration and have favorably affected the sustainability of core aspects of the CPS. The Poverty Assessment (draft) provides a much needed and valuable update to the trends in poverty incidence, and warns of the need for continued vigilance as poverty incidence remains high in rural areas and amongst

⁴² One exception was the Quality of Education project, which the Government did not find to be well aligned with its new education strategy.

the indigenous population. The Poverty Assessment based on the 2008 LSMS survey is providing a valuable update of the main trends linked to the reduction of exclusion and inequality, one of the core challenges in the country. The Environment Review was completed.

67. ***The results framework highlighted the main areas of engagement, but focused mostly on outputs more than on outcomes.*** Given the youth of the program, it is reasonable that a considerable number of results centered on outputs and not on outcomes. But, the focus on outcomes is needed to gauge accurately the effectiveness of the overall CPS package. For instance, the CPS emphasized inclusion and broad-based growth, but monitoring system does not permit a straightforward evaluation of impact, although the indications are of progress in the right direction. In addition, some of the proposed results did not serve to fully gauge Bank contribution. A specific example: For the first strategic objective, the CPS proposed as a result: “Government uses updated poverty maps to update information in the management system used to target the *Red de Oportunidades* conditional cash transfer program”, which does not fully capture either the broader scope of the Bank’s engagement or the impact of the efforts.

68. ***The Progress Report outlined accurately the response of the Bank to the crisis and, in some cases, adjusted the results framework to more realistic expectations.*** The Progress Report provided a thorough discussion of the milestones under the CPS. It also took stock of the progress towards the proposed CPS results, adjusting targets to reflect progress.

69. ***The CPS identified correctly risks in three areas: economic, political and portfolio performance.*** The risks that the CPS identified were relevant but their nature changed during implementation. The economic global crisis of 2008 and 2009 proved deeper and longer lasting posing significant challenges for Panama given its high level of integration with the global economy. Panama was well-positioned to weather the crisis because of the previous efforts at fiscal strengthening, good macroeconomic management, a well regulated financial sector and improved mechanisms to target assistance to the poor, all areas where the Bank program contributed. Upon these solid bases the Government with the assistance of the Development partners, the World Bank included, dealt dexterously with the crisis; the economic slow-down is far less than in similar countries. The design of the CPS as a three-year program helped manage the risk associated with shifts in development priorities across administrations. The project cancellations that have taken place are a sign of the shift in priorities and approaches; in situations such as these, cancelations are preferable than poor implementation later on. The more substantive risk to sustainability of the core initiatives under this CPS has been managed through dialogue, aided by the Policy Notes.

70. ***The Completion Report rates Bank performance as satisfactory.*** Several considerations justify the satisfactory rating. First, the Bank successfully reengaged in Panama by developing an effective and trusting dialogue that has carried into the new administration. The combined design of the ISN and the CPS proved effective. The ISN was prepared rapidly thus providing assistance to the Government promptly while working in setting the basis for a long-term engagement. The ISN contributed important background analytical work and fostered a productive dialogue. As a result, by the time the CPS came into place the major initiatives that the program supported had been launched, enhancing the relevance of the CPS efforts. Second, the Bank support to Panama in response to the impact of the global crisis was timely and well targeted. It helped the country

contain the impact: Panama's economy grew in 2009 contrary the majority of the LAC countries. Particularly timely was the support provided by the budget support operation "Protecting the Poor under Global Uncertainty" that focused on the financial sector and reducing the impact of the crisis on the poor. Third, the Bank played a productive role as a knowledge institution given that it assisted in the institutional design of the main Government initiatives under CPS support (CCT, procurement, Fiscal Responsibility, training, etc.). The approach enhanced the view of the Bank not only as a financial institution but a provider of knowledge products. Fourth, the Bank worked effectively with other development partners, especially the IDB, as in the CCT program.

Lessons

71. ***The challenge for the CPS is to build on the foundations left in place by the successful re-insertion of the World Bank in Panama after close to half a decade of limited presence.*** The strategy to begin with an ISN and to emphasize AAA early-on contributed to a solid design of the CPS and individual operations—especially the development policy lending. The ISN helped the alignment of the CPS with Government strategy in areas of high ownership and where the major initiatives had been launched. The following lessons are relevant to the design and implementation of next CPS.

72. ***Alignment with the political cycle can improve delivery of a CPS.*** Alignment with the political cycle facilitates managing shifts in development priorities across governments, helping reduce the number of approved projects with limited ownership. This strategy can be even more effective if it is complemented with an up-front delivery of new operations so that their implementation can take-off early-on, especially given the lags between approval and full implementation. At the same time, the continuity of initiatives launched under the program can be enhanced by the dissemination of results and continuous dialogue with a broad base of country stakeholders to solidify a consensus on development strategy.

73. ***Strategic use of synergies across different components of the program can help improve the effectiveness of Bank support, especially when the relative financial contribution of the program is small.*** The CPS succeeded in strengthening the delivery of results by building synergies across various components of the program. For instance, the AAA provided solid background for the dialogue and design of operations approved during the CPS period. The technical assistance operations (public sector, social assistance, and health) contributed to the design and measurement of the main program initiatives (CCT, procurement, etc.). The CCT institutional set-up helped improve the targeting of other social assistance programs. The effectiveness of the DPL profited from the quality and coverage of the AAA and the designs under the technical assistance. The impact of the next CPS will be enhanced by continued emphasis on assuring complementary across programs during design and implementation.

74. ***Enhanced supervision improved portfolio performance and lessened the effect of weak implementation capacity.*** During the CPS period portfolio implementation was affected by the re-engagement process (youth of the portfolio, setting up implementation systems, etc.) and the political transition. Intensive supervision helped to identify and address bottlenecks, including those related to procurement procedures. In addition, close dialogue with the MEF reduced the number of unexpected budget re-allocations and allowed for changes in project plans to

minimize adverse development impact. As a means to deepen development results, facilitate implementation, and better gauge impact (both intended and unintended), project teams should strengthen dialogue with project beneficiaries as well as authorities.

75. *Focus on results design, monitoring and evaluation enhances the development dialogue and serves to gauge progress on development outcomes and Bank contribution to results.* While in some cases the results proposed under the previous CPS centered on intermediate indicators, analytical work was available to track impact, such as the LSMS survey that allowed assessment of the targeting accuracy of the CCT program. However, this may not always be the case; therefore, it is important to assure the quality and comprehensiveness of the result framework. As the program with Panama matures, it should be possible to focus CPS results on development outcomes rather than on outputs. The results framework should incorporate the major strategic concerns of the CPS, which includes consistency between the results matrix and the priorities stated in the main text of the CPS document. In addition, it is important to assure that the results framework is tractable and that it is traced regularly and used in the dialogue with Government.

76. *In Panama, the World Bank Group can be very effective when it concentrates on the delivery of a mix of lending, technical assistance, and knowledge products.* The experience in Panama shows that the Bank's relevance is amplified when the delivery of lending operations is supported by knowledge products. In turn, technical operations must continue to strengthen their focus on the development of high quality designs that incorporate lessons from experiences in other countries, as has been done in the CCT where Panama absorbed lessons from other programs and went on to build one of the best targeted programs in the LAC region. In addition, positive experiences in Panama, such as in public procurement, enrich the Bank's knowledge base in assisting other countries. A strong AAA program has also helped contribute to the design of Development Policy Lending which has proven to be a useful instrument in Panama in support of key government priorities.

Table G1.4: 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, Singapore and Taiwan, China 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 <i>PanamaCompra</i> (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)

Table G1.5: INADEH Courses: Evolution of years and regions

PROVINCES	Y 2006		Y 2007 (1)		Y 2008 (2)		Y 2009 (3)	
	COURSES	GRADUATES	COURSES	GRADUATES	COURSES	GRADUATES	COURSES	GRADUATES
TOTAL	2,683	42,021	9,439	191,723	11,023	211,230	3,520	50,827
BOCAS DEL TORO	142	2,377	463	8,407	405	6,466	107	1,493
COCLf	190	3,124	540	13,109	492	8,167	166	2,447
COLiN	229	3,712	672	11,956	347	5,764	200	2,653
CHIRIQUê	285	4,415	1,215	24,035	1,850	30,179	424	5,812
DARIfN (4)	46	740	151	2,182	124	1,735	36	457
HERRERA	119	1,709	404	7,938	389	5,919	109	1,519
LOS SANTOS	127	1,923	350	6,976	313	4,875	148	2,153
PANAMç	1,124	17,887	4,744	100,396	6,122	134,084	1,904	25,328
VERAGUAS	398	5,780	832	14,111	701	9,921	292	3,844
KUNA YALA (5)	23	354	68	1,170	80	1,332	6	21
COMARCA EMBERA (5)				357	80	1,051	13	135
COMARCA NGOBE (5)				1,086	120	1,737	33	407
VIRTUAL							82	4,558

- (1) Preliminary data as of 31 Dec 2007
- (2) Preliminary data as of 31 Dec 2008
- (3) Preliminary data as of 31 Dec 2009
- (4) High level of indigenous population
- (5) Indigenous communities

Source: Database CEZANNE

Table G1.6: CPS vs. Completion Report

CPS	CR
<p>FY08</p> <p>Competitiveness and PFM DPL 1 (US\$75 million)</p> <p>Education III (US\$30 million)</p> <p>Health (US\$30 million)</p>	<p>FY08 US\$75 million. Total amount disbursed: US\$ 75.0M</p> <p>FY09 US\$35 million (cancelled)</p> <p>FY09 US\$40 million. Total amount disbursed: US\$6.9M Total Undisbursed amount: US\$33.1M</p>
<p>FY09</p> <p>Competitiveness and PFM DPL 2 (US\$75 million)</p> <p>Land Access (US\$45 million)</p> <p>Rural Microfinance (US\$25 million)</p> <p>Sustainable Tourism (US\$30 million)</p>	<p>FY09 US\$100 million. Total amount disbursed: US\$100.0M</p> <p>(cancelled)</p> <p>(cancelled)</p> <p>(cancelled)</p>
<p>FY10</p> <p>Optional DPL (US\$75 million)</p> <p>Urban Transport (US\$50 million)</p> <p>Social Protection II (US\$20 million)</p> <p>Public Policy Reform TA 2 (US\$10 million)</p>	<p>FY09 Protecting the Poor DPL (US\$80 million). Total amount disbursed: US\$80M</p> <p>FY11 Roads Asset Preservation (US\$110.0M). Under preparation</p> <p>will slip to next CPS</p> <p>will slip to next CPS</p>

Note: Projects in bold have been delivered.

Table G1.7: Summary of Non-lending Services – Panama
As Of 06/30/2010

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent completions				
Urban Development Study	FY07	335	G,B,PD	KG,PD,PS
Country Economic Memorandum/Investment Climate Assessment	FY08	150	G,B,PD	KG,PD,PS
Country Environmental Analysis	FY08	165	G,B,PD	PD,PS
Policy Notes	FY09	100	G,B,PD	PD
Report on Observance of Standards and Codes	FY10	90	G,D,B,PD	KG,PS
Poverty Assessment (draft)	FY10	191	G,D,B,PD	KG,PD,PS

Table G1.8: CPS Results Framework - Completion Report

Government 2004-2009 Strategic Plan Goals/Indicators	Outcomes the Bank Program Expects to Influence	Actual Outcomes	Actual WBG program	Movement Towards Long-term Development Outcomes
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>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>2008 LSMS completed and the basic data finally approved, poverty data was published. New poverty map, poverty profile and basic descriptive will follow.</p> <p>CCT covers 11 percent of the population and links with increased delivery of health and education.</p> <p>The real value of monthly CCT adjusted for the consumer price index has been maintained or increased.</p> <p>At least two social programs are utilizing the <i>Red de Oportunidades</i> CCT program date base to identify poor beneficiaries.</p>	<p>Public Policy Reform TA (on-going)</p> <p>Social Protection Project (on-going)</p> <p>Poverty Assessment (AAA) (under preparation to be delivered in FY10)</p> <p>Social Protection Project (on-going)</p> <p>Poverty Assessment (AAA) (under preparation to be delivered in FY10)</p>	<p>Poverty has been reduced in line with Government objectives, but it remains high in rural areas and amongst indigenous communities, where in addition poverty depth is high. CCT (targeted social assistance linked to health and education) has been put into place and extended as a result of the crisis. An analysis on effective impact on the ground and use of the latest 2008 LSMS survey should help increase effectiveness.</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 	<p>Comments: SIICAR pilot ready but not completed so indicator cannot be precisely measured. Estimated 72 hours and 30 dollars (according to</p>	<p>Land Administration Project (on-going)</p>	<p>No information is readily available to access the impact of the land titling efforts on rural productivity.</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Outcomes the Bank Program Expects to Influence	Actual Outcomes	Actual WBG program	Movement Towards Long-term Development Outcomes
<p>Pillar II: Promote Economic Growth and Employment</p> <ul style="list-style-type: none"> - Investment in national fixed capital/GDP increases from 17% to 25% - Actual net per capita exports increase from B/1,250 in 2004 to B/ 1,650 in 2009 	<p>hours and US\$2 per transaction</p> <ul style="list-style-type: none"> • 50,000 rural properties in Chiriquí, Veraguas, and Bocas del Toro surveyed and 12,000 registered <p>No outcomes expected for this CPS under the Rural Productivity Project and its companion GEF.</p>	<p>internal cost study done at time of restructuring, i.e. 2004).</p> <p>In Chiriquí, Veraguas, and Bocas del Toro 56,550 parcels surveyed (113%) and 12,422 titles issued (104%).</p>	<p>Rural Productivity Project (GEF) (on-going) Rural Productivity Project (on-going)</p>	
CPS Objective 2: Promote broad-based economic growth				
<p>Pillar II: Promote Economic Growth and Employment</p> <ul style="list-style-type: none"> - Investment in national fixed capital/GDP increases from 17% to 25% - Actual net per capita exports increase from B/1,250 in 2004 to B/ 1,650 in 2009 	<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>PanamáTramita</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 	<ul style="list-style-type: none"> • Revised target of 90 on-line transactions by end-2008 mef⁴³ • DB 2009: indicators reduced to 13 and 9 days respectively <p>The ranking for starting a business dropped from 17 to 27, even if the days to start a business dropped from 18 in 2008 to 12 in</p>	<p>Competitiveness and PFM DPLs I & II (closed)</p> <p>Public Policy Reform TA (on-going)</p> <p>* Country Economic Memorandum/ Investment Climate Assessment (AAA) (closed)</p>	<p>Significant Progress has been made in simplifying the interface between the Government and the public with reduction in the time and effort to comply with regulatory requirements. An evaluation of the impact on the ground would contribute to further fine-tune the continuing simplification efforts.</p>

⁴³

The GOP has focused on consolidating or eliminating administration process rather than simply digitalizing all existing processes.

Government 2004-2009 Strategic Plan Goals/Indicators	Outcomes the Bank Program Expects to Influence	Actual Outcomes	Actual WBG program	Movement Towards Long-term Development Outcomes
	reduced).	<p>2010. The cost as a percentage of per capita income dropped from 13 percent in 2008 to 10.3 in 2010.</p> <p>Slight drop in trading across border from 8 to 10, with the time reduced to 10 days, in line with target.</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>Fully Achieved. Training targets exceeded. (See text.)</p> <ul style="list-style-type: none"> • INADEH has developed certification norms for 23 occupations, exceeding their target of 9 	<p>Competitiveness and PFM DPLs I & II (closed)</p> <p>Education III Project (dropped)</p> <p>2008 Country Economic Memorandum/ Investment Climate Assessment (AAA) (closed)</p>	<p>Panama has now a much more robust training system well aligned with the needs of the economy and complementary of the education system.</p>
	<p>Increase in Panama's per capita R&D.</p>	<p>Achieved. Research Institutional design is in place; financing has more than tripled over five years. (See ICR DPL series)</p>	<p>Competitiveness and PFM DPLs I & II (closed)</p> <p>Public Policy Reform TA (on-going)</p>	

Government 2004-2009 Strategic Plan Goals/Indicators	Outcomes the Bank Program Expects to Influence	Actual Outcomes	Actual WBG program	Movement Towards Long-term Development Outcomes
	Strategic sectors benefit from innovation support programs.	Achieved. Most of the financial support for innovation has gone to modern cutting age and strategic sectors. (See ICR DPL series)	2008 Country Economic Memorandum/Investment Climate Assessment (AAA) (closed)	
CPS Objective 3 : Establish modern public financial management institutions				
Pillar III and V: Reform Public Finance and Modernize the State <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>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.</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>Achieved.</p> <p>Achieved (Text and ICR DPL series)</p> <p>Tax collection increased. (See text: source IMF).</p>	<p>Competitiveness and PFM DPLs I & II (closed)</p> <p>Debt Management Technical Assistance from TRE (dropped)</p>	<p>The country maintained a solid fiscal and macro position including during the crisis. The Bank provided financial support as well as technical advice—as in debt management.</p> <p>Major gains in procurement—the system was overhauled and solid fiscal and transparency gains can be reported.</p> <p>A Fiscal Responsibility Law in place sets a fiscal rule as well as a framework to improve the effectiveness of expenditure.</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Outcomes the Bank Program Expects to Influence	Actual Outcomes	Actual WBG program	Movement Towards Long-term Development Outcomes
	<p>Public availability of medium-term fiscal framework and fiscal information closer to international standards, as measured by progress in international indicators (as 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>Partially Achieved—See ICR DPL—discussion of indicator 5.)</p> <p>Revised CPS result: Reduction in average No. of days to process payments to providers, from 175 to around 40 days. [Achieved]⁴⁴</p>	<p>Competitiveness and PFM DPLs I & II (closed)</p> <p>Public Policy Reform TA (on-going)</p> <p>2007 Country Financial Accountability and Procurement Assessment Report (AAA) (closed)</p>	<p>The Bank contributed to these achievements.</p>
	<p>Improved procurement performance across Government agencies through use of standard documents, as measured by international indicators (OECD-DAC/WB).⁴⁵</p>	<p>Achieved. PanamaCompra 2 that allows bidding on line launched. (See also text and ICR DPL)</p>	<p>Competitiveness and PFM DPLs I & II (closed)</p>	

⁴⁴ This outcome was revised from the original outcome of “Stock of payment arrears falls below 2% of central government expenditures” to be in line with the Competitiveness and PFM DPL.

⁴⁵ The government of Panama has continued to strengthen the public procurement system through several initiatives, such as the rollout of its e-procurement platform *PanamaCompra*, implementation of Framework Contracts, application of the OECD Indicators and development of a National Procurement Strategy. These reforms have set the country’s Public Procurement System in a positive direction that will benefit the Panamanian citizens through the provision of better services and greater value for money.

Government 2004-2009 Strategic Plan Goals/Indicators	Outcomes the Bank Program Expects to Influence	Actual Outcomes	Actual WBG program	Movement Towards Long-term Development Outcomes
	<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>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.</p>	<p>Achieved—savings considerable in items such as oil. (See text—additional information available upon request)</p> <p>Achieved—survey undertaken in 2008. Public perception of PanamaCompra superior to perception of procurement in Panama Canal authority.</p> <p>Average processing times reduced. (See ICR DPL.)</p>	<p>Public Policy Reform TA (on-going)</p> <p>2007 Country Financial Accountability and Procurement Assessment Report (AAA) (closed)</p> <p>Competitiveness and PFM DPLs I & II (closed)</p> <p>Public Policy Reform TA (on-going)</p> <p>2007 Country Financial Accountability and Procurement Assessment Report (AAA) (closed)</p>	
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>(No results expected during CPS period on nutrition.)</p>	<p>Major progress in extending health and nutrition services among the poor—covering around 300, 000 people. This is done through mobile teams that provide a basic package of services. Nutrition component has been added to the basic health package. (Further detail in the text.)</p>	<p>Water Supply and Sanitation in Low Income Communities (on-going)</p>	<p>The Bank efforts have contributed to begin addressing major short-coming in service delivery. These efforts were strengthened as a response to the crisis.</p>

Government 2004-2009 Strategic Plan Goals/Indicators	Outcomes the Bank Program Expects to Influence	Actual Outcomes	Actual WBG program	Movement Towards Long-term Development Outcomes
<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>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 <p>Improvements in regional office M&E systems</p>	<p>The coverage rate for 4-5 years old was 61.5 in 2007. This outcome revised downward to 65% in Progress Report—no more recent data available.</p> <p>Secondary enrollment was 64.6% in 2007. Progress revised outcome downward to 66%.</p> <p>Only partially achieved as MEDUCA now has an MIS for human resource management.</p>	<p>Education II & III Projects (closed & dropped)</p>	

Figure G1.1: Evolution of key indicators for public financial management performance

