



Country Program Evaluation

Panama

2015-2019

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Preface

As part of its work program, the Office of Evaluation and Oversight (OVE) of the Inter-American Development Bank (IDB) submits this country program evaluation (CPE) for the IDB Group's country strategy with Panama for the period 2015-2019. The CPE evaluates the IDB Group's relationship with the country, the effectiveness and value added of the country program, and the sustainability of the results achieved, with a view to developing useful recommendations for the IDB Group's new country strategy with Panama.

This is OVE's fourth independent evaluation of the IDB's program with Panama. The first CPE (document RE-305-3) covered a lengthy period (1991-2003) characterized by economic liberalization and democratic transition but little progress on the reduction of poverty and inequality. The second CPE (document RE-359) covered the period 2005-2009, which was marked by the emergence of the construction sector as the new engine of growth of the Panamanian economy, as well as resolution of the fiscal problems that had persisted since the nineties. The most recent CPE (document RE-475) covered the period 2010-2014, when Panama consolidated its position as one of the top economies in Latin America in terms of per capita income and growth.

In the course of this evaluation, OVE benefited from interactions with IDB Group staff and Government of Panama officials, as well as leaders, beneficiaries, and service providers in the Kuna Yala, Emberá, and Ngäbe-Buglé indigenous "comarcas" (semi-autonomous indigenous territories), where the IDB has had significant operational activities. The evaluation also drew on administrative databases, national statistical information, analysis of documents, and secondary sources of information. Field visits were made to 13 projects in four provinces and two indigenous comarcas.

This document is organized as follows: Section I analyzes the macroeconomic, social, and institutional context in which the country strategy was implemented. Section II analyzes the IDB's strategic positioning in the country: the program of operations and its relevance, cost, and time frame. Section III analyzes the effectiveness of operations with respect to the proposed strategic objectives. Lastly, Section IV presents conclusions and recommendations. Progress in implementing actions to address the spirit of the CPE 2010-2014 recommendations is analyzed in Appendix X of the Annex.

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Abbreviations

AIG	<i>Autoridad Nacional para la Innovación Gubernamental</i> [National Government Innovation Authority]
CAF	Development Bank of Latin America
CAIPI	<i>Centro de Atención Integral a la Primera Infancia</i> [Comprehensive Early Childhood Care Center]
CCT	Conditional Cash Transfer
CGR	<i>Contraloría General de la República</i> [Office of the Comptroller General]
CID	Country Department Central America, Haiti, Mexico, Panama
CT-INTRA	Intraregional technical cooperation agreements
ETESA	<i>Empresa de Transmisión Eléctrica</i>
IDAAN	<i>Instituto de Acueductos y Alcantarillados Nacionales</i> [National Water and Sewer Systems Institute]
IGR	Investment Grants
INEC	<i>Instituto Nacional de Estadística y Censo</i> [National Statistics and Census Institute]
INL	Investment Loans
MIDES	Ministry of Social Development
MINERPA	<i>Mapa de Información Económica de la República de Panamá</i> [Map of Economic Information for the Republic of Panama]
MOP	Ministry of Public Works
OER	<i>Oficina de Electrificación Rural</i> [Rural Electrification Office]
PBL	Policy-Based Loan
PBP	Programmatic policy-Based Loan
PEG	<i>Plan Estratégico de Gobierno</i> [Government Strategic Plan]
PISA	Programme for International Student Assessment
RUB	<i>Registro Único de Beneficiarios</i> [Master Registry of Beneficiaries]
UCPSP	<i>Unidad Coordinadora del Programa Saneamiento de Panamá</i> [Panama Sanitation Program Coordination Unit]
XSR	Extended Supervision Report

Executive Summary

Panama is undergoing swift transformation. Rapid growth since 2006 has been supported by the Panama Canal expansion project and sustained by private savings and investment (especially in the construction sector), as well as the ample availability of credit for the private sector. Thanks to this virtuous circle of growth and macroeconomic stability, Panama has established itself as one of the countries with highest per capita income in Latin America. Despite these notable achievements, the country continues to face the challenge of a dual economy with profound economic and regional inequalities. Growth, productivity, employment, trade, and access to services are concentrated around Panama City and in just a few economic sectors (transportation, construction, and financial services). In contrast, rural areas and the “comarcas” (semi-autonomous indigenous territories) have very low levels of productivity and limited access to basic services. With the country seeking to establish itself as a hub for logistics and business activities, there is a need to strengthen the human capital of the population while also building the capacity of the government and public enterprises.

To address these challenges, the country proposed an ambitious investment program totaling almost US\$20 billion for the five-year period, prioritizing urban transportation, investment in water and sanitation, and seizing the new development opportunities created by the opening of the Panama Canal expansion in 2016 and the resulting increase in trade in goods. The government’s flagship programs during the period included Basic Sanitation 100/0, Metro Line 2, and the Panama West mass transit plan. The IDB Group, for its part, approved a 2015-2019 country strategy with Panama that set strategic objectives in three priority areas: (i) improving the delivery of basic services to population segments living in poverty; (ii) strengthening the educational profile of the population; and (iii) enhancing the logistics services, efficiency, and connectivity of the productive infrastructure. The proposed lending envelope was

equivalent to 10% of planned investment under the Government Strategic Plan. The strategy objectives were relevant in light of Panama's development challenges and the government's priorities.

The IDB Group maintained its share of financing for Panama during the country strategy period, approving a significantly larger program of sovereign guaranteed operations than planned (almost US\$3 billion, compared to a planned US\$1.95 billion) and increasing its disbursements to US\$2,016 billion between January 2015 and October 2019, supported by US\$1.55 billion under programmatic policy-based loans (PBPs). The marked expansion in approvals over the period also led to an accumulation of undisbursed balances (from US\$362 million to US\$1,118 billion between 2015 and 2019). In terms of operations, the Bank provided support under two PBP series for significant reforms in the logistics and social protection sectors. At the same time, a significant proportion of investment loans focused on the provision of basic services (water and sanitation, electrification, health, and education) in rural areas and the comarcas, creating a program that was relevant to Panama's dual context. Internal coordination was strong during implementation of the operations, particularly with regard to the crosscutting theme of diversity. The Bank worked to develop its relationship with the indigenous communities and was the main development partner for indigenous issues, with more than 20 operations involving activities in the comarcas. Nevertheless, there is still room for improvement in coordination during the design of operations. The non-sovereign guaranteed portfolio includes 13 loans, most of which (77%) are focused on providing support to financial intermediaries. Given the preponderance of high liquidity in the markets, it is very difficult to find a market for other forms of financing.

Execution times and costs reflected the dual nature of the Bank's program. The PBP series accounted for almost 80% of disbursements but just 14% of the cost of preparing and executing the operations. In contrast, three quarters of portfolio costs related to disbursements under 20 investment loans, which faced numerous challenges and delays. Costs and time frames for the investment portfolio were slightly above the Bank average. The main portfolio challenges were crosscutting in nature: the preaudit role of the Office of the Comptroller General (CGR) and the time to perform such work, budget allocations, market-related challenges (bidding processes with no participants, abandoned contracts), weak capacity of execution units, and shifting government priorities. The Bank sought to identify and mitigate these weaknesses in both design and execution, but the majority were ultimately difficult to mitigate. In successful cases relating to execution units, the autonomy, capabilities, and stability of human resources were key for good execution.

The PBP series successfully supported major reforms to improve the efficiency and transparency of the social protection system (although there have been some delays in operationalizing these reforms), as well as to strengthen the role of the Logistics Cabinet and the National Logistics Strategy. The country's logistics indicators improved over the evaluation period. The investment program faced execution challenges and achieved mixed results. Notably, in the water and sanitation sector, the Panama Bay sanitation actions helped to improve water quality in urban rivers. In health, the registration target for the coverage and delivery of basic services was met, but persistent challenges remain in terms of quality. Progress was also made in the electrification of rural areas and comarcas and in road rehabilitation, although planned road maintenance activities did not occur. The education portfolio advanced, albeit subject to delays and cost overruns, with actions to build and rehabilitate schools in rural areas and the comarcas, but the planned targets were not met.

Challenges relating to the technical and financial sustainability of various interventions were identified during the evaluation period. For example, issues related to maintenance and low provider capacity for basic services investments (electricity, water and sanitation, education) were experienced in both rural and urban areas. With regard to roads, sustainability is jeopardized by the absence of a maintenance strategy. In health care delivery, particularly in rural areas, sustainability will depend on the absorption of projects into the ministerial budget, as well as strengthening of the ministry's planning, management, and supervision capabilities. Looking ahead, sustainability challenges should be addressed as an integral part of project design.

In line with these findings, and as input for future operations, OVE highlights five lessons learned and corresponding recommendations:

- **Finding: Given that rural and indigenous areas lag furthest behind in development, work in these areas is important but also difficult, costly, and slow.** Nonetheless, this work is highly relevant, given the country context, and could become one of the IDB Group's main niche areas to deliver value-added in Panama. Recommendation 1: Find mechanisms to continue and strengthen the comprehensive approach to rural and indigenous areas. In particular, (i) Foster better sector and geographic coordination of interventions from the design and planning stage; (ii) Recognize in the Bank's programming that the nature of these operations requires greater adaptation to the local context and entails higher costs and longer time frames for preparation, execution, and supervision; (iii) To sustainably accommodate these costs, look for ways to promote and offer the country a program that balances the higher costs of these operations with lower-cost operations; (iv) To make

interventions more cost-effective, the viability and relevance of adapting innovative models implemented in other countries for service delivery in isolated areas (e.g., distance education in Brazil) could be explored in the Panamanian context.

- **Finding: The Bank has developed a valuable and innovative approach to partnering with indigenous communities that takes into account their special organizational and cultural features and the difficulty of execution.** Through steadfast presence and ongoing dialogue, the Bank has begun developing a relationship of trust that has translated into technical cooperation operations, loans and facilitation of the execution of other loans. Recommendation 2: Systematically document the lessons learned from this experience for use in the Bank’s work with indigenous communities in other countries.
- **Finding: Execution challenges remain very significant. Some of these cut across the portfolio and so are difficult to mitigate at the project level.** In particular, the issues of budget allocations and the time for the Office of the Comptroller General (CGR) to perform preaudit work are generalized, affecting not only the IDB but all work executed with public funds. Recommendation 3: In developing a new strategy, redouble efforts to find a general solution to crosscutting challenges and, particularly, promote dialogue and offer necessary technical and financial support to strengthen the CGR’s role. The Bank has considerable experience in supporting the strengthening and modernization of supreme audit institutions in the region, which may be offered to the Government of Panama as part of the next strategy (Appendix IV of the Annex, Box 4.1).
- **Finding: Sustainability of interventions is a challenge for the program evaluated and will be an increasing challenge, especially if the Bank intensifies its work in rural areas.** In general, sustainability is a crosscutting concern in the portfolio and relates to low institutional capacity at the respective government agencies. Recommendation 4: Approach sustainability more systematically from the design stage of operations (e.g., infrastructure maintenance and availability of human resources), and, given that the institutional capacity of local counterparts plays an important role, heighten the emphasis on institution-strengthening and management activities, components, or operations. Accordingly, Recommendation 3 of the previous evaluation remains relevant.
- **Finding: In the context characterized primarily by high liquidity and market access, IDB Invest sought to address limited financial competitiveness through operations with nonfinancial additionality.** Although IDB Invest’s attempts

to support the country strategy objectives did not deliver in many cases, its efforts to add value through innovative interventions have been noteworthy. Recommendation 5: Maintain and expand value-added service offerings for the private sector in Panama. In particular, (i) Leverage the appetite for technical assistance in the financial sector in certain areas to explore products with components aligned to the country's development priorities; and (ii) Look for opportunities to add value in sectors with high development potential for the country, leveraging the IDB Group's reputation.



01

Context for the
Country Program,
2015-2019

- 1.1 Panama is an open country with high income and growth, and economic activity and population concentrated in Panama City. With an estimated population of 4.2 million, Panama's economy (US\$61 billion) is similar to Costa Rica's and slightly smaller than those of the Dominican Republic and Guatemala. Its population is concentrated in urban areas (68%), particularly the Province of Panama (53%), which has an area of influence that generates 87% of the country's GDP. Panama has the fastest growing economy in Latin America, which has made it one of the wealthiest in per capita terms (see Figure 1.1) (see appendices for more information and sources).
- 1.2 Since 2006 the country has experienced rapid, steady growth, supported by the Panama Canal expansion project and sustained by private savings and investment, especially in the construction sector.¹ One of the factors contributing to economic growth was macroeconomic stability, driven among other things by the tax reforms since 2005² and supported by favorable conditions, such as foreign capital inflows. Private investment has accounted for more than half of the growth experienced in the country since then, principally in the real estate sector. The combination of high growth and balance in the fiscal accounts has reinforced the virtuous cycle of macroeconomic stability, facilitating a steady reduction in public sector external indebtedness.³
- 1.3 As a consequence of its rapid growth, Panama has reduced poverty and inequality. The period since 2005 has seen a sustained decline in both unemployment (from 10.3% in 2005 to 5.6% in 2017) and the population below the poverty line (from 29.8% to 20.7% between 2010 and 2017). Inequality, as measured by the Gini coefficient, has also declined. Nonetheless, Panama remains one of the most unequal countries due, among other things, to the dual nature of its economy, as well as low social expenditure compared with other countries of the region.⁴ Panama is considered to have a high level of human development, ranking seventh in Latin America and the Caribbean and second in Central America.
- 1.4 Average improvement in social indicators hides marked regional differences, particularly in the indigenous comarcas but not limited to those areas. Improvements in living standards have been spread unevenly across the country. Whereas the more advanced provinces have high levels of development, those in indigenous

1 The contribution of the Panama Canal to the country's economy in recent years has been estimated at between 5% and 6% of GDP, and the impact on public revenue at 2.6% of GDP. Expansion of the canal has allowed the country to maintain a rapid pace of growth, partly due to its positive effects on the local economy, such as job creation and strengthening of the logistics sector.

2 Mainly the fiscal equity laws of 2005 and fiscal social responsibility laws of 2008.

3 External public debt fell from approximately 45% to 31% of GDP between 2006 and 2019 (MEF).

4 Ricardo Hausmann et al. (2017); ECLAC (Social Investment Portal), and IDB (2019).

comarcas (see Box 1.1 and Figure 1.2) are significantly lower. Much of this difference stems from income disparities: in 2015, average household income in the Province of Panama was US\$1,929 per month, while in the indigenous comarca of Ngäbe-Buglé it was only US\$367 per month. There is also a growing disparity between GDP per capita when comparing the Province of Panama with the rest of the nonindigenous provinces (Astudillo et al., 2019). In addition to income inequality, access to education,⁵ health, and basic public services (particularly water and sanitation and electricity) is unequal. Major challenges in the secondary and tertiary road networks mean that rural and indigenous areas have low levels of connectivity.

Figure 1.1
GDP per cápita (PPP
US\$, thousands)

Source: GDP per capita at purchasing power parity (PPP) (constant 2011 international US\$), World Development Index, World Bank.

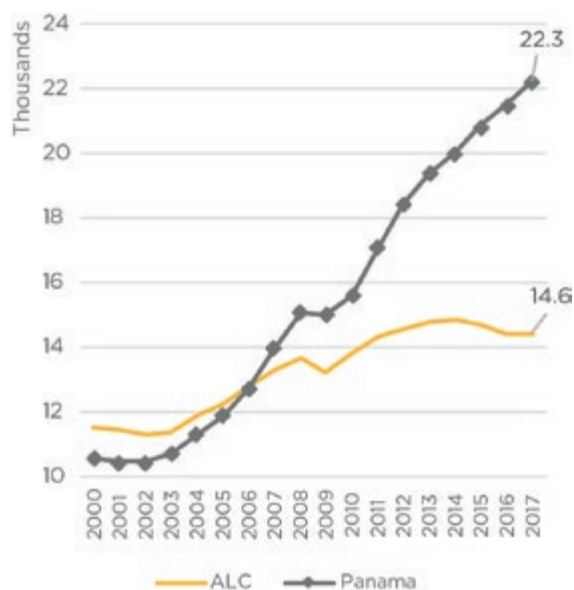
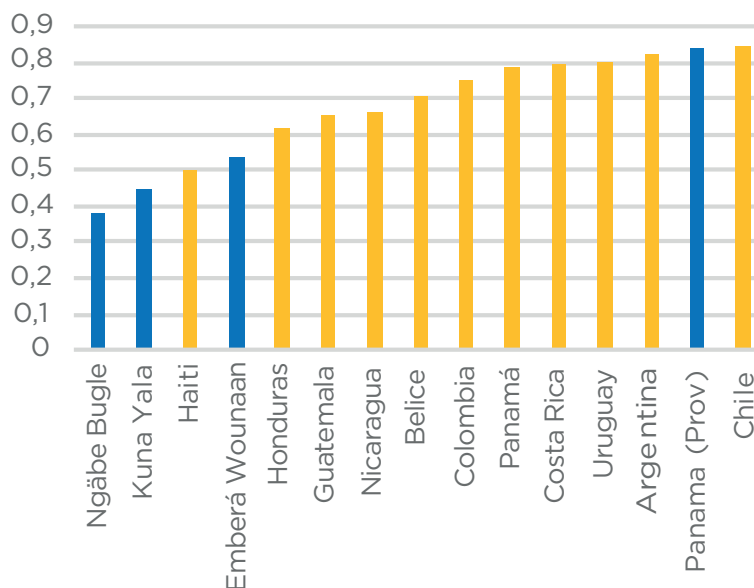


Figure 1.2
Human Development
Index

Source: United Nations Development Programme (UNDP). Data for Panama and the provinces: 2018; other countries: 2017.



⁵ In addition, Panama poses educational quality challenges leading to learning outcomes below the regional average (IDB, 2019) and the OECD average (results of the 2018 PISA test).

- 1.5 Expansion of the Panama Canal has made it the heart of the country's logistics system. Higher traffic in the canal zone raises the potential, but also the challenge, of consolidating the canal as a node for multimodal integrated bioceanic connectivity. To that end, there is a need for projects that integrate the zone with the rest of the national territory (including highways, roads, and border crossings), to avoid a "logistics duality" (Panamanian Logistics Strategy, 2030).

Box 1.1. Indigenous Comarcas

Some 12.5% of the Panamanian population self-identifies as belonging to one of seven indigenous communities. The majority live in collectively owned territories known as "comarcas" or in adjacent communities. The comarcas of Kuna Yala, Emberá, and Ngäbe-Buglé account for 6.6% of Panama's population. The indigenous population is represented through its own traditional government structures in the form of Congresses and Councils of leaders and elders. These forms of government are autonomous and recognized by law. The comarcas occupy approximately one fifth of Panama's surface area and contain some of the country's richest natural resources and aquifers.

In contrast, the comarcas are also areas with substantial economic and social asymmetries vis-à-vis the rest of the population. The average income in Kuna Yala, Emberá and Ngäbe-Buglé in 2015 was less than was over four times less than in the Province of Panama. The comarcas also have the lowest coverage levels for basic services. For example, whereas 97% of dwellings have access to electricity in the Province of Panama, only 34.8%, 19%, and 4% have such access in Emberá, Kuna Yala and Ngäbe-Buglé. The situation is similar for water and sanitation and access to health services. Maternal and child mortality and chronic malnutrition are much higher in rural and indigenous areas. Likewise, the availability of education services and dropout rates are above the national average.

Source: Authors' calculations based on information from "Panama - Country Partnership Framework" (World Bank, 2015), household income (Map of Economic Information for the Republic of Panama (MINERPA)), and population projections (National Statistics and Census Institute (INEC)); Consulting engagement on Panama's Electrification Master Plan, IDB, November 2018; proposal PN G1003; and Ministry of Health Statistics (MINSa), 2018.

- 1.6 More generally, Panama exhibits the characteristics of a dual economy, with a modern, high-productivity sector linked to logistics services, and another sector that includes less productive and even subsistence activities. Numerous diagnostic assessments have already identified the economy's dual nature as one of its most salient features.⁶ High economic growth over the last decade has reinforced this trend toward concentration in just a few sectors and regions. Indeed, almost 80% of GDP growth

6 See OVE, Country Program Evaluation: Panama 1991-2003, or Organisation for Economic Cooperation and Development (OECD), Multidimensional Review of Panama.

is attributable to construction, trade, financial intermediation, and other services. Panama has the highest per capita value of service exports (particularly transportation) in Latin America and the Caribbean, with levels comparable to those in countries belonging to the Organisation for Economic Cooperation and Development. In contrast, industry, agriculture, forestry, and fishing combined accounted for less than 6% of GDP growth. Agricultural productivity is seven times lower than that of industry or trade. Agricultural exports are also insignificant and have, in fact, fallen by almost half since 2006.⁷ Productivity varies not only from sector to sector but also across regions.

- 1.7 Although average productivity has grown significantly in the past, it stagnated in the period under analysis. Panama has experienced high growth in productivity since 2000 (4% per year), mainly due to capital accumulation. Between 2007 and 2013, the country rose almost 20 places on the Global Competitiveness Index as a result of macroeconomic stability and financial system development. Consequently, Panama enjoys good access to credit at the lowest rates in the region. In recent years, however, productivity indicators have stagnated, and price competitiveness has deteriorated, owing in the latter case to appreciation of the U.S. dollar and slightly higher inflation rates.⁸
- 1.8 The country remains vulnerable to the effects of climate change, which have become increasingly important given weak capacities for the integrated management of natural resources, particularly water resources. Panama is highly exposed to multiple natural hazards and is one of the countries most vulnerable to extreme climate phenomena, which represent an ongoing challenge for the country's population and economic activity. Rising temperatures are expected to affect rainfall and the incidence of diseases such as those transmitted by mosquitos (malaria, dengue). Rising sea levels are also already affecting low-lying areas and islands, particularly coastal communities (e.g., Kuna Yala). In the Panamanian context, the integrated management of water resources is of particular importance, given that water has an alternative economic use, as the "raw material" for traffic along the canal. The country has already experienced unusual droughts (e.g., 2014-2016) that affected water supplies and canal operations and led to losses in the agricultural sector. Even with the recent creation

7 Panamanian goods exports fell from US\$1.144 billion in 2008 to US\$659 million in 2017 (Source: INEC). Productivity data is taken from Hausmann, op. cit., p. 13.

8 The official currencies of Panama are the balboa and the U.S. dollar (fixed exchange rate of 1:1). See IDB Economics, Panama, 2019, p. 4. Between 2007 and 2017, price competitiveness declined 38% compared to Mexico and 16% compared to the United States. Regarding the cost of credit, see Hausmann, op. cit.

of a Water Sector Cabinet, consisting of entities involved in the management and preservation of water resources, governance of these resources is still limited. Moreover, the country's water and sewer utility, Instituto de Acueductos and Alcantarillados (IDAAN), faces governance and management challenges. In addition to these challenges, solid waste management falls short: per capita waste generation in Panama is thought to be the highest in Central America, although information regarding the location of disposal sites is a challenge,⁹ and contributes to the pollution of water bodies.

- 1.9 Lastly, decades of high growth driven by investment mean that the country faces the challenge of building the state's capacity to provide the services necessary to support this model of development. The Global Competitiveness Index identifies governance and human capital as challenges. The government has also identified the weakness of institutions as a vulnerability in the "economic and business hub of the Americas" model, as well as in efficient government management (e.g., civil service and administration of justice) (Government Strategic Plan, 2015-2019).

9 "Country Development Challenges" (IDB, 2019); "Plan Nacional de Gestión Integral de Residuos 2017-2027," (Ingeniería and Economía del Transporte S.A. (INECO) and the Panamanian Urban and Residential Sanitation Company (AAUD)).



02

IDB Group
Strategy and
Programming
2015-2019

A. Relevance of the IDB Group's strategic objectives

- 2.1 The Government of Panama structured its priorities in a Government Strategic Plan (PEG), identifying US\$19.5 billion in investments over a five-year period. The economic and social strategy established six priority areas for government management: (i) economic diversification and productivity; (ii) social development; (iii) human capacity-building; (iv) infrastructure and connectivity; (v) environment and the regions; and (vi) institution-strengthening and governance. Almost 60% of the investments proposed in the Government Strategic Plan were in the area of social development (especially water and sanitation and urban transportation), 20% in economic development (particularly roads), and just over 10% in the human development (especially basic education). The flagship programs in the Government Strategic Plan were Metro Line 2 and the Panama West mass transit plan, the Basic Sanitation 100/0 Program (“100% Water / 0% Latrines”), and the “Pact for Agriculture” (a rural competitive development program) (Appendix XI of the Annex).
- 2.2 In this context, the IDB Board of Executive Directors approved a country strategy for the period 2015-2019 that set three strategic objectives: (i) improving the delivery of basic services to population segments living in poverty; (ii) strengthening the educational profile of the population; and (iii) enhancing the logistics services, efficiency, and connectivity of the productive infrastructure. The strategy also identified four crosscutting areas for action (gender and diversity, integration, climate change, and the institutional capacity of local counterparts) and three dialogue areas (labor markets, macrofinancial and fiscal stability, and decentralization). The proposed lending envelope was equivalent to 10% of the Government Strategic Plan (US\$1.95 billion).
- 2.3 The Bank's country strategy was relevant in that it was consistent with the Government Strategic Plan and the country's needs. Both the Government Strategic Plan and the country strategy were characterized by continuity in investments, particularly in such sectors as roads and health. Both documents prioritized logistics, roads, health, education, and social protection. Compared with previous strategies, the 2015-2019 Government Strategic Plan offered continuity in a number of sectors (roads, urban transportation, health) but, consistent with the new administration's agenda, put renewed emphasis on logistics, water and sanitation, housing, and basic education (preschool through presecondary). Meanwhile, the country strategy

maintained continuity in its traditional sectors (roads, health, education, water and sanitation) and reduced its emphasis on such issues as public finance.

Box 2.1. Country strategy priorities, 2015-2019*

Strategic objectives	Areas of intervention
1. Improve the delivery of basic services to population segments living in poverty ^(a)	<ul style="list-style-type: none"> • Improve the coverage and quality of water and sanitation services in urban centers, other provinces, and rural areas, while at the same time continuing to support the institutional reform process in the sector. • Strengthen the country's social protection system, enhancing the transparency, efficiency, and coverage of conditional cash transfer programs. • Expand the supply of childcare services (early childhood), improve the quality of services, and develop a service model for the comarcas. • Expand the supply of child health and nutrition services with an emphasis on rural areas and indigenous comarcas.
2. Strengthen the educational profile of the population ^(b)	<ul style="list-style-type: none"> • Improve the coverage and quality of education from preschool through to presecondary and secondary school (mainly in rural and indigenous areas), and foster improvements in the information systems. • Identify innovative solutions (science, technology, and innovation).
3. Enhance the logistics services, efficiency, and connectivity of the productive infrastructure ^(c)	<ul style="list-style-type: none"> • Improve the country's logistics performance and connectivity by implementing institutional and regulatory reforms. • Improve, rehabilitate, and maintain rural roads and highways, including strengthening border crossings. • Enhance the reliability of the electricity supply, fostering diversification of the energy matrix and strengthening transmission infrastructure.
Crosscutting actions	
Gender and diversity	<ul style="list-style-type: none"> • Cultural issues will be incorporated, particularly in the priority areas of improving the delivery of basic services and strengthening the educational profile of the population.
Integration	<ul style="list-style-type: none"> • Particularly in the priority area of logistics services, efficiency, and connectivity of the productive infrastructure.
Climate change and environmental sustainability	<ul style="list-style-type: none"> • Particularly in the priority area of logistics services, efficiency, and connectivity of the productive infrastructure.
Institutional capacity of the local counterparts	<ul style="list-style-type: none"> • Design institutional components that strengthen the execution units and contribute to the sustainability of Bank programs. • Provide technical assistance regarding the management of government human resources.
Dialogue areas	
Labor markets	<ul style="list-style-type: none"> • Dialogue with a special focus on training and job placement, to improve and expand their coverage and impact on the country's productivity and competitiveness.
Macrofinancial stability	<ul style="list-style-type: none"> • Dialogue aimed at preserving the progress achieved during the previous strategy period.
Decentralization	<ul style="list-style-type: none"> • Support to the central and municipal governments in implementing the 2015 Decentralization Law.

* According to the guidelines in force when this country strategy was approved (document GN-2468-6), the country strategy "specifies the development objectives the country expects the Bank to contribute towards" and are regarded as a "letter of intent" that will "address a limited selection from the country's multiple objectives."

Source: IDB Country Strategy with Panama 2015-2019 (see also Appendix VI of the Annex with the Results Matrix).

(a) Expected outcomes: (i) increase in water supply coverage in urban areas; (ii) increase in sewer system coverage in urban areas; (iii) improvement in the efficiency of social programs; and (iv) reduction in maternal mortality, infant mortality, and prevalence of chronic malnutrition among children under five.

(b) Expected outcomes: (i) improved access to preschool programs; (ii) reduced dropout rate in presecondary and secondary school; (iii) improved student learning at the basic education level; (iv) increase in the number of researchers working (full- or part-time) on R&D activities.

(c) Expected outcomes: (i) increased competitiveness of the national logistics system; (ii) increase in transport and storage activities in the national economy; (iii) improvement, rehabilitation, and maintenance of the rural road network; (iv) increase in customs declarations processed per year at Paso Canoas; and (v) strengthened transmission infrastructure.

2.3 The Bank's country strategy was relevant in that it was consistent with the Government Strategic Plan and the country's needs. Both the Government Strategic Plan and the country strategy were characterized by continuity in investments, particularly in such sectors as roads and health. Both documents prioritized logistics, roads, health, education, and social protection. Compared with previous strategies, the 2015-2019 Government Strategic Plan offered continuity in a number of sectors (roads, urban transportation, health) but, consistent with the new administration's agenda, put renewed emphasis on logistics, water and sanitation, housing, and basic education (preschool through presecondary). Meanwhile, the country strategy maintained continuity in its traditional sectors (roads, health, education, water and sanitation) and reduced its emphasis on such issues as public finance.

2.4 The IDB Country Strategy 2015-2019 set no specific objectives for the IDB Group's private sector windows but suggested that these would support the country strategy objectives, with an emphasis on logistics and energy, while offering continuity in the areas already represented in the portfolio. The country strategy also suggested that non-sovereign guaranteed operations should utilize public-private mechanisms to support expanded access to credit for micro, small, and medium-sized enterprises (MSME) with a focus on those with export potential or seeking to join international value chains; financing for the housing sector; social services and financing of private entities; and fostering innovation under the strategic objectives. Lastly, the private sector windows were also encouraged to support the national plans in the areas of logistics (PNLog) and energy (renewables and transmission).

B. Relevance of the program implemented by the IDB Group

2.5 The portfolio under review includes operations approved during the period as well as legacy operations, consisting of 45 sovereign guaranteed investment operations (loans and grants), 25 non-sovereign guaranteed operations, and 104

nonreimbursable technical cooperation operations. The strategy period saw the approval of 25 sovereign guaranteed operations, 13 non-sovereign guaranteed loans, and 61 technical cooperation operations. The portfolio analysis is also supplemented by operations that were approved before the start of the strategy period but executed during that period¹⁰ (see Appendix XIII).

- 2.6 During the period under review, the Bank approved a total of US\$2,944 billion in sovereign guaranteed financing and support, exceeding the indicative scenario included in the country strategy by more than 50%.¹¹ In terms of numbers, two thirds of the operations were investment operations (15 loans and two grants), but in terms of approved amounts, more than half (53%) consisted of programmatic support (eight PBP). Loan approvals were supplemented by more than 60 nonreimbursable technical cooperation operations¹² (See Table 2.1 and Appendix XIII).

Table 2.1. Active portfolio, approvals, and disbursements (Sovereign guaranteed) (US\$ million)

	Total active portfolio (approvals and legacy)		Approvals * (2015-2019)		Approvals (2015-2019) **		Disbursements (2015-2019)	
					PBP	INL+IGR		
Strategic objective	\$3,119.2		\$2,620.1		\$1,400	\$1,208.8	\$1,817.9	
Obj. 1 Basic services	\$2,075.3	58%	\$1,749.7	59%	\$850	\$894.8	\$1,121.7	56%
Obj. 2 Education and innovation	\$234.6	7%	\$133.7	5%		\$130	\$88.6	4%
Obj. 3 Logistics and connectivity	\$809.1	23%	\$736.5	25%	\$550	\$184	\$607.5	30%
Other	\$165.8	5%	\$109.7	4%		\$107	\$30.4	2%
Dialogue areas	\$72	2%	\$21.7	1%		\$20	\$11.6	1%
Crosscutting areas	\$192.9	5%	\$192.9	7%	\$150	\$40	\$151.5	8%
Total	\$3,550	100%	\$2,944.4	100%	\$1,550	\$1,375.8	\$2,011.6	100%

Notes: The legacy portfolio was categorized based on the strategic objectives included in the country strategy 2015-2019. Loan PN-L1156 is classified in the 2019 country programming document under the objective of basic services and would increase the percentage of approvals for that objective to 65%, disbursements to 63%, and the total active portfolio to 63%. * Includes PBLs/PBPs, investment loans, investment grants, and TCs. Approvals between January 1, 2015 and October 2, 2019. ** Excludes TCs. Operations approved but not yet eligible: PN-L1148, PN-L1150, PN-L1155, and PN-L1157. Source: OVE, based on country programming documents (CPDs) (2016-2019).

10 The sovereign guaranteed legacy portfolio consists of projects that had undisbursed balances as of January 1, 2015. Non-sovereign guaranteed legacy operations included: (i) operations with undisbursed balances as of January 1, 2015, even if approved in earlier periods; (ii) operations with an extended supervision report (XSR) prepared during the evaluation period; and (iii) operations with disbursements on or after January 1, 2013 (24 months before the start of the evaluation period), as a proxy for an expected XSR, even if none was ultimately prepared.

11 The country strategy projected US\$1.950 billion in new approvals and US\$1,764 billion in disbursements.

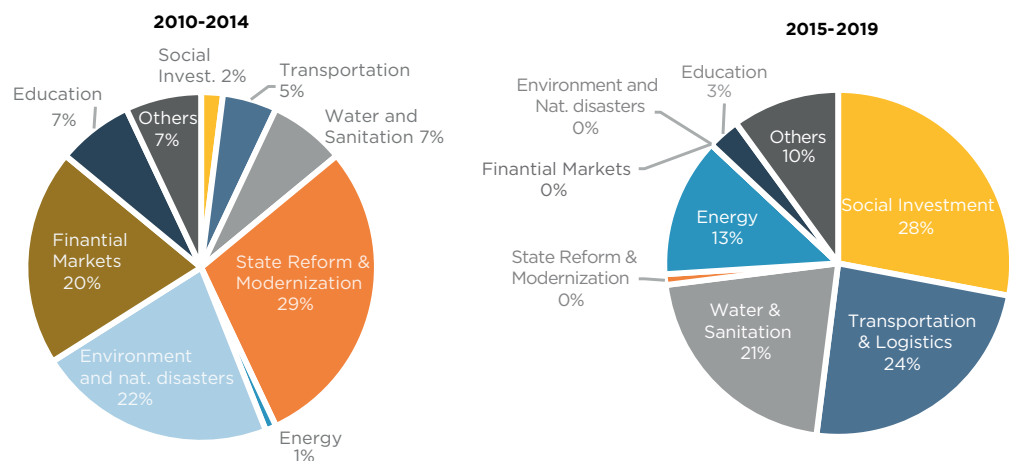
12 These values do not include IDB Lab operations or TC operations for the preparation and execution of the Special Program for Small and Vulnerable Countries, totaling US\$1.4 million (Appendix IX).

2.7 During the current period, the approved sovereign guaranteed portfolio expanded rapidly, and its sector composition shifted toward a concentration of investment loans in water and sanitation, which represent the highest proportion among all IDB countries. Approvals in the period represented an increase of 67% over the previous five-year period (US\$1,754 billion approved from 2010 to 2014). There has been a reorientation toward social investments, transportation, and water and sanitation, approvals of which rose from 36% of the total during the 2010-2014 country strategy to approximately 74% under the current strategy. The water and sanitation portfolio in Panama is the Bank's largest as a proportion of the total approved value of investment loans to the country (Figure 2.1).

2.8 In terms of instruments, the composition of the portfolio was appropriate, with the proportion of programmatic loans remaining high. Most of the resources in the social protection and logistics sectors were in the form of PBPs and were used to support needed policy reforms in these sectors. At the same time, in sectors where the focus was on addressing shortcomings by expanding physical investments (water and sanitation, education), financing was provided in the form of investment loans (both legacy and new operations). The share of programmatic instruments in the total approved amount fell slightly over the period (from 59% to 53%), although as a proportion of the approved portfolio this type of support remains above average (the fifth highest country in Latin America and the Caribbean and the third highest in the Country Department Central America, Haiti, Mexico, Panama, and the Dominican Republic).

Figure 2.1
Trends in the
distribution of
approved amounts by
sector*

Source: OVE calculations,
based on data from the
IDB Data Warehouse. Data
to October 2019.



* Operations in these charts are categorized based on the Bank's sectors. The social investment sector includes operations in the areas of social protection, gender and biodiversity, labor markets, and citizen security. Several legacy operations in the water and sanitation sector had been placed in the environment and natural disasters category (Unified Program).

- 2.9 Consistent with the need to expand the coverage of basic services, most sovereign guaranteed investment operations focused on the country strategy objective of improving the delivery of basic services to population segments living in poverty. The portfolio approved during the period was oriented toward work in rural and indigenous areas. Given the inequalities and poverty levels in these areas compared to the rest of the country, this was relevant to the country strategy objectives. Most of the operations during the country strategy period were focused on the strategic objective of improving the delivery of basic services (59% of total loan approvals, 58% of the active portfolio), particularly in the water and sanitation sector (Table 2.1). OVE also calculates that approvals of projects with components supporting infrastructure investment in rural and indigenous areas increased by 53% compared to the previous strategy period (from US\$253 million to US\$543 million). At least eight active loan operations during the period involved investments in the indigenous comarcas of Ngäbe-Buglé, Emberá, Kuna Yala, and Madugandí (Panama East), encompassing all of the sectors in the country strategy (water and sanitation, rural electrification, rural roads, education, health, and entrepreneurship).
- 2.10 The program focusing on the second strategic objective—strengthening the educational profile of the population—accounted for only a small proportion of the sovereign guaranteed portfolio. However, the most recent operation is geared toward supporting important structural issues needed to improve educational quality and sector management. The program focusing on the second strategic objective—strengthening the educational profile of the population—accounted for only a small proportion of the sovereign guaranteed portfolio (5% of approvals, although the share was higher for technical cooperation operations, at 16%). Although this amount represents a small proportion of the overall education budget, the relevance of the education program has been maintained through a focus on the comarcas in which education gaps are widest. In addition, the most recent operation is geared toward supporting important structural elements for the improvement of sector quality and management (e.g., student and teacher evaluations and better statistics on educational offerings). The dual approach of expanding coverage and emphasizing management and quality was relevant given weaknesses in the Ministry of Education and the regional development gaps in the country.
- 2.11 The third strategic objective reflected the belief that in order to maintain high rates of economic growth, Panama needed to overcome the institutional and infrastructure gaps that affect its logistics cluster. The Bank responded with a program

that accounted for almost one third of disbursements. The assumption was that there was an unexploited opportunity to use the Panama Canal as a platform for transforming the country into a logistics hub. To that end, infrastructure improvements (e.g., roads) were required that would support the exchange of goods and services, as well as improvements in logistics policies. To respond to these challenges, the IDB approved a series of three PBPs to support the institutional framework in the logistics sector, as well as investment loans, a multiphase program, and regional technical cooperation agreements to build and rehabilitate roads and foster trade and cross-border integration. These operations represented one quarter of approvals and one third of disbursements.

- 2.12 Lastly, of note within the crosscutting areas was the Bank's support for diversity (particularly indigenous issues) and gender. The portfolio specific to indigenous issues included technical cooperation operations and an investment loan (pending eligibility). Nonetheless, as indicated above (paragraph 2.9), a significant proportion of the portfolio in other sectors (education, health, electricity, etc.) was focused on the indigenous comarcas. At least 12 technical cooperation operations were key for maintaining dialogue, building and strengthening the relationship with the comarcas, and promoting the exchange of experiences over the course of the Bank's program (see Box 3.1 and Appendix V of the Annex). The case of gender is also worth noting: the PBP in this area (loan PN-L1156) is accompanied by investment loans and technical cooperation operations in various sectors (e.g., health and gender-based violence). In the dialogue areas, technical cooperation was critical in the sectors of macrofinancial and fiscal sustainability, decentralization, and labor markets (a US\$20 million loan was approved in the latter sector). Almost 4% of the active portfolio (25% of nonreimbursable amounts, including a legacy project financed by the World Environment Fund) was for sectors not included in the strategy (e.g., tourism) (see Table 2.1 and Appendices V and XIII of the Annex).
- 2.13 Most non-sovereign guaranteed financing was concentrated in operations with financial intermediaries; however, IDB Invest attempted to maximize its relevance and development impact through these operations. From 2015 to 2019, the IDB Group's private-sector window approved 13 non-sovereign guaranteed loans or credit facilities (12 operations) for US\$305 million, 77% of which went to financial intermediaries,¹³ 17% to the tourism sector, 4% to energy, and the remaining 2% to telecommunications.

¹³ Energy operation PN-L1123 (US\$100 million) was approved in 2016 and canceled in 2018. It would have reduced the share of financial intermediaries to 58%, an even higher percentage than the regional average.

The concentration of operations with financial intermediaries in Panama exceeded the IDB Invest average of approximately 21%. There was also a legacy portfolio of 12 operations, most of which were also focused on financial intermediaries (Appendix XIII). IDB Invest attempted to maximize the impact of these operations in a number of ways. In more than half of them, technical assistance was provided to improve outputs, leading to projects with an emphasis on gender, climate change, and green financing, and the development of the first gender bond in the region (thus addressing the crosscutting areas in the country strategy). Support was also provided to the housing sector, with low-income mortgages channeled through financial intermediaries. In addition, IDB Invest sought to partner with financial intermediaries focused on areas outside Panama City, where access to financing is more constrained.¹⁴ The country strategy also proposed that IDB Invest identify opportunities for financing micro, small, and medium-sized enterprises. Accordingly, efforts were made to promote greater competition and interest in this segment by supporting small and medium-sized banks. The strategy also proposed support for the other country strategy objectives. Of note in this respect have been attempts in the education sector to finance working capital for contractors working on rural schools, as well as to support the electrical transmission company (ETESA). However, these actions did not materialize as planned due to factors relating to market characteristics.

- 2.14 IDB Invest's nonfinancial additionality also reflected the positive impact of association with the IDB Group's reputation, at a critical juncture for market image. During the strategy period, the country's private sector was affected by the publication in the international press of details of the clients of a Panama-based law firm. This had a negative impact on the country's international image. Against this backdrop, Panamanian companies of all sizes, as well as international investors, have viewed association with the IDB Group as highly positive, given its credibility.
- 2.15 Sovereign guaranteed technical cooperation grew at a slower rate than the portfolio and was relevant given its close alignment with the Bank's program of operations. The amount of technical cooperation funding increased by 10% compared to the previous strategy (from US\$16.8 million to US\$18.4 million), although this represented a decline in relative terms (from 1.2 cents to 0.6 cents per dollar approved in loans) due to strong expansion in the loan portfolio (see Appendix III of the Annex). The portfolio was balanced between technical cooperation

¹⁴ In Panama, 72% of loans to micro and small enterprises and 70% of bank branches are concentrated in the Province of Panama (Office of the Superintendent of Banks, Banking Coverage Report, 2015).

operations providing operational support in sectors with loans relevant to the strategy objectives, on one hand, and those providing client support in dialogue sectors, on the other. The use of intraregional technical cooperation agreements (CT-INTRAs) was also of note during the period (11 operations). In some cases, these were key for promoting lessons learned and sector best practices relevant to the strategic objectives (e.g., the cultural relevance of learning in the education sector, the road maintenance agenda in logistics, and indigenous entrepreneurship in the area of diversity).

2.16 Despite Panama's broad access to financial markets at competitive rates, IDB loans increased substantially during the evaluation period. Panama's sovereign debt risk rating has been upgraded twice since 2010 (most recently at the beginning of 2019), and this has allowed the country to secure funding at rates that are very close to those offered by the Bank.¹⁵ With respect to IDB Invest, the cost is determined separately for each operation, but the evidence indicates that high market liquidity has also eroded its price competitiveness. In this context, the Bank expanded its portfolio by more than the indicative scenario.¹⁶ This was driven by the approval of PBP operations to support reforms aimed at improving both the country's logistics and competitiveness and the efficiency of the social protection system, as well as investment loans to improve the delivery of basic services to the population below the poverty line.

2.17 Accounting for almost half of the multilateral portfolio, the IDB is not only the country's largest development partner but it is also the only one present in almost all sectors included in the Government Strategic Plan, as well as having the greatest involvement in indigenous areas. It also performs a de facto coordination role. The multilateral portfolio (some US\$6 billion) is concentrated in the areas of transportation (logistics and roads projects and Metro Line (3) and water and sanitation (with investments supporting sanitation works in the Panama metropolitan area). The Bank was present in practically all sectors receiving multilateral financial support. The Development Bank of Latin America (CAF) was the second largest development partner in terms of approvals (US\$1.4 billion), with financing concentrated in a small number of water

15 Panama has ratings of BBB+ (Standard & Poor's), Baa1 (Moody's), and BBB (Fitch Ratings). The spread compared to Panama's most recent bond issue has remained below 50 basis points. Compared to other sources of commercial and multilateral financing, the Bank's financial competitiveness is below that of the World Bank and the European Investment Bank, but above that of the rest (commercial banks, the Organization of Petroleum Exporting Countries' Fund for International Development (OFID), and CAF).

16 The IDB remains the main multilateral creditor, with 14,6% of outstanding external debt (equivalent to the total of all other multilateral agencies together).

and sanitation projects. The World Bank pursued a strategy focused on policy-based loans (75%). The Bank also channeled a greater share of its physical and human capital investments into rural areas and indigenous comarcas. The only observed coordination was with respect to a number of World Bank operations, particularly in the areas of health (where the IDB continued support previously provided by the World Bank) and, more recently, indigenous issues. At the same time, the Bank's leadership role in sectors such as water and citizen security facilitated not only cofinancing but also the alignment of the agendas of other bilateral and multilateral partners.

2.18 The IDB Group also remains the most important development partner in terms of mobilizing both third-party financing and increasingly scarce technical assistance funds. As a high-income country, Panama has experienced a rapid decrease in development assistance funding, particularly for technical assistance. Almost 60% of grant funding received by the country involves Bank participation. This includes investment grants to support specific areas such as citizen security (PN-X1011, with EU funding), rural and indigenous water services (PN-G1003), maternal and child health (the Salud Mesoamérica initiative, PN-G1001 and PN-G1004), and malaria eradication (IREM, PN-G1007). During the period analyzed, the Bank facilitated cofinancing for investment projects such as the Sanitation Program for the Districts of Arraiján and La Chorrera (US\$250 million from the European Investment Bank, CAF, the Central American Bank for Economic Integration, and the Spanish Agency for International Development Cooperation) and the new rural electrification program (US\$11 million from the EU's Latin America Investment Facility). With respect to the private sector, IDB Invest was successful in attracting international cofinancing, which was of particular importance given Panama's efforts to maintain its image as an international financial center.¹⁷

C. Implementation of the Bank's program

2.19 IDB disbursements have increased over the last decade, mainly due to policy-based loans (PBL). After remaining static between 1996 and 2007, Bank disbursements have grown at 12.8% per year since then (above the rate of economic growth). Most of this increase is the result of growth in PBL disbursements. While

¹⁷ During the period, cofinancing was obtained from IDB Group-administered funds, including US\$25 million for Panama's largest bank from the China Cofinancing Fund for Latin America and the Caribbean and clean energy funding from the Canadian Climate Fund for the Private Sector in the Americas (C2F). In the case of another financial intermediary, the services of a specialized company were used to obtain portion "B" of the loan, for US\$20 million.

two thirds of total IDB disbursements in the 2005-2009 period related to investment projects, this proportion fell to one third from 2010 to 2014 and one quarter from 2015 to 2019. Despite the rapid increase in disbursements, the marked expansion in approvals over the period also led to an accumulation of undisbursed balances (from US\$362 million to US\$1,118 billion between 2015 and 2019).

2.20 Nonetheless, IDB disbursements (investment operations) account for an ever-smaller proportion of the country's overall public investment budgets, even though they are of considerable importance for some areas (e.g., indigenous comarcas). Investment loan disbursements are an increasingly small part of public investment budgets, falling from 8% in the 1990s to 2%-3% in recent years. In some ministries, such as the Ministry of Public Works, the decline has been much steeper (2% in 2015-2017 versus 26% in 1995-1999). However, in a number of the sectors and geographical areas (comarcas) in which the Bank operates, the Bank's financial contribution—although small—is of importance.¹⁸

2.21 Portfolio costs exhibit a dual dynamic characterized by a small number of operations with high disbursements at low cost (generally the PBLs) and a large number of operations dispersing low amounts at high cost (generally investment loans). Although this duality is present across the entire Bank, it is much more significant in the case of Panama, where 14% of total operational costs¹⁹ were allocated to the 12 highest-disbursing operations (accounting for 80% of total cumulative disbursements). In comparison, the average IDB country requires 30% of costs to achieve the same level of disbursements.²⁰ To put it another way, more than three quarters of portfolio costs in Panama stem from 20 investment operations accounting for 16% of disbursements (see Figures 2.2 and 2.3).

18 According to data on nonfinancial public sector investment from the Ministry of Economy and Finance, the provinces received 98% of the budget in the 2013-2017 period, while around 2% was allocated to the comarcas (Astudillo et al., 2019).

19 Operating costs are all costs allocated to a particular project registered in the Bank's systems. (They include preparation and execution costs and can be broken down according to these categories.) The analysis includes projects approved between 2010 and 2019. OVE distinguishes between preparation and execution costs based on the approval date. Source: OVE, with information from the IDB Data Warehouse.

20 OVE has ruled out the composition of the portfolio as a reason for this situation, in terms of instruments used and the age of the operations. Projects belonging to portfolios in which PBLs account for a similar or higher proportion than in Panama require 25% of costs, on average, to disburse 80%. Likewise, the age of Panama's portfolio was statistically the same as that of the rest of the Bank in most of the years analyzed.

Figure 2.2
Execution costs per operation versus disbursed amounts (2010-2019 approvals)

Source: OVE calculations, based on IDB data. Data to October 2019.

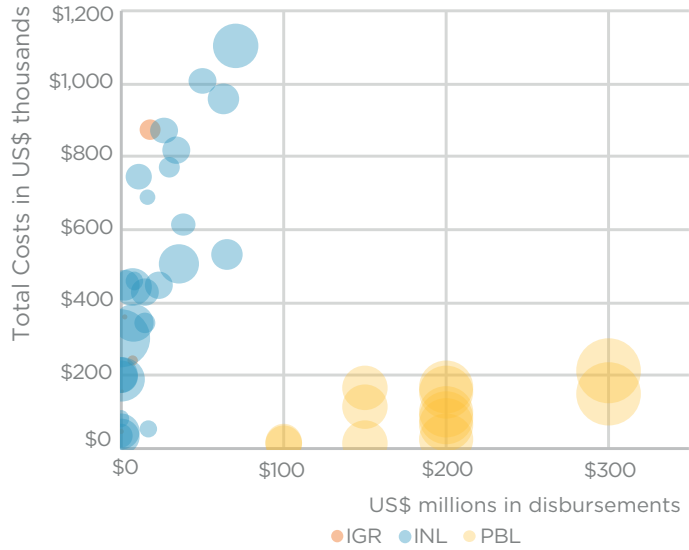
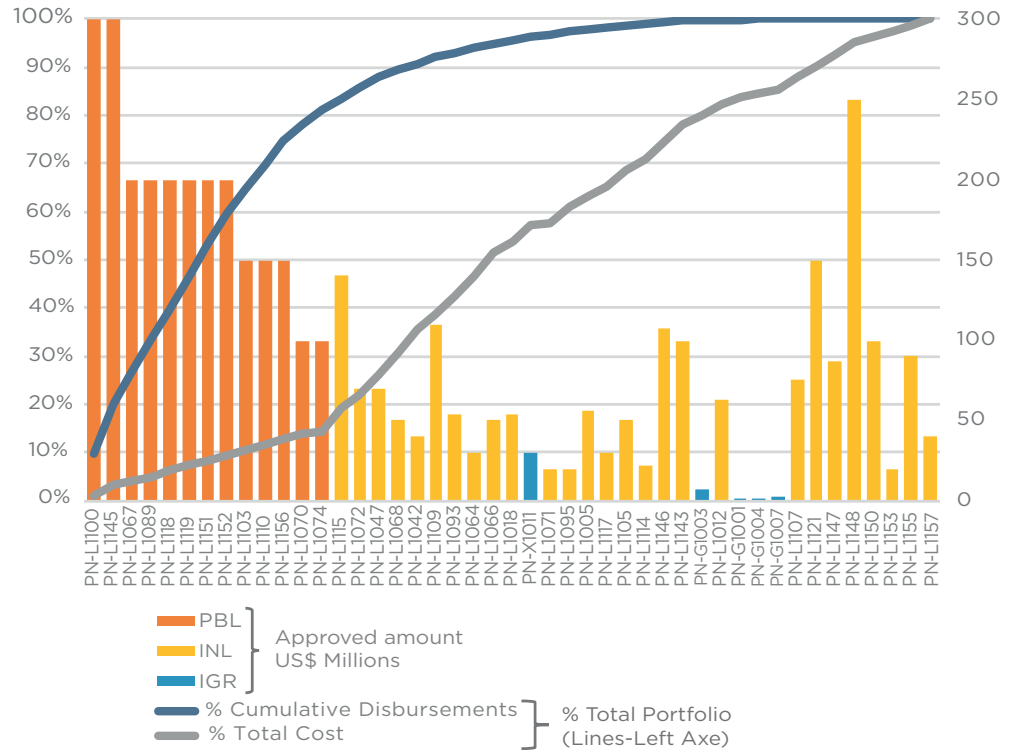


Figure 2.3
Cumulative disbursements and total costs and operation size by instrument (2010-2019 approvals)

Source: OVE calculations, based on IDB data. Data to October 2019.



2.22 In terms of the investment portfolio, timelines and costs are slightly above the averages for the Country Department Central America, Haiti, Mexico, Panama (CID) and for Latin America and the Caribbean, though they are primarily associated with the portfolio's geographic and sector composition. Both timelines and costs for projects approved in Panama under the current strategy are slightly above those for both CID

and Latin America and the Caribbean.²¹ Projects in Panama also received longer extensions than in the rest of the Bank. Given the different execution challenges experienced in the portfolio (see below), timelines and costs for the Panama portfolio may be the result—at least in part—of its focus on rural and indigenous areas, as well as its sector composition (concentrated in water and sanitation). Over the course of the current strategy, the average cost of an operation in rural areas or the comarcas in Panama has been 1.24 cents per each dollar approved: 45% more than the average for all approved projects and three times more than projects with infrastructure components in urban areas.²²

2.23 With regard to execution, crosscutting fiduciary problems (e.g., the preaudit times of the Office of the Comptroller General (CGR), budget allocations) were experienced in the portfolio, as well as problems specific to the execution units, many of which reflected weak institutional capacity among counterparts.²³ Compared to other CID countries, Panama stands out due to the incidence of fiduciary problems, which are almost double the level experienced in the region. The most significant fiduciary problems relate to the CGR preaudit times, especially countersignature of contracts as part of its oversight role (see Appendix IV, Box 4.1),²⁴ budgetary allocations,²⁵ and other fiduciary issues (e.g., procurement difficulties and introduction of the ISTMO financial administration system). In addition to these crosscutting issues, there have been challenges stemming from alterations to projects or political/prioritization issues

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- 21 Timeline: the number of months between an operation's registration and disbursement of its full approved amount. In making comparisons between the different periods, OVE controls for attrition, assuming that active projects move forward in each phase in the same way as an average project in the same sector. From 2015 to 2019, this period was 70.5 days in Panama, 58.3 days in CID, and 65.9 days for the IDB as a whole. The difference can mainly be attributed to execution. Costs: the execution cost of the average project approved during the current strategy period was 0.49 cents per dollar disbursed in Panama, compared to 0.25 cents in Latin America and the Caribbean and 0.2 cents in CID (see Appendix III of the Annex).
- 22 Execution periods for water and sanitation operations (as well as those in environment, rural development, and disaster risk management, on one hand, and transportation and housing and urban development, on the other) were above the Bank average (excluding Panama) for all sectors in the 2015-2019 period. However, water and sanitation projects in Panama have been slower than in their counterparts in other CID and Latin America and Caribbean countries.
- 23 OVE analyzed the problems reported in the "Findings and Recommendations" section of the progress monitoring reports. To this end, OVE reclassified challenges based on the description of the problem provided in the "Findings" section of the progress monitoring reports (n=129 problems from 121 findings). This information was validated using the portfolio review reports for the 2015-2019 period.
- 24 Panama is one of two countries in CID (together with Costa Rica) in which the supreme audit institution or Comptroller General performs ex ante control of contracts, expenditures, and/or payments. The International Organization of Supreme Audit Institutions recommends against this practice.
- 25 Budget planning challenges related to a decrease of around 10 percentage points in budget execution at the start of the strategy, followed by increases at the end of the period.

(13%). Operations were also affected by low capacities in execution units, including planning and decision-making weaknesses (12%) and high staff turnover (8%). Lastly, some problems were associated with market conditions, e.g. issues with contractors (11%) or remote or unsafe project locations (7%). In the case of the IDB Invest portfolio, there were execution challenges stemming from the context characterized mainly by high liquidity and the procurement processes of financial intermediaries as part of the consolidation in the banking system (which affected execution involving small intermediaries), as well as the complexity of some country systems (e.g., low-income housing subsidies).

2.24 In general, the Bank played an active role in attempting to anticipate and manage portfolio risk. Risk analyses for the operations (risk matrices during execution) highlight the timely identification of many of the aforementioned risks (OVE was able to confirm the presence of these challenges across the entire country portfolio), together with the implementation of mitigation measures. For example, attempts were made to mitigate low budget allocations (identified as a risk in 26% of cases) by strengthening planning capacities in the execution units and by maintaining an ongoing dialogue with the Ministry of Economy and Finance, as reflected in the portfolio reviews. To expedite CGR contract management processes, the use of a fiduciary agent was proposed in several operations.²⁶ Other important risks identified in the risk matrices were technical capacities in execution units (13%), executing unit supervision capacities (11%), and challenges in procurement processes (10%). In these cases, mitigation measures included training, additional qualified staff for execution units, and even the hiring of consultants and management companies. In fact, 58% of conditions precedent related to creation of the executing unit, including specific staff requirements, the submission of work plans, and approval of operating regulations to facilitate planning and decision-making tasks.²⁷ A further 21% of conditions precedent consisted of strengthening the technical capacity of the executing unit by hiring external support or identifying an entity responsible for maintaining new or existing infrastructure. Despite the Bank's efforts, many risks were difficult to mitigate. These include a lack of interest on the part of contractors, difficulties in accessing communities, political changes, and high staff turnover. Nonetheless, the Bank attempted to mitigate these problems through execution

26 19% of investment loans approved over the period provided for the hiring of a fund administrator or fiduciary agent in their Fiduciary Issues annex.

27 28 technical conditions precedent in 18 investment projects that were active during the period.

arrangements that simplify fiduciary issues (e.g., reducing the number of bidding processes and increasing their amount) and ongoing training in the execution phase. Bank fiduciary staff have provided training to the execution units in common issues such as the preparation of bidding documents and evaluation reports, evaluation of proposals, contract management, financial planning and disbursement projections, and internal control and financial audits. Efforts have also been made to facilitate communication and promote cooperation between execution units through the use of information technology tools.

2.25 Execution was most successful when carried out by execution units with stability, high availability of human capital, and autonomy in managing their projects. The roles of the Panama Sanitation Program Coordination Unit (UCPSP) and the National Government Innovation Authority (AIG) were of particular note during the period. The UCPSP, despite nominally being attached to the Ministry of Health, has enjoyed ample self-management capacity since it was created in 2001, as well as a stable contingent of qualified, adequately remunerated staff. In light of its superior execution capacity, the Unit's original responsibilities were expanded to include not only the construction of sanitation projects, but also their operation and maintenance and the construction of systems in other areas (Arraiján and La Chorrera) (see Section 3). The AIG, as an independent government agency, is similar to the UCPSP in terms of its levels of autonomy, stability, and competitive salaries. In execution, part of the AIG's success has to do with its ability to anticipate the critical path of steps and actors in the CGR's countersignature process, which has allowed it to achieve timely, fluid communication. In contrast, the most acute execution problems occurred in execution units with high levels of staff turnover and weak institutional capacity. The Rural Electrification Office (OER), attached to the Ministry of the Presidency, is a prime example of this: it had four project coordinators, while many positions remained vacant for lengthy periods and staff members remained in their positions for an average of 7.7 months.

2.26 Internal coordination within the Bank improved during the period, as reflected especially during the program implementation phase. Collaboration between divisions (double-booking) was a feature of 15 operations approved over the period (mostly technical cooperation agreements). This collaboration generally occurred within each sector, particularly in the social sector. Although increasing internal collaboration is a general trend in the Bank, it was more pronounced in Panama during the last strategy.²⁸ Among

28 The frequency of cross-sector work in Panama has increased to a greater extent than in the rest of CID and the Bank. See Appendix XIII of the Annex for details.

divisions, coordination occurred principally during the execution phase. Several Bank operations attempted to focus funding on areas in which they could complement interventions in other sectors.²⁹ For example, in the case of schools in the comarcas of Ngäbe-Buglé (El Peñón) and Kuna Yala (Gardí), the Bank aligned its investments in school construction with those in rural electrification, road upgrading, and even IDB Lab operations. Similarly, efforts were made to use the remaining funds under the last road operation to finance additional works for the San Lorenzo and Portobelo heritage project, as well as to connect a school in the Emberá comarca by means of a bridge, even though this had not been planned in the design phase.

29 Moreover, at CID's initiative, a survey was conducted in 2017 of the status of Bank-supported social infrastructure in Panama, and a manual ("Incorporación de Servicios Públicos en Proyectos de Infraestructura Social [The Inclusion of Public Services in Social Infrastructure Projects]") was prepared with a view to improving the integration of IDB interventions (Camacho et.al., 2018).



03

IDB Group Program Outcomes

3.1 This section presents the findings of the evaluation of the effectiveness of IDB interventions, as well as (to the extent possible) their contribution to achieving the strategic objectives established in the country strategy. The three strategic objectives were to: (i) improve the delivery of basic services to population segments living in poverty (basic services); (ii) strengthen the educational profile of the population (education and innovation); and (iii) enhance the logistics services, efficiency, and connectivity of productive infrastructure (logistics and infrastructure). Except for the programmatic loans, none of the loans approved during the period were implemented in full. Nonetheless, the work performed under various loans approved during the country strategy period, as well as the legacy portfolio, has allowed the identification of a number of advances in terms of the effectiveness and contribution of interventions to the strategic objectives (Appendices V and VI).

A. Strategic objective: Improve the delivery of basic services to population segments living in poverty, with emphasis on water and sanitation, social protection, health, and early childhood.

3.2 This strategic objective was the most important one for the Bank in terms of approvals and disbursements in active sovereign guaranteed operations (see Table 2.1). The Bank's interventions encompassed an active portfolio of investment and multiphase loans and an investment grant in water and sanitation; the programmatic series in social protection and early childhood development (supplemented by an investment loan to support the implementation of sector reforms); and two investment loans and grants in health. The following progress and outcomes were achieved during the evaluation period: (i) in water and sanitation, sanitation actions in Panama City facilitated an improvement in water quality in urban rivers; (ii) important reforms were achieved to improve the efficiency and transparency of the social protection system, although implementation has been subject to some delay; (iii) the early childhood agenda was strengthened, although actions to improve coverage and quality have been delayed; and (iv) in the area of child health and nutrition, the registration target for the coverage and delivery of basic services was fulfilled, although there are persistent challenges in terms of quality; (v) in addition, although it was not part of this objective, the Bank's investment loans also supported basic service delivery by expanding electricity coverage in rural areas and comarcas. Execution challenges were experienced in all of the loans.

1. Improve the coverage and quality of water and sanitation services and support the institutional reform process in the sector.

- 3.3 The Bank's intervention in the water and sanitation sector was both extensive and timely. In terms of potable water coverage and quality, the Bank supported the expansion and rehabilitation of services in the western provinces, as well as a number of actions in indigenous and rural communities. The Bank expanded its program in the sector during the evaluation period, focusing on rural and indigenous areas, the expansion and rehabilitation of services in urban areas in the western provinces (particularly David and Santiago), and the expansion of sanitation services in the Panama Metropolitan Area. Although US\$610 million were approved during the period, the active portfolio included investment loans for more than US\$800 million. During the strategy period, execution of the Unified Water and Sanitation Program for the Provinces and the first phase of the IDAAN Water and Sanitation Multiphase Investment Program (PN-L1042) was completed, and the second phase of PN-L1042 began (PN-L1093). Among other things, the Unified Program supported the rehabilitation of six of the seven planned water treatment systems, two potable water distribution systems, one sewer system, and 49 pipelines, improving service to more than 39,000 households. As a result of the multiphase loans, rehabilitation of the drinking water treatment plant in Santiago was completed. At the same time, there was progress in executing the Rural and Indigenous Drinking Water and Sanitation Program in Panama (PN-G1003), although results fell short of expectations (e.g., more than 900 households received water services, one third of the target, while in sanitation, the number of beneficiary communities was reduced from 44 to 23). Significant execution challenges were experienced in all of the loans. The Unified Program faced difficulties due to weak execution capacity in the National Sustainable Development Council (CONADES), as well as technical limitations in the National Water and Sewer Systems Institute (IDAAN) and the Ministry of Health. The multiphase loans have also faced challenges relating to management weaknesses at IDAAN, CGR preaudit times as part of its oversight role, and the approval of local counterpart funds, and contractor financial problems. The rural program experienced execution challenges relating to the remote locations of the interventions, leading to two extensions.
- 3.4 In sanitation, the Bank continued its support for the Panama Bay sanitation program, which has been consolidated as an important achievement in the sector. This program (PN-L1109 and PN-L1121, still in execution) is a significant infrastructure initiative that improves the collection and treatment of

wastewater in the Panama Metropolitan Area. The Bank has supported this project since it began in 2006. Phase II is still in execution and has achieved satisfactory progress. Project PN-L1121 (Arraiján and La Chorrera) reached eligibility in 2018 and is starting execution. To date, 150 km of sewer pipelines have been built, as well as 85 km of collectors and one treatment plant, among other infrastructure works. The project has supported improved water quality in urban rivers in Panama City and San Miguelito, as well as in Panama Bay with the first module of the treatment plant. The proportion of water quality measurements categorized as “good” increased from 0% in 2014 to 26.7% in 2018. This indicates improvements in animal life and the aquatic ecosystem, although the waters are still not suitable for human recreation. Although the execution of Phase I was successful given the UCPSP’s considerable capacities, problems were still experienced (construction cost increases, institutional weaknesses of IDAAN, and redesigns due to urban expansion).

- 3.5 Lastly, seizing the political window of opportunity in 2017, the Bank attempted to address institutional strengthening and management in IDAAN by promoting an innovative and more comprehensive program of support. IDAAN’s operational weaknesses and low management capacity rank among the main challenges to the effectiveness and sustainability of sector investments. This is of particular importance given the scale of recent water and sanitation investments. The Bank has sought to support different facets of institutional capacity by including strengthening components in loans and approving technical cooperation operations. Despite these efforts, effective improvements have not yet materialized in IDAAN, partly due to a resistance to change and a lack of political will to achieve the necessary transformations. In 2017, however, the Panamanian president announced the transformation of IDAAN, and the government requested IDB support. The Bank responded quickly with an innovative form of support, different to the failed attempts to provide technical cooperation through studies, systems, and advisory support. The Program to Improve the Operational Management of the National Water and Sewer Systems Institute in the Panama City Metropolitan Area (PN-L1148, 2017) proposes a five-year contract with a water and sewer system services operator. As of October 2019, however, the CGR has still not countersigned the firm contract.
- 3.6 Looking ahead, there are sustainability challenges relating to the financial and operational capacity of the public water and sanitation service, as well as providers’ management capacities. Management capacity among service providers is a permanent challenge in urban areas. Meanwhile, water service provision in rural areas faces technical and financial sustainability challenges

similar to those in other Bank projects in the region. Although the UCPSP has so far shown robust technical and management capacity for instigating, negotiating, and executing investments associated with the Sanitation Plan, this situation may now be changing. When the project was launched, strengthening of the IDAAN was expected in parallel to the UCPSP investments so that it could assume responsibility for operating new infrastructure. When this did not take place, the UCPSP began to take over responsibility for operating and maintaining the new sanitation infrastructure. Although understandable given the context, this deviation from its original function could compromise the UCPSP's execution capacity in future projects. Adding to this has been a change in the CGR's interpretation of the rules and its objection to countersigning long-term consultancy contracts in execution units. One option that was considered was to strengthen the UCPSP's institutional framework by converting it into a sanitation company; the Bank supported the drafting of a bill to enable this under the public services PBP.³⁰

2. Strengthen the country's social protection system, enhancing the transparency, efficiency, and coverage of conditional cash transfer (CCT) programs

3.7 Panama has increased the number of programs and amount of resources devoted to social protection over the last decade, posing challenges for targeting and equity that IDB operations sought to address. The majority of national social programs are administered by the Ministry of Social Development (MIDES). Created in 2005, MIDES manages three CCT programs: for the extreme poor population, "Red de Oportunidades" ("Network of Opportunities") serves households with children, and "Ángel Guardian" ("Guardian Angel") serves persons with disabilities; and "Programa 120 a los 65" ("120 at Age 65" Program) serves older adults without contributory pensions. MIDES transfers are estimated at around US\$225 million per year.³¹ These were developed in the absence of a solid social policy framework, meaning that efficient targeting was a challenge and beneficiaries had to be recertified to confirm their eligibility for CCTs. Together with other subsidies, they were seen as a challenge not only for equity but also for fiscal stability. During the country strategy period, the government announced on several occasions that it intended to review the policy governing subsidies so that these would reach population in greatest need. IDB operations responded effectively to this objective.

30 This was one of the components supported for water in the public services PBP (PN-L1145).

31 Spending on CCT programs is estimated to have risen from 0.44% of GDP in 2009 to 0.66% in 2014 (PN-L1105).

- 3.8 Through a programmatic series, the Bank helped to set in motion sweeping social protection reforms aimed at improving the transparency and efficiency of spending. The three operations in the series (PN-L1103, PN-L1118, and PN-L1152) were approved and disbursed between June 2015 and October 2018, with the objective of improving the transparency, equity, and efficiency of CCT. The series was accompanied by an investment loan (PN-L1105, which is still active). The series supported the approval in 2015 of a legal framework formalizing MIDES's oversight role for social policy, including regulation of the mechanisms for prioritizing social programs. It also supported the approval of a new institutional structure for MIDES, aimed at streamlining processes common to different CCT programs. Fundamental changes were achieved to the social protection system (determination of a mechanism for identifying the population below the poverty line, a transitional Master Registry of Beneficiaries (RUB), updating of the operating manuals for the CCT programs, a gradual transition to a single payments platform, and standardization of MIDES practices for social promoters). With respect to technical and fiduciary staff, the Bank offered valued technical assistance that was supplemented by the technical cooperation agreements that accompanied the programmatic series. Coverage and screening targets were partially fulfilled, although these were excessively ambitious given prevailing conditions and the amount of time that had passed since the reforms. Nonetheless, coverage of the "120 at age 65" program was expanded (from 52% to 74% of poor individuals in eligible households) and screening was improved. In addition, more than 40% of potential beneficiaries of the MIDES's CCT programs (Network of Opportunities and 120 at age (65) were also recertified for the first time.
- 3.9 The investment loan faced significant execution challenges that slowed implementation and delayed the operationalization of a number of reforms. Although the investment loan attained eligibility in 2016, its disbursement ratio has only recently reached 22%, and a two-year extension has been approved for completion. Execution challenges included delays due to the need to build political consensus (for passage of Law 54); high staff turnover and low institutional capacity at MIDES (delaying the bidding process for the RUB, which the Bank sought to mitigate through technical assistance); and challenges in coordinating with other government entities (e.g., the cross-referencing of beneficiary information). Slow loan execution curtailed the implementation of a number of the reforms supported under the PBP, such as completion of the RUB and targeting of the CCT programs.

3. Expand the supply and improve the quality of child care services, and develop a care model for comarcas.

3.10 The IDB program assisted in strengthening policies and services in the area of early childhood. Despite this, the construction and rehabilitation of Comprehensive Early Childhood Care Centers (CAIPs) and the implementation of service quality processes have been slow. The IDB helped to place the issue of early childhood on the public agenda and to institutionalize it as an MIDES-led policy. Under the umbrella of the aforementioned programmatic series (PN-L1103, PN-L1118, and PN-L1152) and investment loan PN-L1105, the IDB supported reforms that established MIDES as the supervisory body for early childhood policy and the CAIPI. In applying these rules, the gradual implementation was promoted of an early childhood care model that included the introduction of quality standards for the CAIPs and a pilot care model involving home visits in comarcas and remote rural areas (see Box 3.1), both of which have experienced implementation delays.³² Under investment loan PN-L1105, there has also been progress in building and rehabilitating CAIPs, although delays to this process have meant that the planned expansion in coverage during the country strategy was not achieved.³³ Lastly, the IDB provided support for the design and implementation of the *Libreta del Niño and la Niña* [Children's Record Book] (distributed to 70,000 children and expectant mothers), together with its operating regulations. This has provided a basic registry and allowed verification of the provision of early childhood care and basic services. Some of the execution challenges were due to problems with land titles (where the CAIPs were to be built) and delays in obtaining the CGR's countersignature of the contracts for CAIPI construction and remodeling.

4. Expand the supply of child health and nutrition services, with an emphasis on rural areas and indigenous comarcas.

3.11 Panama's sanitation system faces marked ethnic and regional disparities. The Bank's program focused on supporting the delivery of health services in indigenous comarcas where gaps are greatest. Through two investment loans, the Bank's focus during the country strategy period was on supporting the government's strategy for delivering basic health services, with payments to providers in MINSAs permanent and mobile

32 The 44 CAIPI in the treatment group (of the impact assessment) are implementing the quality standards (although the expectation was to reach at least 80 in 2018), and only 12 of these are implementing the results-based per capita payment model. The community model of home visits was implemented and evaluated at the pilot level.

33 The loan finances five new facilities, three of which have been completed so far with local contribution. According to data from MIDES and the National Statistics and Census Institute, the number of CAIPs countrywide increased from 104 to 107 between 2015 and 2018, and the coverage of comprehensive early childhood services rose from 3.8% to 5% (the target was 10%).

care networks.³⁴ In contrast to the first operation, however, the second loan places greater emphasis on expanding healthcare coverage (registering a greater number of people) and on quality and management issues. It includes more resources for improving infrastructure and equipment. The program was complemented by technical cooperation operations that were closely aligned with the investment loans (e.g., health network design and health in indigenous communities) and operations under the Mesoamerica Health Initiative. The two loans supported progress toward the registration target for the coverage of basic services, with more than half a million people registered to the network, particularly in comarca, indigenous, and rural areas. The target for the number of people receiving services was also surpassed. With IDB support, a strategy for essential obstetric and neonatal care was designed and implemented, together with care and mobilization protocols for obstetric emergencies in indigenous comarcas and rural areas. This enabled the first steps towards organizing a maternal and child health care network and renewing the complementary role of community platforms. Nonetheless, there have been moderate advances in the rehabilitation of infrastructure (e.g., delivery rooms, obstetrics equipment, and the upgrading of health centers). In relation to child nutrition, the IDB provided support for a number of actions, yet attaining some of the planned results was challenging.³⁵ Lastly, progress on service quality and the management of integrated services has been mixed.³⁶ The health registration and statistics system (SIREGES), which could potentially improve the delivery of information generated by health units, was strengthened. In order for it to be useful as a management tool, however, the challenge will be to ensure that regional health departments provide timely information.

3.12 Partly as a result of their design, the operations have disbursed without significant delay compared to other sectors. Nonetheless, some difficulties have been apparent. The projects (both loans and grants) encountered challenges with budget allocations, challenges with the time taken by CGR oversight

34 The Health Equity Improvement and Services Strengthening Program (PN-L1068, 2011) and the Integrated Health Service Networks Strengthening Program (PN-L1115, 2015).

35 Under PN-L1068, the IDB supported the program “*Atención Integral de la Niñez en la Comunidad* [Comprehensive Community-Based Health Care for Children]” (AIN-C, which became Nutrividas in 2015), updating technical content, protocols, and manuals, etc. to reflect best practices in child nutrition. However, targets for the proportion of children attending AIN-C sessions or participating in nutrition programs with micronutrients were not achieved. Source: PCRs (project completion reports) and PCR validation. The IDB also supported a pilot nutritional practices project, as well as the Nutrividas impact evaluation in comarcas (the baseline report for which confirms stunting and underweight in children).

36 Five benchmark hospitals in indigenous comarcas and rural areas were assisted in developing management plans, but enabling rules for health facilities were delayed.

processes for contracts and payments to providers, difficulties finding contractors for remote and isolated areas, the mixed quality of health service provision, and limited institutional capacity for supervising the executor.

- 3.13 The future sustainability of outcomes will depend on MINSA's financial and operational capacity, as well as improvements in the supervision of services. Future sustainability will depend on MINSA's ability to ensure funding for services over the medium term, as well as strengthening of its capacity for managing their delivery (including quality supervision). Accordingly, the inclusion of management components in the last operation could be a first step in strengthening MINSA. At the same time, despite the Bank's role, the challenge remains of continuing to adjust health service provision to the culture of indigenous peoples living in these areas, particularly given that the interventions concern maternity, childbirth, and child-rearing.

5. Expand electricity services in rural areas.

- 3.14 The Bank has played a key role in the electricity sector by addressing regional inequalities, which are very marked in terms of access to electricity. Although challenges have been experienced in implementation, progress has been made on rural electrification. In Panama, there is an almost perfect correlation between poverty levels and levels of rural electrification. The IDB has approved three successive operations to support the rural electrification program managed by the Office of Rural Electrification (OER), which consists of extending networks (for areas close to the current network) and providing isolated systems for more remote areas. The second operation disbursed US\$14 million during the evaluation period and remains active (PN-L1095), while the third one has just been approved (PN-L1155). The second operation encountered challenges relating to the OER's performance, partly due to staff turnover and weaknesses in decision-making. Meanwhile, the multiplicity of small-scale contracts in remote and isolated areas led to cancellations and abandoned contracts. To avoid some of the earlier difficulties (OER weakness, the lack of a baseline and prioritization criteria, and the size of contracts), more lessons learned were included in the design of the most recent operation. Despite such execution difficulties, the active operation succeeded in delivering power to 4,800 homes and schools in rural areas and indigenous comarcas (Kuna Yala and Ngäbe-Buglé), and progress was made in expanding rural electricity coverage (from 57.6% in 2007 to 78.5% in 2017). The Bank also acted as a catalyst for mobilizing funds from other donors (e.g., the Latin America Investment Facility and the Spanish Development Promotion Fund). Sustainability challenges are present, especially for

isolated photovoltaic systems (maintenance and contamination risks from used batteries), although the new operation has been exploring solutions to these challenges.

B. Strategic Objective: Strengthen the educational profile of the population

3.15 In its country strategy, the Bank proposed to strengthen the educational profile of the population by providing quality education throughout the full education cycle. In terms of approvals, this was the smallest strategic objective (see Table 2.1). In addressing it, the Bank intervened with an active portfolio in two areas: (i) education, and (ii) science and innovation. In education, two legacy loans (PN-L1064 and PN-L1072) were focused on improving the coverage and quality of preschool through secondary education, while another (PN-L1143, US\$100 million), approved during the country strategy period, was designed to strengthen sector quality and management. The Bank also continued to support innovation (reinforcing its long history of support for the National Secretariat for Science and Technology Innovation (SENACYT)), with two investment loans in the area of science, technology, and innovation. These include promotion activities (cofinancing and seed capital) focused on priority sectors, as well as actions to develop human capital and improve sector management. Both sectors experienced mixed progress and execution challenges.

1. Improve the coverage and quality of preschool through secondary education, strengthen student skills, and foster improvements in education system information systems.

3.16 During the strategy period, the IDB's approach to interventions shifted from one of improving coverage (particularly in rural areas and the comarcas) under the legacy operations to one aimed at improving the quality of education and sector information and management under the new operation.³⁷ Bank projects supported the construction of two education centers offering preschool through secondary services, while two more are under construction (each with 35 to 50 classrooms). In addition, the first operation succeeded in rehabilitating 41 schools (66 classrooms) out of 46 planned in two indigenous comarcas, while under the second one, progress was made in building additional support classrooms and rehabilitating and expanding 19 out of 21 schools. Although disaggregated data on education coverage in the comarcas was unavailable, available data from the Ministry of Education indicates an increase

³⁷ More than 80% of the amount of the legacy loans covers deficits in education.

between 2015 and 2018 in the number of available classrooms and enrollment in primary and secondary education in the comarcas; it is plausible that the Bank made some contribution to this progress, since the schools were built in areas where such levels did not exist. Available information suggests that net enrollment rates at the preschool level remained almost unchanged between 2013 and 2018. The Bank's programs supported a number of actions in the areas of quality and learning, although these were a minor component of the two projects executed (e.g., teacher training). Moreover, it was impossible, on a comparable basis, to determine the amount of progress with respect to the country strategy indicator (student learning and basic education), as the results of the study concerned are only expected in 2020 (Appendix VI of the Annex). Nonetheless, the program of technical cooperation operations was important in supporting Bank operations and fostering the creation and exchange of knowledge and promoting cultural relevance in teaching practices, such as in the case of CT-INTRAs with countries in the region (e.g., quality issues with Honduras and Brazil), and the bilingual intercultural mathematics program.³⁸ The most recent investment loan (PN L1143) aims to support actions in the areas of quality, evaluation, data generation, and management.³⁹ However, outcomes are not yet apparent given that loan execution has only recently begun.

3.17 Despite the progress achieved, the program faced significant execution challenges, including delays and cost overruns. The legacy projects experienced delays and execution difficulties. For example, the operations suffered the consequences of the institutional weakness of the Ministry of Education, aggravated by difficult access to works, safety problems, and contractor inexperience. In some cases, these challenges led to contracts and works being abandoned, and bidding processes that attracted few or no bids (resulting in a reduction in the number of works built). To make things worse, the time taken by CGR preaudit processes delayed payments to contractors in the two legacy operations, leading to an attempt under the last operation to introduce execution arrangements based on a framework agreement with the United Nations Development Program (UNDP), approved in 2019. Attempts were made through the IDB Invest window to develop financing arrangements for construction firms, but these were unsuccessful. Lastly, one school had to be redesigned, creating execution delays. Comprehensive education centers

38 With respect to the other technical cooperation operations, PN-T1083 stands out for its support in designing the educational spaces financed under the loans, as well as PN-T1208 and PN-T1150, which focused on monitoring the "*Aprende al Máximo* [Learning to the Maximum]" program.

39 Most of the loan funds were used for these purposes (85%).

or model schools have generated demand and attracted young people from neighboring communities. Thus far, however, the operations' objective of establishing these as focal education centers for the comarcas has been only partially achieved.

2. Identify innovative solutions (science and technology).

3.18 The Bank continued to support innovation in Panama during the country strategy period, primarily by promoting transparent calls for proposals involving innovation and research in priority sectors. Two loans (one closed legacy loan and another active one approved during the period) financed calls for research proposals in priority sectors. The first operation focused on the sectors of logistics and transportation, bioscience, and information and communication technologies, while the second focused on mission-driven research with an emphasis on logistics, transportation, water, and energy (priority sectors in both the country strategy and the government's science and innovation plan), while also supporting innovation for social inclusion (e.g., in health). The projects have either achieved or made progress toward several of their objectives. In addition to supporting innovation projects,⁴⁰ actions were taken to narrow the digital gap ("infoplaza" community information centers),⁴¹ and support was provided for the Universidad Tecnológica de Panamá in financing a master's program in science. There were significant challenges during execution, however, such as changes in the government's priorities and a lack of demand in some of the calls for proposals (e.g., business innovation targets were not achieved in logistics), as well as crosscutting challenges (e.g., the CGR).

C. Strategic objective: Enhance the logistics services, efficiency, and connectivity of productive infrastructure

3.19 To address this objective, the Bank intervened with an active portfolio comprising three PBPs (US\$550 million) to support the institutional framework in the logistics sector, as well as a digital governance loan approved to support modernization of the Panamanian state and promote the simplification and digitalization of government administrative procedures. The portfolio also includes an investment loan and regional technical assistance operations supporting trade and cross-border integration, while with respect to the construction and

40 The legacy project financed innovation projects with 61 companies, while the new operation (PN-L1117) has awarded funds to mission-driven research projects in water, energy, and health.

41 34 new *infoplazas* established and 61 existing ones renovated (there are 314 *infoplazas* in the country).

rehabilitation of highways and rural roads, execution of phase II of a multiphase series was completed and a new operation was approved (see Table 2.1). In terms of progress and outcomes during the period, the following were of note: (i) in logistics and connectivity, support for legal reforms aimed at strengthening integrated planning capacity within the framework of the National Logistics Strategy (e.g., harmonizing standards and strengthening the Competitiveness and Logistics Secretariat), and (ii) financing for highway construction and rehabilitation. Attempts were made to promote road maintenance, although planned actions did not materialize due to changes in the context and in government priorities. At the same time, execution of the trade facilitation loan supporting integration of customs and border crossings with Costa Rica has just begun.⁴²

1. Improve the country's logistics performance and connectivity by implementing institutional and regulatory reforms.

3.20 The government in power from 2015 to 2019 made logistics a priority and expressed its intention to strengthen the institutional framework for the sector. A series of PBP (PN-L1119, PN-L1151, and PN-L1110) was implemented between 2015 and 2018, aimed at promoting legal reforms, consolidating institutions, strengthening integrated planning capacity, and facilitating trade (particularly in terms of harmonizing Panama's regulations with those of the rest of Central America). The phases in the series were sequenced so that the first one supported development of the basic institutional framework, the second the design of legal and planning instruments, and the third the implementation of some of these instruments through the development of specific legislation. This series of PBP was accompanied by several technical assistance operations that supported the implementation of different reforms (e.g., the National Logistics Strategy and the reengineering of external trade processes).⁴³

3.21 The PBP series has helped to improve the country's performance with respect to logistics indicators. The PBP succeeded in strengthening the role of the Logistics Cabinet by creating a

42 In energy, in addition to support for rural electrification, electrical integration with Colombia and Panama were promoted (RG-T2522 and RG-T3396). The Bank has also maintained a fluid relationship with the Department of Energy, providing assistance for implementation of the electricity strategy and the development of natural gas regulations. This support led to operation PN-L1145 (a PBP, now fully disbursed) to design a legal framework for the natural gas sector. PN-T1169 (2017) emerged from this collaboration, providing support for institutional issues (the targeting of subsidies, energy efficiency), rural electrification sustainability studies, and a component to optimize hydrocarbon exploration and production.

43 Additionally, under the Panama Online Program (PN-L1114), the Bank has supported government modernization initiatives through the National Government Innovation Authority (AIG).

Competitiveness and Logistics Secretariat, while a Council of Logistics Firms (COEL) promoted collaboration with the private sector. In terms of trade facilitation, there was progress toward operationalizing the Single Window for Ports (VUP) and the Single Window for Foreign Trade (VUCE), as well as updating Panama's customs code. Advances were also made in terms of sharing information and formulating a digitalization plan. As regards outcomes, the country has improved in all categories of the World Bank's logistics performance index, moving from 51st place in the rankings in 2010 to 38th in 2018.

2. Improve, rehabilitate, and maintain rural roads and highways, including strengthening border crossings.

- 3.22 Complementing the PBP series, the Bank has been providing support for trade facilitation through customs integration between Panama and Costa Rica. As part of the Bank's support for the Mesoamerican Project to develop a Pacific Corridor, the need to improve logistics was identified. As a result of this dialogue and at the request of the countries, a series of technical assistance operations was approved to promote border integration between the Panama and Costa Rica (RG-T2069 and RG-T2267). In 2015, an investment loan was approved to build border crossings in Costa Rica (CR-L1066, 2018 eligibility), followed by a loan in 2019 (PN-L1107) to implement integrated enforcement posts between the countries. In addition to the infrastructure component, this operation will support fiscal and parafiscal controls, as well as improving urban development in the targeted areas. Execution of both operations is just beginning, so no outcomes have yet been reported.
- 3.23 During the period, the Bank continued to support the Ministry of Public Works (MOP) in the building and rehabilitation of roads. Progress was made with respect to physical investments, but institutional strengthening components were only partly implemented and lacked effectiveness. Program execution was affected by a change in the MOP's strategy regarding road maintenance. Given the challenges in this area, the country and the Bank had initially agreed upon a performance-based approach to road maintenance. As a model transition measure, it was agreed that multiphase loans would be approved to fund contracts that combined rehabilitation and maintenance. Phase II (PN-L1047) was executed during the country strategy period, financing eight works contracts. The largest of these were the rehabilitation of a 50 km segment between Penonomé-Aguadulce (64% of funds) and a bridge over the River Chico (10%), both of which are located on the Pan-American Highway at Coclé and Chiriquí, respectively. After a good performance between 2013 and 2016, execution slowed in Phase II. By 2016,

budget restrictions were less pressing, the investment budget for road rehabilitation maintenance was much higher, and Bank financing was less significant as a proportion of overall MOP financing. Against this backdrop, the country abandoned the strategy of performance-based maintenance and resumed the direct financing of works. In 2018, it was agreed that residual funding (US\$6.8 million) would be reoriented toward investments (two works projects) that complemented other Bank projects.⁴⁴ As the bidding processes attracted no bids, the operation is now being closed out. Both phases of the multiphase program included institutional strengthening components aimed at consolidating the new performance-based maintenance model, including its financing (Road Maintenance Fund, FOMAVI) and planning (the SAMI administration system) and the management of new contracts (Performance-Based Maintenance Unit, UME). These were only partially implemented, and as of 2015 none of the structural changes had materialized: the Road Maintenance Fund had not been created, the SAMI administrative system was outdated, and the Performance-Based Maintenance Unit only had one employee.⁴⁵ In 2018, the Bank approved a new investment loan (PN-L1147) to finance three construction and rehabilitation projects. It included innovative features such as socioeconomic and impact analyses (supported under PN-T1177).⁴⁶ Given the importance of the road maintenance issue, the Bank attempted to relaunch that agenda, for example by facilitating a CT-INTRA (PN-T1141) between the Panamanian and Costa Rican authorities.

D. Crosscutting area: indigenous issues

3.24 In terms of crosscutting areas, the Bank's actions in the area of diversity were of note during the period, particularly its work in the indigenous comarcas (see Box 3.1 and Appendix V of the Annex). During the country strategy period, the IDB worked to build bridges for coordination and dialogue with representatives of the indigenous comarcas. Coordination was also facilitated between IDB sectors, and the focus on the comarcas was emphasized within the work program. The dialogue with the communities was highly valued by the counterparts, achieving important benchmarks and facilitating implementation of the projects. Nonetheless, the investment portfolio in the comarcas

44 Construction of a bridge over the Chucunaque River in Lajas Blancas; Comarca Emberá, where the Bank is funding the construction of a school; and rehabilitation of the road to Fort San Lorenzo in Colón (16.7 km), where the Bank is supporting the new heritage project.

45 CT-INTRA memorandum, PN-T1141.

46 The Bank also supported other urban transportation initiatives, e.g. planning for Metro Line 2 (although due to procurement issues it was unable to participate in financing for this project) and an urban mobility plan for Panama City (together with Housing and Urban Development) (see Appendix V).

faced execution challenges stemming from difficulty of access, as well as opportunities for improving cross-sector and territorial/geographical coordination from the design stage of interventions, with a view to improving outcomes and sustainability.

Box 3.1. Support for Panama's Indigenous Communities

The Bank sought to work in indigenous communities by adopting a differentiated, targeted approach that acknowledged their specific governance arrangements. Although the different legacy operations during the strategy period included actions in comarcas, the Bank worked more actively in this area during the 2015-2019 country strategy period, with the inclusion of a crosscutting approach. Not only did the Bank approve seven TCs and one investment loan focusing on indigenous issues, but a significant portion of its loan and technical cooperation program in other sectors (education, electricity, etc.) also targeted the comarcas. The implementation of actions in comarcas has entailed execution challenges—such as cost overruns and bidding processes with no participants—that are partly related to the remoteness and difficulty of accessing these communities, as well as the persistence of cultural challenges. The Country Office, however, has used technical assistance to promote consultation and dialogue, and this has created a relationship of trust that has helped to enhance the interventions and improve their cultural relevance, while also facilitating physical execution of the works, agreements, and the completion of important studies. OVE held conversations with representatives of the Kuna Yala, Emberá, and Ngäbe-Buglé comarcas, who confirmed that this relationship is valued and represents a comparative advantage for collaboration compared to other international organizations. The following were some of the most important actions:

In **education**, the Bank is supporting a pilot mathematics program with a bilingual, intercultural approach and interactive radio (the Jadenkä program) for preschool children in the Ngäbe-Buglé comarca (PN-T1166 and PN-T1154), which was later extended to the first year of primary school (PN-T1224). CT-INTRAs were used to exchange experiences with the Tikichuela mathematics program in Paraguay (PN-T1139), and this supported design and execution of the pilot program.

The IDB also helped to improve the **civil registry** in indigenous comarcas and remote rural areas (PN T1146). In **health**, the Bank sought to support indigenous communities through the malaria eradication initiative and interventions under the Mesoamerica Health Initiative. In the area of early childhood, the “Cuidarte” pilot model was developed and evaluated for home visits in the comarcas (this pilot is in the adaptation phase in the Ngäbe-Buglé comarca).

In **rural electrification** (PN-L1095), the IDB supported network extensions, internal installations, and solar power systems, as well as extension of the transmission line to Peñon (Ngäbe-Buglé) and Cartí (Kuna Yala) and

isolated systems for individual users, schools and health centers in Kuna Yala. In addition, support was provided to Kuna Yala for studies regarding electricity interconnection with Colombia.

The **rural water** program (PN-G1003), although small in terms of disbursements (US\$5.5 million over the period) is of great importance to Panamá Este, Darién, and Kuna Yala. Challenges relating to difficulties in access led to a reduction in the number of beneficiary communities.

The Bank also sought to support **indigenous entrepreneurship**, with approval of a loan (PN-L1157, US\$40 million, 2019, pending eligibility) aimed at improving access to financing, productive infrastructure, and technical assistance for entrepreneurial projects. Four CT-INTRAs (PN-T1196, PN-T1213, PN-T1214, and PN-T1222) were used in preparing the loan, and these allowed different Panamanian stakeholders (including leaders of the Kuna Yala, Ngäbe, and Emberá communities) to visit Chile to exchange experiences with the Indigenous Development and Promotion Program (CH-L1105), as well as to Colombia to learn about the experience in that country.

In Kuna Yala, a region that is vulnerable to the effects of **climate change**, the Bank is providing technical support (PN-T1188) for the management of a resettlement plan that could serve as a model for future resettlements. With respect to **gender-based violence**, PN-T1156 (under PBP PN-L1156) will include studies to support the cultural adaptation of services offered by National Women's Institute Centers (CINAMU) in Ngäbe-Buglé, Emberá-Wounaan, and Afro-Panamanian communities; only a small proportion of funds have so far been disbursed, however.

The new Bank roads operation (PN-L1147) seeks to rehabilitate a 23 km segment of rural road in the District of Besikó (Ngäbe-Buglé) using concepts of ethno-engineering, including culturally compatible signage and pathways using local materials.

Source: OVE.

E. Private sector

3.25 Against a highly competitive economic backdrop, efforts were made to position the non-sovereign guaranteed portfolio by means of innovative approaches with regard to instruments and sectors. Challenges were numerous, however. In a context characterized by high liquidity and strong competition, IDB Invest sought to offer products with value added and innovative arrangements. In general, though, these efforts did not bear fruit. The majority of funding was disbursed to large financial intermediaries, albeit mostly in support of clients with restricted access to finance (gender or green themes) or emphasizing areas outside Panama City. Other

operations involving smaller intermediaries sought to foster greater interest and competition in segments such as small and medium-sized enterprises (as proposed in the country strategy). IDB Invest also provided support for low-income mortgages. Although the planned objectives of operations involving the system's larger intermediaries were achieved, the growing complexity of the system of low-income housing subsidies means that there is uncertainty regarding the future viability of this line of business for the majority of financial intermediaries. On the plus side, in 2019, IDB Invest structured and issued the first gender bond in Latin America, yielding US\$50 million to support the strengthening of small and medium-sized enterprises led by women.

3.26 In addition to its support for clients in the financial system, IDB Invest sought to enter sectors with development potential, with mixed results. IDB Invest explored support to the tourism, energy, and telecommunications sectors and attempted to provide support in the education sector. In telecommunications, it structured (and is now disbursing) an operation with a regional focus to facilitate the financing of smart phones for low-income users. In energy, it supported one of the first public solar photovoltaic projects in Panama (10 MW, the first private sector project that included an incentive based on gender results), which was built but immediately ran into difficulties. With respect to ETESA, although the support did not lead to a loan, it did help to identify opportunities for improvement in the company's corporate governance. The company was able to take advantage of high market liquidity and issue its own bonds. Lastly, attempts to provide support in the education sector by developing working capital financing arrangements for contractors in rural areas were unsuccessful.



04

Conclusions and Recommendations

- 4.1 Panama is undergoing swift transformation. Having established itself as one of the countries with the highest per capita income in Latin America, it continues to face the challenge of a dual economy with profound economic and regional inequalities and institutional challenges. At the outset of the evaluation period, the main development challenges identified were the low diversification of the economy, poor human capital accumulation, and unequal access to public services.
- 4.2 To address these challenges, the country proposed an ambitious investment program totaling almost US\$20 billion for the five-year period, prioritizing urban transportation, investment in water and sanitation, and support for the agenda to establish Panama as a logistics hub, an idea that has gained importance since the inauguration of the expanded canal in 2016. The government maintained public investment levels during the period but resorted increasingly to international bond issues for its financing. The Bank proposed a program equivalent to 10% of government investment, focused on: (i) access to basic public services, (ii) improvement of the educational profile, and (iii) strengthening of logistics services, efficiency, and connectivity.
- 4.3 The Bank maintained its share of financing for Panama during the country strategy period, approving a significantly larger program than planned (US\$2.94 billion) and increasing disbursements (mainly as a result of the PBP), as well as undisbursed balances. At the same time, investment loans focused on the provision of basic services (water and sanitation, electrification, health, and education) in rural areas and the comarcas, creating a program that was relevant to Panama's dual context. Internal coordination was strong, particularly with regard to the diversity pillar. The Bank worked to develop a relationship with indigenous communities and was the main development partner for indigenous issues (making progress in electrification, education, and registration for health services in comarcas and rural areas).
- 4.4 Execution times and costs reflect the dual nature of the Bank's program. The PBP series accounted for almost 80% of disbursements but just 14% of the cost of preparing and executing the operations. In contrast, three quarters of portfolio costs related to disbursements under 20 investment loans, which faced numerous challenges and delays. The main portfolio challenges were crosscutting in nature: the preaudit role of the Office of the Comptroller General (CGR) and the time to perform such work, budget allocations, market-related challenges (bidding processes with no participants, abandoned contracts), and difficulties related to weak capacity of execution units. The Bank sought to identify and mitigate these weaknesses in both design and execution, but the majority were ultimately difficult

to mitigate. In successful cases relating to execution units, the autonomy, capabilities, and stability of human resources were key for good execution.

- 4.5 The PBP series successfully supported major reforms to improve the efficiency and transparency of the social protection system (although there have been some delays in operationalizing these reforms), as well as to strengthen the role of the Logistics Cabinet and the National Logistics Strategy. The country's logistics indicators improved over the evaluation period. The investment program faced execution challenges and achieved mixed results. Notably, in the water and sanitation sector, the Panama Bay sanitation actions helped to improve water quality in urban rivers. In health, the registration target for the coverage and delivery of basic services was met, but persistent challenges remain in terms of quality. Progress was also made in the electrification of rural areas and comarcas and in road rehabilitation, although planned road maintenance activities did not occur. The education portfolio advanced, albeit subject to delays and cost overruns, with actions to build and rehabilitate schools in rural areas and the comarcas.
- 4.6 Challenges relating to the technical and financial sustainability of various interventions were identified during the evaluation period. For example, issues related to maintenance and low provider capacity for basic services investments (electricity, water and sanitation, education) were experienced in both rural and urban areas. With regard to roads, sustainability is jeopardized by the absence of a maintenance strategy. In health care delivery, particularly in rural areas, sustainability will depend on the absorption of projects into the ministerial budget, as well as strengthening of the ministry's planning, management, and supervision capabilities. Sustainability challenges for the investments have been identified in relation to the strengthening of government entities for the planning, execution, financing, and supervision of service delivery throughout the country. Looking ahead, sustainability challenges should be addressed as an integral part of project design. For example, actions should be included to address these challenges either directly (e.g., combining the installation of stand-alone electrical systems with their maintenance) or through technical and financial strengthening of urban (e.g., IDAAN) and rural providers.
- 4.7 In line with these findings, and as input for future operations, OVE highlights five lessons learned and corresponding recommendations in advance of the preparation of the next country strategy.

- **Finding: Given that rural and indigenous areas lag furthest behind in development, work in these areas is important but also difficult, costly, and slow.** Nonetheless, this work is highly relevant, given the country context, and could become one of the IDB Group's main niche areas to deliver value-added in Panama. Recommendation 1: Find mechanisms to continue and strengthen the comprehensive approach to rural and indigenous areas. In particular, (i) Foster better sector and geographic coordination of interventions from the design and planning stage; (ii) Recognize in the Bank's programming that the nature of these operations requires greater adaptation to the local context and entails higher costs and longer time frames for preparation, execution, and supervision; (iii) To sustainably accommodate these costs, look for ways to promote and offer the country a program that balances the higher costs of these operations with lower-cost operations; (iv) To make interventions more cost-effective, the viability and relevance of adapting innovative models implemented in other countries for service delivery in isolated areas (e.g., distance education in Brazil) could be explored in the Panamanian context.
- **Finding: The Bank has developed a valuable and innovative approach to partnering with indigenous communities that takes into account their special organizational and cultural features and the difficulty of execution.** Through steadfast presence and ongoing dialogue, the Bank has begun developing a relationship of trust that has translated into technical cooperation operations, loans and facilitation of the execution of other loans. Recommendation 2: Systematically document the lessons learned from this experience for use in the Bank's work with indigenous communities in other countries.
- **Finding: Execution challenges remain very significant. Some of these cut across the portfolio and so are difficult to mitigate at the project level.** In particular, the issues of budget allocations and the time for the Office of the Comptroller General (CGR) to perform preaudit work are generalized, affecting not only the IDB but all work executed with public funds. Recommendation 3: In developing a new strategy, redouble efforts to find a general solution to crosscutting challenges and, particularly, promote dialogue and offer necessary technical and financial support to strengthen the CGR's role. The Bank has considerable experience in supporting the strengthening and modernization of supreme audit institutions in the region, which may be offered to the Government of Panama as part of the next strategy (Appendix IV of the Annex, Box 4.1).

- **Finding: Sustainability of interventions is a challenge for the program evaluated and will be an increasing challenge, especially if the Bank intensifies its work in rural areas.** In general, sustainability is a crosscutting concern in the portfolio and relates to low institutional capacity at the respective government agencies. Recommendation 4: Approach sustainability more systematically from the design stage of operations (e.g., infrastructure maintenance and availability of human resources), and, given that the institutional capacity of local counterparts plays an important role, heighten the emphasis on institution-strengthening and management activities, components, or operations. Accordingly, Recommendation 3 of the previous evaluation remains relevant.
- **Finding: In the context characterized primarily by high liquidity and market access, IDB Invest sought to address limited financial competitiveness through operations with nonfinancial additionality.** Although IDB Invest's attempts to support the country strategy objectives did not deliver in many cases, its efforts to add value through innovative interventions have been noteworthy. Recommendation 5: Maintain and expand value-added service offerings for the private sector in Panama. In particular, (i) Leverage the appetite for technical assistance in the financial sector in certain areas to explore products with components aligned to the country's development priorities; and (ii) Look for opportunities to add value in sectors with high development potential for the country, leveraging the IDB Group's reputation.

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