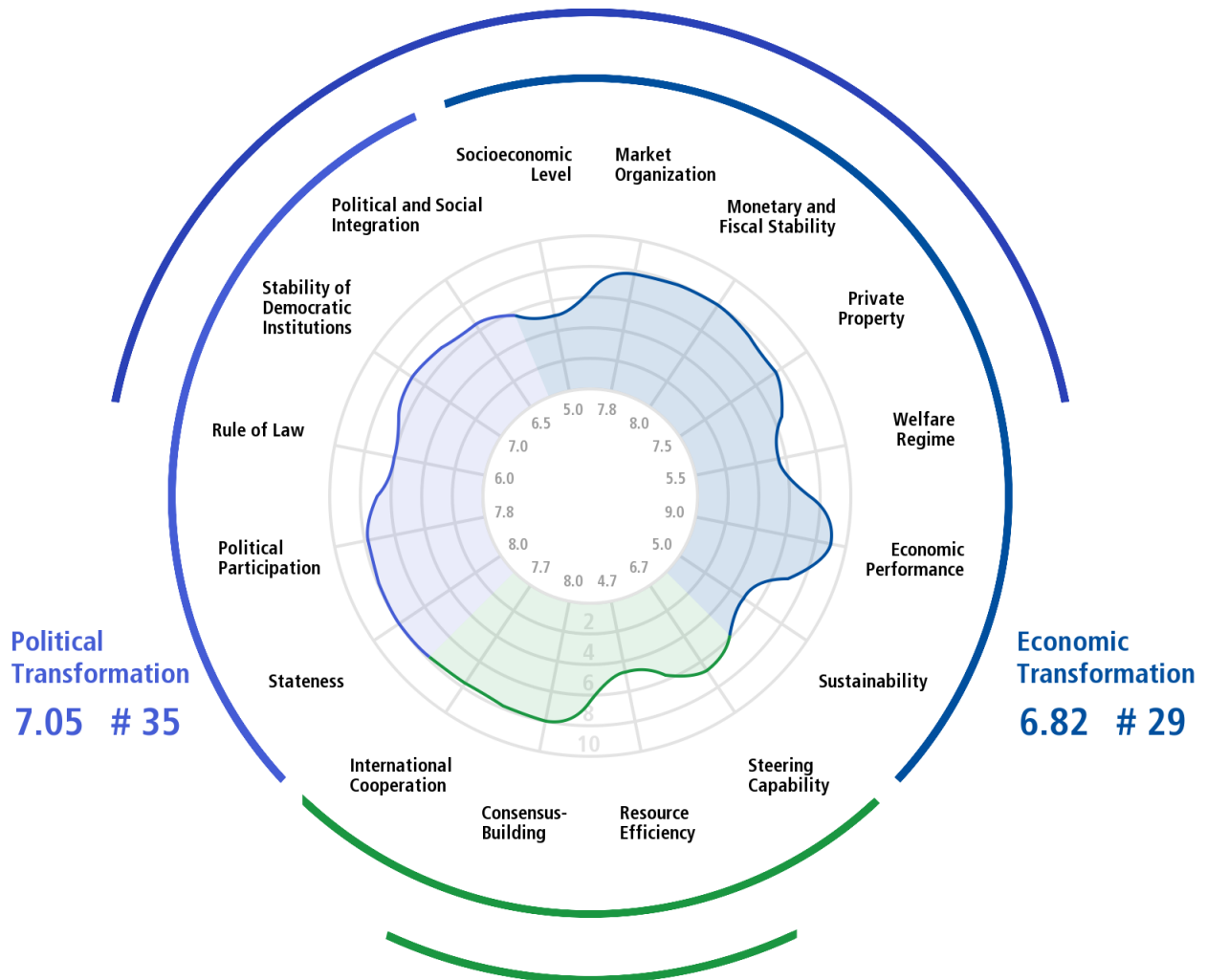


Panama

Status Index

6.94 # 26

on 1-10 scale out of 137



Political Transformation
7.05 # 35

Economic Transformation
6.82 # 29

Governance Index

5.78 # 38

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	4.2	HDI	0.795	GDP p.c., PPP \$	25509
Pop. growth ¹	% p.a.	1.7	HDI rank of 189	67	Gini Index	49.9
Life expectancy	years	78.1	UN Education Index	0.697	Poverty ³	% 6.3
Urban population	%	67.7	Gender inequality ²	0.460	Aid per capita \$	10.1

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Despite Panama's tremendous democratic and economic gains over the past generation, the country is in a few respects still in transition toward full institutionalization of these advances. The July 2014 election of Juan Carlos Varela signaled a return to normal Panamanian politics and toward a more solidified democracy, after the high corruption and even authoritarian leanings of his nonetheless popular predecessor, Ricardo Martinelli. Popular expectations for the new government were that it would strengthen institutions (especially by opening legal proceedings against those accused of corruption), continue infrastructure projects – especially the expansion of the Panama Canal and the second metro line – initiated by previous governments and increase the purchasing power of the most vulnerable segment of the population. Indeed, the beginning of Varela's mandate was marked by investigations and the opening of judicial proceedings against some members of the former Martinelli government. However, the absence of proceedings initiated against persons related to the political party currently in power led observers to believe the investigations were political rather than a true attempt at promoting justice. Corruption and the judiciary's lack of independence continue to be systemic weaknesses.

The international community had been pressuring successive governments to abandon opacity in banking and its taxation system, which made the country a magnet for tax evasion by people from other parts of the world, as well as for money-laundering. Significant progress has been made in automatic exchanges of information about tax evasion and in making tax evasion a crime. These steps have been recognized by the international community and rewarded with the country's removal from several "blacklists."

The growing political influence of the evangelical churches and the most conservative elements of the Catholic Church have coalesced. They have used their collective weight to kill a bill on sex education and to annul a decree creating a department for gender equality in the Ministry of National Education. In addition, there have been a growing number of outbreaks of xenophobia and backlashes against the recent influx of Venezuelans fleeing their country.

History and Characteristics of Transformation

Panama was a province of Colombia until 1903, when a U.S. supported revolt resulted in the proclamation of an independent republic. Since the construction of the Panama Canal, the country's history has been strongly tied to this 50-mile long masterpiece of engineering. The United States managed the canal's transit service and exercised quasi-sovereign control over the Canal Zone, a 35-mile stretch between the two entrances of the waterway (Atlantic and Pacific Oceans). Up to the mid-1930s, Panama was a de facto American protectorate and Panama's economic and political development was strongly tied to the canal and its attendant activities like trade and finance.

Until 1968 an urban economic elite, aligned with the political, economic and military interests of the United States, dominated domestic politics. A period of weak civilian rule ended with a military coup, which brought General Omar Torrijos to power. His most important political achievement was the signing of a new canal treaty, according to which the Canal Zone and the inter-oceanic passage were gradually transferred to Panama. To ease approval of the treaty by the U.S. Congress, Torrijos announced the opening and gradual democratization of the political system. He founded the Democratic Revolutionary Party (PRD) in order to provide the regime with a political platform. After Torrijos' death in a plane crash, General Manuel Noriega took over the command of the National Guard and became the new strongman of the regime. While the army leadership was the real center of power, the PRD government equipped the authoritarian system with a democratic facade. However, the Democratic Alliance of Civic Opposition (ADOC) won the 1989 election, though Noriega retained power by declaring the vote annulled. A U.S. military intervention overthrew the regime later that year and the ADOC's Guillermo Endara became president.

During his term, Endara (1990–1994) made progress in reinvigorating Panama's political institutions after 21 years of military-controlled government. After a constitutional amendment that abolished the armed forces, a new civilian police organization, the Panamanian Public Forces, was charged with national security. In 1994, the reformulated PRD staged a political comeback with Ernesto Pérez Balladares winning the presidential election. President Pérez Balladares implemented an economic reform program that included the privatization of many state-owned companies. Mireya Moscoso, widow of three-time president Arnulfo Arias and the Arnulfista Party candidate, won the 1999 presidential election, becoming the country's first female leader. On December 31, 1999, President Mireya Moscoso presided over the defining event in recent Panamanian history, the handover of the Panama Canal. However, when she left office, her government was widely perceived as corrupt, incompetent and ineffectual.

In the 2004 presidential race, Martín Torrijos, the son of Omar Torrijos and the PRD candidate, won with 47.44% of the vote. During his presidency, the most serious challenges his government had to address were the need to reform the deficit-ridden social security system and the

modernization of the aging Panama Canal, through which modern supertankers and container ships could not pass. In a 2006 referendum, a majority of the voters voted to expand the waterway.

During Torrijos' presidency, Panama experienced an impressive economic upturn, the result of extraordinarily favorable conditions in the world market, which significantly eased governing. Nevertheless, the high popularity ratings of President Martín Torrijos had little impact on the 2009 presidential election campaign of Balbina Herrera, Torrijos' housing minister and the PRD candidate. Internal divisions within the PRD and public perception that Herrera was too far to the left allowed Ricardo Martinelli, a wealthy supermarket magnate, to win the election. Ricardo Martinelli ran as an independent centrist candidate, backed by his small Cambio Democrático (CD) party with support from the Partido Panameñista (PPa). PPa chairman Varela served as vice president and foreign minister in Martinelli's government. Two politicians agreed that in return for the support Martinelli received, Varela would run for president in the 2014 election with the CD's support.

After repeated criticism, Varela and the PPa withdrew their support for Martinelli when he attempted to amend the constitution to allow him to run for re-election in 2014. During Martinelli's presidency, the Panamanian economy achieved the highest growth rate in the Western hemisphere and benefited from substantial increases in foreign direct investment. At the same time, due to Martinelli's autocratic inclinations, the quality of democracy deteriorated considerably, and numerous corruption scandals erupted.

The incumbent president's attempt to rule by proxy for another five years failed in the 2014 elections, as the surprising winner of the presidential race was PPa candidate Juan Carlos Varela with a small 39% of the vote. Nonetheless, Varela's tenure in office has been characterized by the normalization of democracy, grappling with international difficulties associated with the highly revealing Panama Papers, the rise of evangelical Christianity's influence and the implementation of welfare policies.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force is ubiquitous throughout the country and is not significantly challenged by any notable domestic or international political actors. However, the state does have some gaps in its control over the remote, densely forested Darién region abutting the Colombian border. Because of its inaccessibility, drug traffickers and Colombian neo-paramilitary groups have long used the region for nefarious purposes. Colombian criminal groups are suspected of being involved in an emerging illegal mining industry on the Panamanian side of the border.

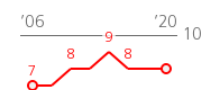
The Panamanian government nonetheless struggles to maintain control and sovereignty over Darién Province because of the drug traffickers, human traffickers in sex slaves and forced laborers as well as arms dealers, who stubbornly persist. The civilian Panamanian Public Forces maintains a presence in the region through its National Border Service called SENAFRONT. Panamanian officials have identified at least four Mexican criminal organizations operating within its borders. Evidence suggests that Mexican drug cartels may be active in the region. In particular, the prevalence of drug-trafficking, which flows through Panama toward the United States, has challenged security forces with regular discoveries of cocaine shipments and clandestine infrastructure transportation features (e.g., a heliport). In 2017, over 72 tons of confiscated drugs were recorded. Organized crime is said to be a main cause of the relatively high homicide rates. According to the Public Security Ministry, Panama recorded a homicide rate of 9.6 per 100,000 inhabitants in 2018, which is nevertheless one of the lowest in recent years.

Additionally, Darién Province has become a frequently used route for illegal migration for a wide variety of people bound for the United States, especially from Cuba and Haiti, but also for South Asians, who use Panama as a conduit to enter the United States. Between 2,000 to 2,500 immigrants enter Panama monthly from the Caribbean, Africa and other regions outside the Americas. To try to avoid detection by Colombian and Panamanian security forces, migrants now have to take more complicated and dangerous routes through the dense jungle separating the two countries.

Question
Score

Monopoly on the
use of force

8



1

There is no notable social or political group that questions the sovereignty or legitimacy of the Panamanian state. A 2017 Vanderbilt University opinion poll of Latin Americans' national pride demonstrated that 91% of Panamanians are proud of this identity.

Article 12 of the Panamanian constitution mentions physical or mental incapacity as a valid reason for denial of citizenship. As a result of Torrijos-led reforms in the 1960s and 1970s, indigenous communities have a degree of autonomy and self-government. They respect the authority of the political system, as long as their right to autonomy is not violated.

Panama's constitution recognizes Roman Catholicism as the dominant, though not official, religion; Article 35 guarantees freedom of worship, but limits this to respect for Christian morality and public order. Nonetheless, the constitution states that Roman Catholicism should be taught in public schools, though parents have the right to exempt their children from religious instruction. According to a 2018 poll conducted by the Pew Research Center, 93% of Panamanians identify as belonging to a denomination of Christianity: 70% of Panamanians are Catholics, 19% are Protestants and 4% have another religious affiliation. Seven percent of Panamanians are unaffiliated and many indigenous and Afro-Panamanian people still practice their traditional religions.

Elements of the Catholic faith affect many aspects of everyday life. The National Assembly is blessed by a priest at the beginning of every annual session. It is quite common to see public officers beginning their workday with prayers. The fastest growing denomination today in Panama is evangelical Protestantism.

Due to the well-known proximity of the President Varela to the Catholic Church, part of civil society is concerned about the intersection of church and state. This has been the case in particular with questioning the five trips the president and his family, accompanied by members of the Cabinet Council, have made since his election by to meet with Pope Francis. The media and civil society actors have also asked questions regarding the discretionary channeling of public resources to the Catholic Church, which receives inordinate amounts of privileged funding, compared to other religions or religiously affiliated groups. In the first two years of President Varela's administration, about \$24 million were awarded, including for church renovation costs, and as donations to the Catholic Church, et cetera, compared to the \$3.8 million that went to the church during the entire previous presidential term. Members of the public and some independent journalists have criticized the state's spending of several tens of millions of dollars for World Youth Day.

Between 2016 and 2018, the Catholic Church, along with evangelical denominations exerted significant pressure on the government, including large protests in 2016 against a draft law on sexual education that was significantly modified later on. Other successes include the cancellation of a pilot education plan; the abrogation of a decree

State identity

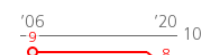
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No interference of religious dogmas

8



1

creating a gender equality department in the Ministry of Education (MEDUCA); the prohibition of the marketing and use of certain textbooks by MEDUCA, in particular for their content in sex education and on discrimination against LGBTI people; and the delay of a legal project to create a child protection system. Some representatives of this religious movement sought office in the 2019 elections. Since 2017, the Supreme Court has been evaluating several demands for same sex marriage, which has provoked protests, official communications from the ecumenical council and resulted in postponement of the ruling.

The presence of the government's administration is widespread throughout the country, but the basic services provided do not enjoy the same level of efficiency in all municipalities. Rural and indigenous areas are particularly affected by this situation.

As of 2017, the World Health Organization reports that 97% of urban and 83% of rural Panamanians had access to improved water sources and 75% of urban and 51% of rural dwellers had improved sanitation. However, the current administration has sought to improve services further in the period of 2015 to 2050 by creating a national water council known as CONAGUA that will develop a water security plan to improve water supply and quality. In addition, the Program Basic Health 100/0 seeks to provide potable water to all Panamanians and eliminate some 300,000 remaining latrines.

Only 22% of Panama's schools have access to the internet. In health, the national infant mortality rate was 14 per 1,000 live births, though the incidence rises to 60.3 per 1,000 in rural areas. Almost one-fifth (19.1%) of Panamanian children experience malnutrition severe enough to produce stunting of growth.

2 | Political Participation

Since the restoration of democracy in 1989 and implementation of universal suffrage, national and local democratic elections have been conducted regularly. Article 136 of the Panamanian constitution requires the authorities to guarantee the freedom and fairness of elections. Article 148 states that Members of the National Assembly, the president, the vice president, national legislators and local representatives will be elected for five-year terms on the same day. Article 142 of the constitution describes the role of the Electoral Tribunal, an autonomous and independent organization, which is ostensibly impartial. This body has supervised five presidential elections. In general, the voting procedures for both national and local authorities are well-defined and standardized, as are the means and procedures for contesting elections. Nonetheless, procedures for other democratic processes, such as referendums, plebiscites, recall votes and elections to a Constitutional Assembly are more nebulous and left to ad hoc decisions by the Electoral Tribunal.

Basic administration

7

'06 _____ '20 10

7

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Free and fair elections

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'06 _____ '20 10

10 9 8

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However, the lack of oversight and controls, as well as the importance of private funding in campaigns, means elections cannot be considered completely fair. The 2014 presidential elections were the costliest in the Americas on a per capita basis, to the extent that the Electoral Observation Mission of the Organization of American States received complaints from opposition candidates about campaign spending and the use of public funds, executive branch interference in election campaigns, and political patronage that had reached unprecedented levels. Particularly problematic is the fact that there were no limits to the amount of private financing or transparency laws regarding those donations until the 2019 elections. Private donations created very unequal access to the media. The last electoral reforms of 2017 aimed to establish more equality and transparency in electoral competition. In order to do so, the reforms limited the amount of money each candidate could spend and the amount each donor could donate. Additionally, every electoral campaign is required to publish their donors' names and donation amounts. Because of excessive spending, the election campaign has also been limited to two months.

As several national experts have noted, the electoral system for the election of deputies to the National Assembly historically has been one of the most disproportional in Latin America, and thus to a certain degree unfair and exclusionary.

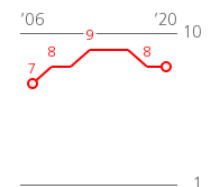
Generally, elected political representatives in Panama have the effective power to govern. After the abolition of the armed forces by constitutional amendment in 1994, the most important potential veto power disappeared. Nonetheless, there remain powerful stakeholders who wield considerable political influence over the country's politics.

The most powerful are the economic elite, whose influence is found in the financial and service sectors, typically revolving around the canal. These elites, called "rabiblanco" (white tails), have for generations exercised inordinate influence upon the country's politics, even handpicking most of the presidents. The practice of the elites' unbridled funding of campaigns presents a major limitation to the independence of political power and, not surprisingly, allows undue influence by these individuals and their economic interests.

The publication of the "Panama Papers" revealed the extent of corruption and collusion in Panama's financial and commercial systems. These documents demonstrated how the Panamanian law firm Mossack Fonseca set up more than 200,000 shell corporations, many of them used by corrupt politicians, criminals and tax evaders around the world. The main partner at the Mossack Fonseca firm, Ramón Fonseca Mora, was an official adviser to Juan Carlos Varela until the scandal materialized. Several members of the government were partners in the primary law firms that set up shell corporations. Despite the damning revelations of corruption, the Panamanian government has yet to commit to government transparency, which

Effective power to govern

8



strongly implies that the financial sector continues to directly influence the government.

The various denominations of Christian churches are another influential actor, particularly at the local level. During 2016, by exerting significant pressure on the National Assembly, especially with the convening in July 2016 of a remarkably large march for the morals of the country, the religious sector, in which evangelical churches played an especially important role. Political dialog to pass a law that would institute compulsory sex education in schools ended in 2017. Despite high rates of early pregnancy and sexually transmitted diseases and the approval of the law by a majority of Panamanians, the bill has been regularly postponed because of pressure from the churches. This has also been the case with civic education textbooks, a bill to create a child protection system and the creation of a gender equality office in the Ministry of Education.

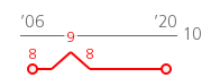
Articles 38 and 39 of the Panamanian constitution guarantee freedom of association and assembly. The government generally respects these rights and individuals and groups can assemble freely. Peaceful demonstrations do occur, but protests that block thoroughfares often result in arrests and clashes with the police.

Articles 68 through 79 provide significant guarantees to workers and labor unions. Nonetheless, there exist noteworthy restrictions on certain types of associations, such as the minimum number of workers needed to form a union, the number of union organizations allowed in an institution or company, and interference in the internal affairs of unions. In addition, there was no freedom of association in certain sectors of the economy, such as the public sector until very recently, when teachers won the right to unionize. However, because of the Panama Canal's centrality to the economy, canal workers cannot legally strike.

Recognition of the legal status of civil society organizations is regulated by Executive Decree 524 from 2005. It established the Ministry of Government's requirements for granting legal personhood and created a registry of civil society organizations overseen by the Ministry of Government, a process with fairly restrictive requirements, especially the need for a lawyer. Appealing the process is an expensive and time-consuming undertaking – usually lasting between three and five months, but may last for years. This was particularly the case for the country's first LGBTI association, since Article 39 of the constitution forbids the creation of “companies, associations or foundations” that are contrary to moral or legal order. In the past, this was used to refuse registration to LGBTI organizations.

Association /
assembly rights

8



1

Articles 37 through 41 of the constitution establish the rights to freedom of expression, freedom of assembly and freedom of association. Nonetheless, these rights are not always respected in practice. The latter also holds true for Article 37 of the constitution, which prohibits any form of prior censorship.

In its 2019 report, Reporters Without Borders ranked Panama 79 out of 180 countries in terms of freedom of the press, 12 places higher than 2018 but indicating serious press freedom problems nonetheless. At the heart of the matter is that the constitutional guarantee of freedom of the press is not consistently upheld. Libel and slander are both civil and criminal offenses, and cases are routinely filed against journalists. As a result, independent journalists and outlets regularly face editorial pressure from the government. Still, the situation has improved significantly in comparison to the previous administration: Panama was ranked 111th in 2013.

Since 2008, imprisonment has been excluded as a punishment for libel and slander against high-ranking public officials. Prosecutions occur regularly and often take years to move through the legal system. By contrast to the severity of Martinelli's government, Varela campaigned on a platform of increased openness and press access. Journalists in Panama also remain comparatively safe in relation to reporters in neighboring countries. Despite the charged atmosphere of the election campaign in 2014, there were no documented instances of violence against journalists.

The 2017 Americas Barometer report showed weak attachment among Panama's population to freedom of expression: only 49% of the respondents supported freedom of expression, a four-point decline since 2015, possibly because one of the biggest challenges in terms of freedom of expression in Panama is the interpretation and dishonest use of this freedom by the economic elite, especially owners of media outlets. They invoke freedom of expression to avoid giving electoral candidates equal access, which would result in more competitive and fair elections, or to avoid the prohibition against misogynistic discourse in the media. Both reforms have been slowed by the media using arguments about freedom of speech and the right to information.

Despite the existence of transparency legislation, access to public information remains limited. Government officials sometimes refuse to release information, especially in cases involving corruption. Updates to official websites are often behind schedule, when undertaken at all. However, in 2014, the Supreme Court ruled in favor of La Prensa newspaper regarding several requests for information from government agencies.

Freedom of
expression

7



1

3 | Rule of Law

The separation of powers is described in the Panamanian constitution in Titles V, VI and VII. However, in practice the executive branch holds significant authority over the legislature and the judiciary. The World Justice Project's 2018 Rule of Law Index ranks Panama below the Latin American average, in the bottom quintile in most indicators with regard to the "limited government powers" variable, revealing a weak separation of powers.

Public opinion and communication medias have consistently expressed concern regarding excessive presidentialism and interference in the work of the legislature and the judiciary. However, the situation of the divided government (2017–2019) has shown otherwise. Two seats on the Supreme Court have remained vacant since January 2018 because the National Assembly rejected the executive's appointment. The executive had difficulties obtaining the necessary votes to support its budget for 2019. In his last address to the nation, President Varela announced the possibility of a "fifth ballot" in the 2019 parliamentary elections, as a consultation with the Panamanian people on the nature of necessary constitutional reform. However, this required passage by the National Assembly, which never voted on it.

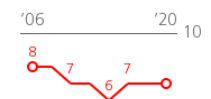
The president has the right to veto bills passed by the legislature, which right was used on several occasions during the period under review. However, the constitution allows the legislature to vote again on vetoed bills, under the constitutional control of the Supreme Court. This solution has been used several times.

Article 202 of the constitution provides for an independent judiciary, but in reality, the different branches of the judiciary are typically subservient to the executive and legislature. Panama's judicial system is plagued by endemic corruption and inefficiencies. In 2017, public disagreements between the attorney general's office and judges over rulings that impeded major corruption cases raised doubts about whether such cases would be heard impartially. The World Justice Project's 2019 Rule of Law Index ranked Panama 110 out of 126 countries for criminal justice and 78th with respect to civil justice – both significantly plagued by corruption and improper government interference.

In September 2016, putting an end to a delay of 14 years, Panama's criminal justice system finally implemented an accusatorial criminal justice system featuring oral trials and adversarial proceedings. This change was deemed necessary to clean up the justice system's tarnished reputation. Implementation has been tarnished by a lack of financial resources. The consequent delay means that appointment of judges may remain subject to political manipulation. In order to change this, a 2018 law imposed a new term of judicial service, though no budget has been assigned for 2019.

Separation of powers

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Independent judiciary

5

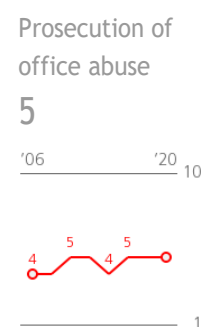


Transparency International has reported that there is political interference in appointing judges, particularly to the Supreme Court. There is no independent body to investigate corrupt acts by public officials. It is problematic that, by law only Supreme Court judges can investigate corrupt acts of National Assembly members and vice versa. Nonetheless, several judges have been convicted of corruption, among them even the former president of the Supreme Court, Alejandro Moncada Luna, who was sentenced to a five-year prison sentence in March 2015 (but given house arrest in March 2018). According to a 2017 public opinion survey by the Panamanian firm Dichter and Neira, only 27% of citizens believe that the Supreme Court acts independently, a decline of two percentage points since 2015.

Despite prosecution and anti-corruption improvements in recent years, Panama still has serious difficulties prosecuting and punishing corrupt officials. In the World Justice Project Rule of Law Index 2019, Panama scores 0.32 on a scale of 0 to 1 for “sanctions for official misconduct,” which is significantly lower than the regional average and high middle-income countries. Panama ranks 84 (out of 126 countries) on the absence of corruption.

Under President Juan Carlos Varela, a significant number of former high-ranking officials were prosecuted – policemen, judges, deputy ministers, ministers and even former President Martinelli. Allegations of corruption against members of the Martinelli government were repeatedly the subject of media coverage. By August 2015, eight former cabinet members of the Martinelli administration had been arrested on corruption charges. After extending the investigation into corruption allegations against Martinelli, in December 2015, the Supreme Court issued an arrest warrant for the former head of state in relation to the wiretapping case. Panama issued an extradition request in September 2016 to the United States. Martinelli was taken into custody by United States authorities and extradited in June 2018. Similarly, Martinelli’s sons were accused by Panamanian prosecutors in November 2018 of receiving \$49 million from Brazilian construction firm Odebrecht while their father was president. Last year, Odebrecht agreed to pay \$220 million in fines to Panama and to cooperate with probes into bribes paid to Panamanian officials. Martinelli’s sons were arrested in Miami, awaiting deportation to Panama for overstaying their visas.

However, sections of the population related to Martinelli’s Cambio Democrático Party are accusing the current government of carrying out political persecution of its leaders, arguing that the current administration has not investigated members of the Martinelli administration with connections to the Panameñista Party (which was part of Martinelli’s coalition government and is now the governing party).



Civil rights are guaranteed by Articles 17 through 55 of the constitution. Panama has ratified most human rights conventions at the regional and international levels. However, many civil rights continue to be regularly circumvented and violated in a variety of ways. The ombudsperson's office is among the most underfunded public institutions.

Article 19 of the constitution prohibits discrimination. In February 2018, a law against acts of discrimination took effect, establishing the obligation of every employer, public institution and educational center to adopt internal policies to prevent, avoid and penalize bullying behaviors, sexual and/or moral harassment, racism and sexism.

However, discrimination persists against Afro-Panamanians, indigenous people, women and LGBTI people. Afro-Panamanians are markedly absent from positions of political and economic power. Mainstream political and economic elites continue to ignore the acute economic and social problems that affect Afro-Panamanian populations and the areas where they constitute the majority. The Committee on the Rights of the Child expressed worry regarding discrimination against Afro-Panamanian children in the media and by public authorities in poor neighborhoods. Not coincidentally, many Afro-Panamanians remain clustered in the economically depressed province of Colón and the poor neighborhoods of Panama City. Indigenous communities staged protests in 2017 to call attention to their grievances, including poor government services and inadequate consultations on development projects in their regions.

Panama was the last Spanish-speaking country in the Americas to overturn its anti-sodomy law, decriminalizing homosexuality in July 2008. Nonetheless, discrimination against LGBTI people persists. For example, Article 133 of the Disciplinary Regulations of the National Police states that homosexuality is a serious offense that can warrant suspension of a public employee.

According to World Prison Brief data, in 2018, Panama had a rather high prison population rate of 395 persons per 100,000 of national population and – though this has decreased over the last several years – a high rate of pre-trial detainees at 47.3% of the prison population. This indicates a low level of respect for the presumption of innocence and a lack of access to effective justice. Additionally, there are high levels of overcrowding in Panamanian prisons –at 111.6% of capacity in 2018. Perhaps not coincidentally, violence in Panamanian prisons continues to be reported. In 2015, a new jail was inaugurated in a National Air and Naval Service facility, under the Ministry of Security and not the government ministry legally responsible for prisons. It provides neither adequate detention conditions nor respect for the basic human rights of persons deprived of liberty, giving rise to significant international criticism, including a resolution from the Inter-American Commission on Human Rights.

Civil rights

7



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4 | Stability of Democratic Institutions

Democratic institutions in Panama exist and perform despite certain systemic weaknesses. The judiciary has problems with efficiency, independence and transparency. Cases of buying and selling rulings are regularly denounced, including at the highest level of the judiciary.

Parliament has significant difficulties in resolving political controversy and proceeding to parliamentary debates. Most agreements and negotiations on bills and appointments take place in parallel with regular parliamentary procedure, which renders these processes not very transparent, in addition to making dissident positions invisible.

One of the most persistent difficulties that Panama's democracy suffers from is transparency. Panamanian law provides mechanisms for public access to government information, but the government often does not operate with transparency. The National Authority for Transparency and Access to Public Information (ANTAI) reported in September 2017 that over 50% of state institutions do not act in accordance with a 2002 transparency law. Journalists also report difficulties accessing public information.

Democracy and its institutions and rules are accepted in principle by the relevant actors in Panama, however, without agreeing on how to improve them. For example, there have been persistent demands from civil society and some political groups for the election of a constituent assembly and the drafting of a new constitution. In fact, these were included in the government plan of the Panameñista Party during the campaign that led to the election of Juan Carlos Varela to the presidency. The plan has yielded no concrete outcomes so far.

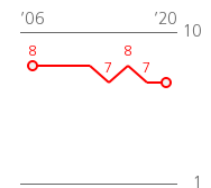
The endless series of reports on corruption in the government and the judiciary inevitably weakens the prestige of the democratic regime. In recent years, reports of corruption have led to worrying repeated statements in the media regarding the "need to close down the legislature."

5 | Political and Social Integration

Panama's party system is comprised of both long-standing and new political parties. Panamanian law requires new political parties to meet strict membership and organizational requirements to gain official recognition and participate in national elections. The law also requires that political parties obtain 2% of the total votes cast to maintain their legal standing. Electoral reforms have required political parties to democratize their internal structures and operations.

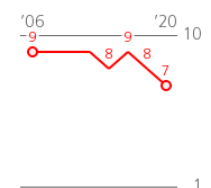
Performance of democratic institutions

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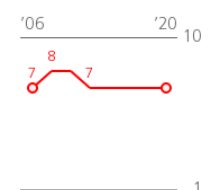
Commitment to democratic institutions

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Party system

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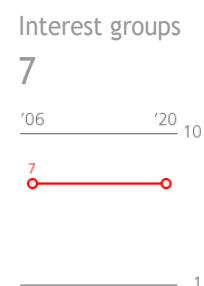
Panama's party system is composed of seven parties, but only CD, PRD and Partido Panameñista are major competitors. The longevity of the parties may seem to suggest that the party system has strong roots in civil society, just like the unusual fact that almost half of citizens are registered as members of a political party. However, membership to these organizations is essentially clientelistic. The consequences of such widespread and expected patronage and clientelism are directly related to the quality of the Panama's democratic practices. Panama has been described by the Inter-American Development Bank (IDB) as a "clientelistic bureaucracy," with consequences such as the de-ideologization of parties and inefficient provision of public services to citizens.

The party system has been moderately pluralistic since the 1994 elections. In this crucial period after the fall of the Noriega dictatorship, a two-party system developed with two major coalitions led by the Arnulfista Party (now Panameñista Party) and the PRD. However, over time, other political parties emerged. Finally, in the 2009 presidential elections the Cambio Democrático Party ended two-party dominance. This produced greater uncertainty during the 2004 presidential elections compared to those in 1999, and likewise in the 2009 elections compared to those in 2004 (the Pedersen Index, a measure of election volatility, in both elections was 43, one of the highest in the region). The 2014 elections confirmed the new existence of a three-way competitive arena.

There is no real ideological polarization in the Panamanian party system. The major existing parties are on the right of the ideological spectrum. The absence of leftist parties was a system abnormality, until the registration of the Frente Amplio por la Democracia in the run-up to the 2014 elections. Even though almost one-third of the population defines itself as leftist, according to polls, the Frente Amplio por la Democracia does not seem to be able to draw enough support. Indeed, the party lost its legal recognition in 2014 because it fell far short of the electoral threshold (4% of national votes); this was repeated in the 2019 elections, (missing the 2% threshold).

Panama occupies a unique position in Central America as a service-oriented state, rather than an export-oriented country. This is characterized by the Panama Canal, the Colón Free Trade Zone, the robust financial sector, and the offshore banking industry. Consequently, Panama's most powerful interest groups have come from private enterprise, since its founding in 1903, and, occasionally, the relatively small labor unions. The economic structure marginalizes labor and environmental lobbies, and workers' rights, particularly in export processing zones (EPZs). For example, there is no right to create unions or to strike in EPZs. Panama's laws regulating the zones do not include arbitration or labor dispute settlement guidelines.

The business organizations – the Panamanian Association of Business Executives (APEDE), the National Council of Private Enterprise (CONEP) and the Chamber of Commerce Panama – are well-organized, control the major media outlets, and contribute generously to political campaigns. These contributions give them



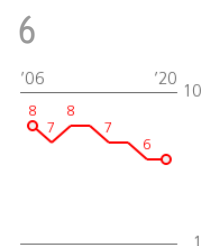
privileged access to representatives in policy decision-making, who typically act in their interests. Another influential group are the various Christian denominations, traditionally dominated by the Catholic Church, but in recent decades has started sharing influence with growing numbers of Panamanian Protestants, especially Evangelicals.

Civil society organizations are very fragmented and lack economic resources. They are partly linked to the most influential actors mentioned above, which allows for dialog and cooperation to a certain extent. Some critical groups operate in opposition to these groups. In rural areas in the far west and east of the country, indigenous and environmental movements have become more visible as political actors, through significant mobilizations in opposition to mining and hydroelectric projects in recent years. Most recently, the Embera and Wounaan communities have staged protests against the government over land title disputes. In general, however, the social interests of the poorest and most vulnerable groups, such as small-scale farmers, workers in the informal sector and ethnic minorities, are poorly represented in the political system.

For several years, survey data indicate a worrying trend in the public opinion of Panamanians regarding their country's political system. According to the 2018 Latinobarómetro survey, support for democracy has plummeted over the years, from 64% in 2009 to just 42% in 2018. Only 54% declare that democracy is preferable to other forms of government, the fourth lowest percentage in the region, suggesting a significant challenge to democracy in the country. While 34% of the population is indifferent to regime type, 14% are willing to accept an authoritarian government under certain circumstances, such as solving pressing national problems. These figures suggest broad dissatisfaction with the results of Panamanian democracy yet a begrudging acceptance of an imperfect situation. At only 21%, satisfaction with democracy is below the regional average, and 48% believe the country's democracy has big problems.

Approval of democratic institutions is also low and slightly below the regional averages. In 2018, the government enjoyed 16% confidence, the judiciary 21%, the National Assembly 26%, the electoral authority 25% and political parties 11%. These figures may indicate that the low adherence to democracy in Panama originates primarily in the poor performance of the political system, and not in a fundamental rejection of democratic rules.

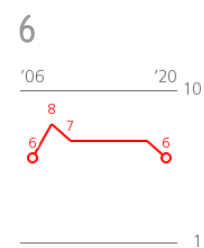
Approval of
democracy



Simply put, social capital is not at all well developed in Panama. Latinobarómetro 2018 survey shows that interpersonal trust is exceedingly low, though close to the regional average. A mere 12% of respondents believe that people can be trusted. Of those surveyed, 75.4% have never contacted an NGO, association, union or church for help in solving problems affecting their community.

However, because of poor social policies, family networks remain fundamental in case of illness, old age or unemployment. Civil society organizations remain weak in terms of organization and ability to advocate effectively. However, as new grassroots organizations of various formal organizational capacity have emerged in recent years, they have advanced progressive agendas and are increasingly visible in the public realm.

Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

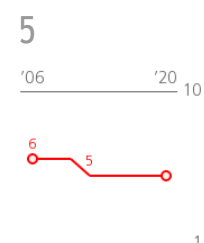
Panama is a country of gross contradictions in terms of poverty and inequality. The 2017 World Bank report on Panama classifies it as an upper middle-income country with a Gross National Income of \$20,460 per capita PPP and high human development, with an index of 0.789, an increase of 19.8% since 1990. This places it 66th worldwide and fifth regionally for human development (a decline of six ranks globally and one regionally). Regardless of minute setbacks, Panama has made impressive progress in reducing poverty in recent years. Economic growth and public transfers have helped to reduce poverty substantially.

Nonetheless, examining GNI per capita rank minus HDI rank, Panama has declined four spots in the world ranking. Panama ranks 109 out of 189 countries in the Gender Inequality Index. Maternal mortality is 94 per 100,000 births, the second highest in Central America (behind Nicaragua). In the 2018 Failed States Index Fund for Peace, Panama classified as a stable state, at 136 out of 178 countries, which is a slight improvement (+1.2) over 2017. Panama merited the worst rating in that group in terms of “uneven economic development,” comparable in this dimension to countries classified as “Very High Concern.” Panama’s Gini index for 2018 was 0.504, which is the highest in Central America and the fifth highest in the region behind Colombia, Honduras, Guatemala and Brazil.

In addition, poverty remains stubbornly high. According to the United Nation’s Millennium Development Goals database, 18.74% of the population lives on less than \$4 per day, of which almost 75% live in rural areas. This situation is most acute for Panama’s indigenous people. According to the World Bank, an average of 84% of

Question Score

Socioeconomic barriers



indigenous live in poverty, with the incidence of poverty reaching 96% in one group. Three-quarters of indigenous workers work in the informal sector. Of indigenous people living in urban areas, 38% quit primary school before completion.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	54091.7	57957.6	62283.8	65055.1
GDP growth	%	5.7	5.0	5.3	3.7
Inflation (CPI)	%	0.1	0.7	0.9	0.8
Unemployment	%	3.0	3.3	3.9	3.9
Foreign direct investment	% of GDP	9.5	9.6	7.7	10.1
Export growth	%	0.9	-3.9	5.4	-
Import growth	%	-0.1	-5.5	5.3	-
Current account balance	\$ M	-4848.4	-4633.9	-4940.7	-5066.8
Public debt	% of GDP	37.4	37.3	37.5	39.5
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.3	11.0	11.0	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	4.2	4.8	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.0	0.0	0.0	0.0

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Many articles in the Panamanian constitution (e.g., Articles 126 and 295) guarantee elements of a free market and economic competition. Article 298 states broadly that “the state shall ensure the freedom of economic activity and free competition in the markets.” However, the rules for market competition are not necessarily consistent or uniform for all participants in Panama’s economy. For example, Article 293’s nationalist character stipulates that only born or naturalized Panamanians may engage in retail trade. However, given the importance of offshore companies to the country, an exception is made for “juridical persons” to do so as well.

According to the Doing Business 2019 report, Panama ranks 48 out of 190 countries in the starting a business category. It takes five procedures, six days and costs 5.4% of per capita income to start a business. The Canadian Fraser Institute in its 2018 Human Freedom Index ranked Panama 46 out of 159 in its Index of Economic Freedom. Despite Panama’s relatively good showing, there exist critical systemic shortcomings that warrant attention when considering doing business in the country. According to advice from the U.S. Embassy in Panama for potential investors from the United States, poor rule of law, a lack of judicial independence, a shortage of skilled workers, a high level of corruption and poorly staffed government institutions all add risk and complications to doing business. Panama also suffers from a negative international reputation in areas such as tax transparency, money-laundering and illicit trade. Despite significant improvements in recent years, Panama has not yet done enough to satisfy multilateral bodies examining tax transparency and money-laundering. Like any high-volume trading hub, and with its strategic location, it also faces issues with illicit trade and contraband.

Because of its open economy, Panama has few barriers to market access. The World Bank’s “Ease of Doing Business” ranks Panama high for starting a business, acquiring electricity, registering property, obtaining credit and trading across borders. However, Panama could improve in the ease of paying taxes, protecting investors and enforcing contracts. There are no formal restrictions on capital flows or discrimination between foreign and domestic investment. In principle, there is no discrimination between enterprises.

Panama’s economy has been dollarized since 1904, which allows the country to benefit from a convertible currency and experience virtually no risk of devaluation or abrupt changes in monetary value. Therefore, in order to face an inflationary spiral and the Panamanian population’s worries over the increasing cost of living (especially when compared to its Central American neighbors), the Varela government introduced price controls for 22 basic food products in 2014. This measure has been extended seven times.

Market
organization

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Panama is protectionist in certain sectors: investment in coastal lands, fishing in Panamanian waters, retail trade, and radio broadcasting. In international air transport, cabotage traffic is reserved for companies in which a minimum of 60% of shares is held by Panamanians. However, criticism has been levied that this legislation has not been respected in recent years. There are also certain limitations on the nationalities of the workforce, since foreigners can only comprise 10% to 15% of the payroll when specialized personnel are employed.

About 40% of people work in the informal economy, especially as domestic workers, agriculture workers and employees of small-sized companies.

The first anti-monopoly law was enacted in 1996 during the liberalization of the Panamanian economy under President Ernesto Pérez Balladares. According to the OECD, the current law, which has been in force since 2007, includes many aspects of international best practice in the field of competition.

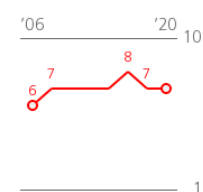
Since modified, the 1996 law created Authority of Consumer Protection and Competition Defense (ACODECO), which has managed to play a successful role despite budgetary limits on its support. It controls cases of mergers, abuses of dominant positions, et cetera. ACODECO has the authority to approve or block mergers, changes in company control and acquisition of assets. It may also block a merger while in progress or after it has been completed, if that is considered against Law No. 45 of October 31, 2007, governing antitrust and consumer protection. Panama's current competition law is in all relevant aspects consistent with many international best practices in competition.

In the most recent period, ACODECO initiated investigations against domestic companies suspected of having divided public markets supplying food and domestic onion producers for agreeing to lower prices to meet agricultural imports. Grouping in the same institution of the defense of the interests of the consumer and free competition may have a certain bias that disadvantages consumers.

The state retains some monopolies, such as gambling through contracts with domestic and foreign companies, and the post and telegraph. It also has a de facto monopoly on electricity transmission. However, some economic actors, because of their connections with the government, have near-monopoly control over certain sectors. In 2018, for example, Copa Airlines commanded 16 of the 20 busiest routes out of Tocumen International Airport.

Competition policy

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Panama's economy is founded upon free trade. In its 2018 report on the state of economic freedoms in the world, the Fraser Institute ranked Panama third out of 162 countries in terms of freedom to trade internationally, while the 2019 Doing Business Report ranked Panama 57 out of 190 countries for "trading across borders." Panama made important amendments to its legal frameworks to provide creditors with additional safeguards and enable their participation in important decisions that affect their interests.

After 1989, the Panamanian economy was liberalized and largely privatized. Panama has been a member of the World Trade Organization since 1997 and, since then, has signed bilateral free trade agreements with the United States, Canada, and most states in the region, as well as with Asian countries (China) and the European Free Trade Association. In order to attract foreign investment, Panama maintains certain tax-free and duty-free zones, as the Colón Free Trade Zone, where two-thirds of the country's foreign trade operates. Additionally, several other special economic zones have been developed in the former Panama Canal Zone, such as Panama Pacifico, the City of Knowledge and others. The Agency for Investment Attraction and Export Promotion of Panama (PROINVEEX) was created in 2010 to increase FDI.

Panama's legislation on investment does not discriminate between foreign and national investors and the companies in which they participate. The repatriation of capital, dividends and interest is free. Except in certain activities, such as banks and insurance, foreign investment does not require prior permission. The average applied tariff has progressively declined to an average of 5.4%, while the simple average of most favored nation applied tariff was 6.8% in 2017. In April 2015, because of the major difficulties in the agricultural sector, the government introduced new tariffs on food goods. Nonetheless, except for a few agricultural products, the overall tariff average is the lowest in the region. As of June 30, 2018, according to the World Trade Organization, Panama had 20 non-tariff measures in force.

The Panamanian banking sector is a fundamental pillar of the economy, accounting for 8% of GDP and 24,000 direct jobs. In addition, it is one of the sectors with higher growth each year (5% in 2017). In 2018, 88 banks were registered in the country. There are no restrictions on the establishment of foreign banks. The banking system is considered solid, at least with regard to bank capital to assets ratio (12.5% in 2017) and non-performing loans (3.1%). According to a 2018 World Bank report, banks' existing capital buffers appear broadly sufficient to absorb contagion from the failure of individual banks in the system without the need for sizable capital injections, though caution would be warranted if economic or financial shocks that simultaneously affected all banks heightened systemic risks associated with banks' interconnections.

However, a number of recent scandals (the Panama Papers and the Waked money-laundering case) have placed Panama in the international focus as a money-laundering center and destination for tax evasion. Panama was listed on the Financial

Liberalization of foreign trade

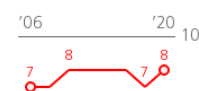
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Banking system

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Action Task Force (FATF) gray list until February 2016, from which it was withdrawn only after making several commitments, such as submitting to the automatic exchange of financial information in October 2015. However, Panama reneged on the commitment and the Panama Papers scandal highlighted the country's weakness in terms of financial transparency.

Since these scandals, Panama has taken important measures to meet international standards and to remove the country from the list of tax havens. The most important are without doubt finally conceding to the automatic exchange of information for fiscal purposes (thanks to an executive decree in June 2018) and a law from January 2019 that makes tax evasion a crime. An IMF report acknowledges progress concerning banking transparency, being on par with peers in terms of the technical compliance with the FATF's standards, but the country is still be exposed to Money-Laundering/Financing Terrorism (ML/FT) risks in several critical areas and needs to enhance the effectiveness of its Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) system. Because of recent improvements, in July 2018, Standard and Poor's improved the banking industry's risk from stable to positive. In addition, Panama is no longer on the European Union's "blacklist."

In October 2018, the OECD published a "blacklist" of countries in which policies are a hurdle to global transparency, including Panama because of its politics with investors' visas, which were a sign that Panama still has some work to do to fully comply with international standards.

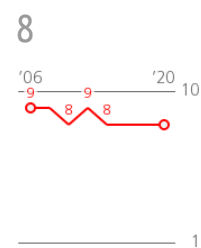
8 | Monetary and fiscal stability

Since its introduction in 1904, Panama's official currency has been the balboa, pegged to the United States dollar, which is concurrently legal tender, at a one-to-one exchange rate. Panama does not print its own paper currency, only mints coins up to the value of one balboa. Instead, the U.S. dollar is used.

Accordingly, Panama does not have the capacity to enact its own sovereign monetary policy and is therefore at the mercy of U.S. monetary policy for inflation control. Likewise, Panama does not maintain a fully functioning, independent central bank. Instead, the National Bank of Panama is a government-owned bank that fulfills certain central bank functions, such as serving as the state and the regulatory bank while, at the same time, offering personal banking and business banking services for small and medium-sized enterprises and corporate clients.

Inflation temporarily reached an all-time high of nearly 10% in September 2008. Since 2015, inflation has remained below 2%, reaching 0.7% in 2016 and 0.9% in 2017. In order to counter the rapidly rising prices of basic necessities, the incoming Varela administration enacted emergency price controls in July 2014. The measure to control the prices of 22 products of the basic basket was subsequently extended

Monetary stability



until the end of President Varela’s administration. The cost of the basic food basket in Panama decreased 3% in January 2019, compared to two years earlier. However, challenges to continued expansion include the soaring public budget deficit and speculation in some parts of the economy, such as the real estate sector, making the cost of living a central concern among the public.

Panamanian macroeconomic indicators have been positive in recent years, largely due to public investments in large infrastructure projects such as expansion of the Panama Canal and the Tocumen International Airport, the construction of two metro lines in Panama City (first metro system in Central America) and a third bridge over the canal. The largest public works project was the \$17-billion expansion of the Panama Canal, which added a third set of locks and widened the canal to allow the transit of “Post-Panamax” ships.

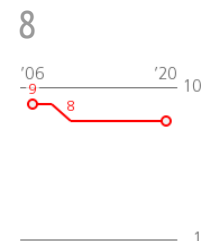
Although GDP growth remains high (5.4% in 2016 and 2017, and 3.7% in 2018), recent years have seen a slow in growth. This deceleration has led to a slight increase in public debt, up to 39.2% of GDP in 2018. Due to Panama’s focus on services and the weakness of the primary and secondary sectors, Panama depends heavily on imports of primary and secondary goods. Panama’s current account deficit accounted for 4.8% of the country’s nominal GDP in June 2018, compared to a 6.8% deficit in the previous quarter.

The budget gap has been moderate in recent years with a deficit of 2.0% in 2018, partly thanks to the efficiency of tax revenue collection. In 2018, tax revenues were the highest of the last seven years, having continuously increased for over two decades. However, this is mainly due to financial transfers from the canal and mixed companies, and tax collection was not as high as had been budgeted. In September 2017, Moody’s gave Panama a “positive” outlook and assigned the country a Baa2 credit rating, noting that, despite the country’s good economic performance, there was a slight deterioration in fiscal indicators, even though the government has followed a fiscal consolidation strategy since 2014.

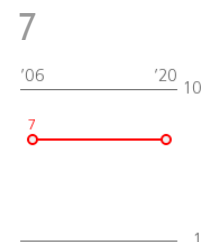
9 | Private Property

Private property rights are generally protected by law. However, the application of legal norms that protect property rights is inefficient and often subject to corruption. In 2018, Panama ranked 53rd globally (up three places from 2016) and fifth in the region in the International Property Rights Index. It scored especially high in terms of access to credit, for which it ranks as a regional leader. Additionally, Panama is well-positioned in terms of protection of intellectual property rights, political stability and the protection of physical property. However, other factors contribute to a lower score, especially the country’s low judicial independence, rated at 110 out of 128 countries.

Fiscal stability



Property rights



The 2019 Doing Business Report ranked Panama 81 out of 190 countries with regard to registering property. It takes seven procedures over 22.5 days and costs 2.4% of the property value, which is higher than the regional average. In addition, as the Heritage Foundation notes, the majority of land in Panama is not titled, and laws to address the lack of titled land have proved ineffective because of institutional deficiencies.

A controversial issue is the collective ownership of indigenous territories – comarcas – a legal regime different from that in the rest of the country in which collective property overrules private property. Despite an Inter-American Court of Human Rights ruling, Panama’s government continues to disrespect these collective property rights.

Private companies are considered the base of the economy and regulatory framework facilitates their creation. Panama’s regime is uniquely quick. Only six days, five procedures, and about \$350 are required to register a company, which makes Panama the easiest country in the region when it comes to registering new firms, practically on par with Chile (where, on average, it takes half a day less but two more procedures are required). There are some state-owned and mixed capital companies, especially the large Panama Canal Authority and the Colón Free Zone – the most important of its kind in the world after Hong Kong –, which are also fundamental to the country’s economic model. On several occasions, the user association of the Colón Free Zone has requested its privatization. The Panama Canal Authority has continuously improved its service since taking over responsibility for the canal in 2000, even if there are several accusations of conflicts of interest among members of the board of directors.

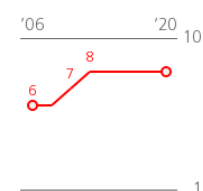
10 | Welfare Regime

Welfare institutions exist but do not cover all the social risks created by a capitalist economy nor extend to all segments of the population. In 2018, the IMF recommended that Panama generate more inclusive growth, noting that poverty and inequality, although declining, remain fairly high compared with peer countries in the region. Of particular concern was the need to reduce inequality and poverty in indigenous areas.

Health care and pensions are assumed by a social security fund (Caja de Seguro Social, CSS), a public corporation charged with managing various social services and entitlement programs. However, the system is not universal and is conditional upon social contributions. In 2016, approximately 1.5 million people were enrolled in the CSS and more than 3.2 million were entitled to use the CSS services, leaving 25% of the population uncovered. In addition, the efficiency of the CSS is regularly questioned due to repeated shortages of medicine and basic inputs, and delayed deadlines for medical appointments. The program in charge of managing disability

Private enterprise

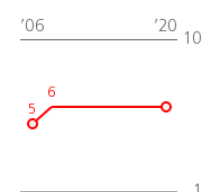
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Social safety nets

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funds and pensions has financial difficulties, especially since it is in the process of transitioning from a system based on principles of solidarity to one focused on individual payment.

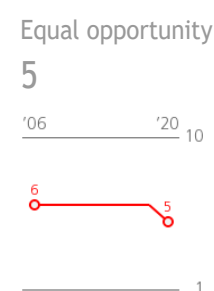
In recent years, various economic transfer programs have been implemented to alleviate poverty and extreme poverty among certain sectors of the population. A minimum pension plan was implemented under President Martinelli for people who were unable to access retirement for having not contributed enough during their working years. The amount was increased to \$120 per month for people over the age of 65 by the current government. In 2016, 33.7% of those over 70 years of age benefited from this program.

Since 2010, and in order to counter the high dropout rate, all students in the public school system receive a scholarship. Since 2018, students from some private schools also receive scholarships, under certain conditions.

Since 2010, the Opportunities Network Project has provided conditional cash transfers to beneficiaries (consisting of a \$50 monthly stipend); 72,563 women are registered, based on socioeconomic criteria. Transfers are conditional upon attending several health and educational programs. Since 2012, the Guardian Angel Program has made monetary payments to people with severe disabilities living in extreme poverty, also upon condition of participating in health services checkups and educational programs. In addition, the National Food Security Plan (SENAPAN) distributes food vouchers. There are other projects, such as the Ceiling of Hope that seeks to address the problem of precarious housing. Under the auspices of this program, 56,000 homes have been tendered, built or renovated.

A number of institutions and political programs work to compensate for gross inequalities, though their efforts remain insufficient. Equality of opportunity is enshrined in law, but implementation is undermined by corruption, limited resources and a lack of political will. Only since February 2018 is there legislation that prohibits discrimination, and there are no quota policies or affirmative action. Additionally, some public offices, especially in the police force, are not accessible to LGBTI persons.

According to a World Bank study, people living in poverty-stricken urban areas in Panama are almost 50% more likely to escape poverty than people living in rural areas, all other circumstances being equal. Likewise, the probability of finishing primary school varies from over 97% to 37% depending on the province, and illiteracy rates vacillate between 2% and 30%, depending on geographic location. The provinces where children have a lower probability of completing primary school and are more likely to be illiterate are Panama's indigenous regions and provinces with high density of people of African descent, such as the province surrounding Colón. Since 2010, scholarships for primary and secondary school students have been paid



to prevent students with socioeconomic problems from dropping out of school. More than 850,000 students were awarded universal scholarships in 2018.

In the 2018 Global Gender Gap Index, Panama scored 45 out of 144 countries. In terms of access to health and education, Panama is very close to parity, but far from parity in terms of economic participation and even farther in terms of political participation. Panama ranked 104th in terms of women's labor force participation, with a difference of almost 20% between female and male participation. On average, men earn incomes about 52% higher than women. The discrepancy is greater in positions requiring higher education.

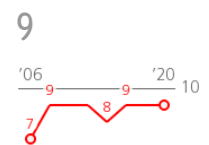
11 | Economic Performance

The Panamanian economy is characterized by strong primacy of its service sector, which comprises more than 80% of GDP. The most important sectors include the Panama Canal, over 80 international banks and the Colón Free Zone. Given Panama's robust internal growth, the construction sector and real estate sales also had an important impact on economic growth in recent years.

The overall performance of the economy has been good. In the last 10 years, GDP per capita more than doubled to \$24,262 (PPP) in 2017. This is over \$7,000 higher than neighboring Costa Rica and just slightly below the second highest GDP per capita in Latin America, Chile (\$24,588), representing the largest recent increase in the region. Economic growth has been strong in the last decade, though GDP per capita growth slowed to 3.3% in 2016, 3.7% in 2017 and 2.6% in 2018. Panama's overall dynamic growth has been stimulated by foreign direct investments, which represented just under 10% of GDP in 2018, the largest percentage in the region for the third consecutive year.

In 2018, the current account deficit amounted to 5.6% of GDP, a reduction of about 25% compared to 2017. Public debt has not changed in recent years, standing at 38.3% of GDP in 2018. Of this total, 78% was foreign debt and the remaining 22% domestic debt. This level was termed sustainable by the IMF in January 2019. The deceleration of the national economy, falling fuel prices, historically low interest rates, a strong dollar and the Varela administration's temporary price control measures managed to decrease inflation, with the lowest rates of the decade (0.5% in 2017 and 1.1% in 2018, according to CEPAL). Thanks to good economic performance, there was near full employment in the 2013 to 2014 period. Unemployment has since increased to 6.1% in 2018. Notwithstanding, full employment is accompanied by a very high rate of non-agricultural, informal employment at around 43%.

Output strength



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12 | Sustainability

Environmental concerns are only half-heartedly taken into consideration and all too frequently subordinated to development efforts. In March 2015, Panama created the Ministry of Environment, the budget of which is twice the budget of the former agency.

Panama ratified the United Nations Framework Convention on Climate Change (COP 21) agreements in March 2016, but was one of eight countries not to present its commitments to fighting global warming, which all signatories were supposed to announce before the conference.

The Environmental Performance Index 2018 ranked Panama 56 out of 180 countries, a drop of five places since 2016. There exist serious problems in terms of agricultural management (158 out of 177 surveyed countries), fish stock status (98 out of 136 countries), species habitat (109 out of 161 countries) and CO2 emissions intensity (124 out of 135 countries).

In 2018, the Ministry of Environment had to defend a controversial logging policy implemented in the Darién jungle on the border with Colombia. The area was declared a World Heritage Site in 1981 by UNESCO and a biosphere reserve in 1982. The Ministry of Environment argued the logging was part of sustainable management plans that had been approved years beforehand. It is estimated that Panama loses 50,000 hectares of forest per year, which makes it the country with the ninth-highest deforestation rate in the world.

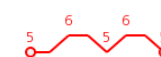
On the positive side, the Ministry of Environment has initiated a digital tagging program on trees to trace illegal logging. In 2018, 41 cases of illegal logging were initiated by the Ministry of Environment. Deforestation is a crucial matter because Panama's rain forests replenish the water for the fresh-water Panama Canal. Nonetheless, environmental awareness among the public is not high, as is demonstrated in national surveys.

Some public policies have tried to mitigate the effects of intense development. The Alliance for One Million, a 20-year project to reforest one million hectares of forest, would help the country to meet its CO2 emission goals. Panama's national energy plan states that 70% of the country's energy needs will be met by renewable energy by 2050. Currently, the country's electricity generation capacity is around 1,426 megawatts, of which 53% comes from hydroelectric plants, 40% from thermal hydrocarbon plants and 8% from wind farms. Various fiscal incentives promote reforestation and the use of solar panels.

Environmental
policy

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Education faces a series of challenges. Despite some progress in recent years, Panama's education system continues to be plagued by significant inequalities in coverage and quality with substantial differentiation in opportunity and quality between urban and rural areas. Students from upper-class socioeconomic backgrounds usually attend private schools.

The 2018 Global Competitiveness Report indicates that an inadequately trained labor force is the third most problematic factor for businesses in the country, after corruption and bureaucratic inefficiency, placing Panama at 119 out of 140 countries in terms of "ease of finding skilled employees." As for primary education, attendance is essentially universal but those in rural areas frequently face logistical challenges reaching school. Panama is ranked 91st in terms of quality of vocational training. Most problematic for Panama's economic future growth, the country ranks 97 out of 140 countries in digital skills among the population. In the 2009 Program for International Student Assessment tests, Panama ranked 62 out of 65 participants. Panama participated in data collection for the 2018 PISA these and results are pending. Over 1% of children leave primary school prematurely. The U.N. Education Index ranks Panama 48 (out of 133 BTI countries considered) with a score of 0.692, and ninth in the region.

The low salaries of teachers (\$640 in 2016) and salary non-payments (for up to six months) led to several nationwide strikes. Teachers were successful in getting an incremental increase in their salaries, up to \$940 in 2016, and a promise to increase the education budget to 6% of GDP by 2019.

The percentage of people of corresponding age enrolled in a tertiary education institution is 38.7%, which is much lower than Panama's neighbors – Costa Rica and Colombia both exceed 50% of the age class, and even lower than countries such as Argentina or Chile that exceed 80%. Investment per capita in education is only \$300 per year, below the Latin American average of \$450 and less than half of what Costa Rica invests.

Panama's investments in research and development are less than 0.2% of GDP, which is much lower than regional powers such as Argentina, Brazil, or Chile and even Cuba.

Education policy /
R&D

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Governance

I. Level of Difficulty

Despite Panama's advantageous geographical location, there are considerable structural limitations on governance in the country, stemming from the very nature of the country's economic and social systems. Structural constraints are related to profoundly different levels of economic growth and development between the business center of the capital, peripheral areas, and other cities and rural areas, thus creating a highly disparate and very unequal country in socioeconomic terms.

In addition, Panama's economy is primarily focused on logistics (such as the canal and ports), which contrasts starkly with its very weak primary and secondary productive sectors. The economy of the service sector is extremely dependent on external factors such as world trade, the economic activities of other countries and global regulations.

With a population of four million and poor investment in education, Panama's market is small and the skilled labor force is often considered insufficient and poorly trained.

Finally, although there are no natural disasters, there are recurrent climatic situations, such as heavy rainfalls, which, due to inequality and the lack of a prevention policy, leave the poorer segments of the population very vulnerable.

The tradition of civil society in Panama is quite weak, and there is little social capital. Like much of Latin America, there exist low levels of interpersonal trust (in 2018, only 12% stated that one can trust most people, which is nonetheless close to the regional average). There are a certain number of civic associations; nevertheless, 72% of people have never participated in the activities of an NGO or other civil society organization. This situation can also be understood from the perspective of the legal difficulties of creating an NGO.

Toward the end of the 20th century, Panamanian civil society concentrated on fighting the authoritarian regime and regaining the sovereignty over the Panama Canal, which had been under U.S. control since its opening in 1914. The fulfillment of both objectives left civil society without a common project and the consensus on the economic and political destiny of the country leaves little room for alternative discourses.

Structural constraints

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Civil society traditions

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However, today, some groups in urban areas, but especially indigenous peoples opposed to infrastructure projects in their territories are the main actors in civil society. Nonetheless, they are new groups with very recent trajectories and have insufficient staff, logistical and financial resources to achieve real impacts on politics.

A 2013 United Nations Development Program study noted that Panama is one of the countries with the highest number of conflicts per capita in the region, with more conflicts than any other country in Central America (though lower than South America). This has been specifically the case in the context of the resistance against mining and dam projects, which led to violent repressions during Martinelli's administration. However, a relatively low proportion of these conflicts (among the lowest in the region) are violent conflicts. Traditionally, the majority of conflicts were due to the huge problems of integrating specific sectors of society into the prosperity of the country. That is why most of those conflicts were about controlling resources. In recent years, other kind of conflicts based on values have appeared, regarding sexual education, same sex marriage and other issues related to gender and sexuality.

Overall, society and the political elite are strongly divided by social, geographical and racial cleavages.

II. Governance Performance

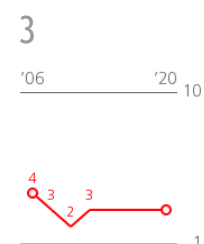
14 | Steering Capability

The definition of priorities and the direction of public policies implemented since the beginning of the 1990s have not changed greatly. The priorities are economic stability and competitiveness, including privatization, liberalization of the economy, outsourcing and sectors of the economy related to the logistics platform in the country. The consensus has also included emphasizing the isthmus as a transit zone.

The government's five-year Strategic Development Plan 2015 – 2019 rests on two pillars of inclusion and competitiveness and includes five primary themes: 1) enhancing productivity and diversifying growth; 2) enhancing quality of life; 3) strengthening human capital; 4) improving infrastructure and 5) improving environmental sustainability, including management.

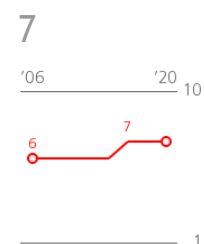
In 2014, the government published a strategic plan for its five-year mandate, with priorities, expected results and evaluation indicators. These included investing around \$19.5 billion in social development, specifically education, basic sanitation, drinking water, housing, transportation, health, agriculture, energy and security. At the end of every year, the government publishes an annual report outlining the activities of each public institution, which include information on the attainment of

Conflict intensity



Question Score

Prioritization



goals outlined in the strategic plan. The goals secretary, who reports directly to the president, is in charge of strategic planning.

Panama is well positioned to continue making progress toward the World Bank's "Twin Goals" of ending extreme poverty and boosting shared prosperity, thanks to both growth prospects and the government's renewed attention to inclusion. Yet, sustaining high and inclusive growth over the medium-to-long term will require addressing some major obstacles. These include improving education and skill levels, ameliorating key infrastructure and the effectiveness of public institutions.

The government is usually able to implement any adopted policies because of the concordance of interests among economic and political elites.

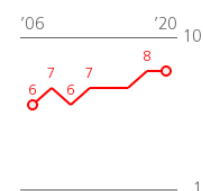
For example, the 2014 electoral campaign of the Pueblo Primero Alliance led by the Panameñista Party was based on the following five pillars: reducing the cost of living through price controls, a safe neighborhood plan, a plan aimed at modernizing sanitation facilities and generalizing access to drinking water, a quality bilingual education and the right to health for all. Because of the consensus attracted by these policies and sufficient administrative capacities, most were launched very quickly after the president and his new government took office: Emergency price controls on 22 food products constituted the first presidential decree, signed on the first day of the president's mandate. However, two of the most important promises of Varela's campaign, modernizing sanitation facilities and broadening access to drinking water, have only been partially fulfilled.

In January 2016, the economy and finance ministry presented the government's investment plan for the next five years. According to this plan, public investment over this period will reach \$19.5 billion. Of the total, \$10.7 billion will go to social impact programs including one to achieve 100% potable water and the rebuilding of the crisis-ridden city of Colón. Of this sum, \$6.4 billion are to be spent on transport infrastructure (the second metro line will cost \$1.8 billion, construction began in mid-2015), \$975 million will go to administration and justice, and \$215 million to environmental projects.

President Varela has sought to improve Panama's image and investment climate profile. Panama received a record \$5.549 billion in foreign direct investment, which was 21% more than in 2017. The positive economic situation and a high level of tax collection facilitate the realization of government investment projects. As part of the government's investment scheme, more than 6,000 teachers have been receiving training in the United States, the United Kingdom and Canada to further expand the population's educational preparedness and to attract even more foreign investment. The Panama Canal expansion has promoted increased investment in port systems operations, storage facilities and logistics. Panama's economy grew by 5.5% in 2018, up from 5.4% in 2017.

Implementation

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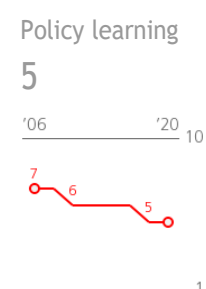


One noteworthy recent policy reform that puts Panama in the driver's seat in Central America is the February 2018 passage of Law 7. This law prohibits sexual harassment, bullying, racism and discriminatory practices in all environments, including the workplace and academia. Law 7 also establishes liability and penalties for any acts of violence against a person's honor, dignity or physical or psychological integrity, and implements public policies aimed to prevent such conduct. Moreover, the law protects workers' rights, regardless of gender or age, as well as their rights to dignity and respect and to work under equitable conditions.

Panama has demonstrated a limited capacity to learn from failed policies and a lack of innovation and flexibility. There exist precious few systematic programs for oversight and evaluation of public policies. When these are implemented, it is often only at the behest of international organizations with little domestic enthusiasm for such monitoring processes. The lack of long-term policy efficiency and the dearth of technocratic skills among bureaucrats also hinder policy-learning. Advances in policy-learning, strategic thinking and action are made more difficult by a lack of professional, non-partisan civil servants, since every new government replaces nearly all the government staff every five years.

There is some level of international cooperation, such as participation in high-level seminars and congresses and exchanges of information on practices with the administrations of other countries, but without these measures necessarily corresponding to established policy-learning plans. Often, it falls to other countries, such as the United States, to influence the country's public policies. This is especially the case in the field of security and prison policies.

The recent case of the Panama Papers scandal provides an interesting example of the difficulties of seizing opportunities offered by a difficult political situation. Identified by the international community for the dubious practices of its law firms that facilitated tax evasion and money-laundering, the government convened a panel of experts composed of national and international experts, including Nobel Prize-winning economist Joseph Stiglitz. A few months after the commission began work, the two international experts resigned, denouncing the government's lack of transparency regarding the commission's procedures. The commission published a report whose conclusions are quite similar to the official positions taken by the government and representatives from the financial sector. Despite the disagreements that may have existed among members of the commission, one cannot but regret the waste of expertise possessed by the international experts. Accordingly, a 2018 U.S. Department of State report indicates a lack of policy-learning, noting that although Panama has improved its anti-money-laundering regime, numerous factors impede the country's efforts to combat such activity, including inexperience with money-laundering investigations and prosecutions, inconsistent enforcement of laws and regulations, corruption and an under-resourced judicial system.



Similarly, there has been little policy-learning concerning Panama's approach to economic development, which mostly ignores sustainability and has led to a degradation of its environmental resources, while having only minimal impact in improving the lives and well-being of the majority of its population. Deforestation, desertification, water pollution, accessibility to potable water and inadequate sewage facilities threaten the environment and the very health of the Panamanian people.

15 | Resource Efficiency

Traditionally, the recruitment of public administration personnel in Panama has been characterized by patronage practices. Though the adoption in 1994 of the Administrative Career Law marked an important first step toward resolving this problem, the only public career opportunities affected were education and law enforcement, which was due to activities initiated by their respective professional associations.

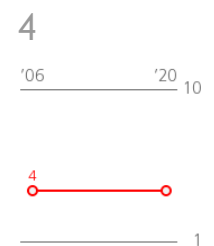
Varela's government has initiated multiple reforms to administrative careers in order to implement recruitment and career plans based on seniority. These apply to diplomatic careers (Law 60 of 2015), penitentiary careers (Law 42 of 2016), judicial careers (Law 53 of 2015) and administrative careers (Law 23 of 2017). However, these are new regulations, and have yet to be implemented. The decision by the Supreme Court to postpone for several years the implementation of judicial careers has been particularly daunting. Meanwhile, recruitment remains subject to political influence.

The country's administrative organization suffers from a lack of professionalism among its staff. Some initiatives have recently been promoted to improve administrative efficiency, such as Law 66 of 2015, which will allow for a greater decentralization with an increase in the prerogatives and the budget of mayor's offices. However, especially in the capital, many infrastructure projects continue to be managed at the national level.

The levels of public debt and deficits are within levels recommended by international bodies. In 2018, budget execution in the public sector was of 81%, although with significant differences between institutions. Even though tax revenues have increased, tax compliance is considered low by the IMF for a country with the level of development and dynamism of Panama. The country's revenue-to-GDP ratio was 16.6% in 2016, while the average for Latin America was 22.7%. VAT evasion has been estimated at about 39.7%, the highest rate in Latin America.

In addition, frequent corruption scandals have made it evident that state resources are repeatedly misused, for example, to pay overcharges. The Odebrecht scandal that erupted in December 2016, when company executives confessed to having paid \$59 million to Panamanian officials in exchange for obtaining public contracts between

Efficient use of
assets



2010 and 2014, and the lack of will on part of the judiciary to prosecute bribery, reveal a lack of transparency and efficiency in the use of public money.

A total of 15.2% of workers were employed in the public sector in 2017, of which about two-thirds worked in various institutions of the central government. Nowhere else in Latin America or in OECD countries is the inequality between salaries at the middle and upper level in government hierarchy greater than in Panama. In addition, employees with similar responsibilities frequently are paid very different salaries.

The consensus that exists in the country in terms of economic and social orientations has the consequence that there are few conflicting objectives to conciliate. The country has a highly centralized, hierarchical and bureaucratic coordination system, although the reform of 2015 on decentralization tends to modify this trend. Recent macroeconomic growth and stability have enabled governments to manage conflicts (of interests) with little impact on its capability to govern or the performance of the economy.

On social policy issues like health and education, dialog has been promoted with participation from professionals (for example, teachers' and nurses' unions), ministries and the ombudsman with the U.N. facilitating, in order to find solutions to conflicts, but with uneven success. This is because part of the population no longer trusts the U.N. because of its promotion of gender equality. (The religious sector has been able to leverage vetoes of several public policy proposals pertaining to gender equality and sexuality.)

The principal challenges are redundancy and a lack of logic in the attribution of competencies. For example, the capital's recently inaugurated metro system is managed at the national level by a secretary. But in some areas of the city, it is managed by the Office of the First Lady or the Ministry of Public Works.

Historically, there has been a lack of effective checks and balances to promote and enforce government accountability. For example, financial reports submitted to the legislative branch are not subject to external audits and often omit important expenditures, assets, and account balances.

There is a system of auditing public expenditure through the public comptroller, which exercises prior and subsequent control over the management of public funds. Public officials are obligated to create affidavits of patrimonial estate. In addition, the transparency law of 2002 allows citizens greater access to information. Overall, there are mechanisms to prevent and punish corruption. In addition, President Varela chose Angélica Maytín to head the government's anti-corruption agency, Autoridad Nacional de Transparencia y Acceso a la Información (ANTAI), for a five-year term. At the time of her appointment, Maytín was executive president of the local branch of Transparency International.

Policy
coordination

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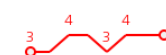


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Anti-corruption
policy

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However, there are significant obstacles to the application of law and to ensuring policies that are genuinely free of conflict of interest and corruption. The private and opaque financing of electoral campaigns, which are presumably among the most expensive in the region, is a determining factor in this regard. The 2017 electoral reforms aimed at enhancing transparency by limiting candidates' spending and the amount each donor could donate; additionally, every electoral campaign will have to publish a list of donors and the amounts of their donations.

In addition, there is no satisfactory ethical code to prevent conflicts of interest, such as the presence in government office of partners in large companies' or judges of the Supreme Court of Justice presiding over processes in which they have personal involvement.

16 | Consensus-Building

Since the fall of the last dictatorship, there has been consensus among political actors regarding democracy, although the reality in society is somewhat different. There is also a huge gap between the values pronounced in public, which generally favor democracy, and the refusal to improve its functioning, for example, through such measures as fairer election rules and allowing greater equality among candidates, more transparency in the use of public money, more equality in access to basic services such as health and education.

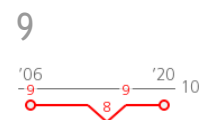
Adherence is stronger to the idea of the capitalist market economy. The Panamanian elite is historically shaped by traders, and there is consensus over the idea that the country serves as a transit hub for goods, in which the Panama Canal plays the main role. The Panama Papers scandal and reactions among the public to it demonstrate that the mercantile and financial elites have succeeded in convincing the general population of the convergence between the interests of the elites and those of the nation.

Panama is free of any politically relevant, anti-democratic forces. Even the fiercest opponents of neoliberal economic policies support democratic principles.

Although not formally opposed to democracy, there are unelected actors, especially members of the economic elite, churches and public security forces who have veto power over public policies that contravene their interests and that of the conservative neoliberal consensus. Their organizational and economic strength does not allow them to be excluded from the political game and they use their influence to limit reforms in social and societal matters.

For example, the economic elite displays fierce opposition to electoral reforms that would allow candidates to have fair access to the media. The churches managed to pressure the government to repeal the creation of a gender department in the Ministry

Consensus on goals



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Anti-democratic actors



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of Education, the aim of which was to promote gender equality in education. Finally, there are currents of public opinion speaking of the gradual militarization of the security forces, representing a potential danger to the country's democracy.

Social conflicts around social, geographical and racial issues occur but the political leadership often is successful in eventually depolarizing or at least attenuating cleavage-based confrontations. The Varela administration negotiated a peaceful settlement of the long-term dispute over the Barro Blanco Dam project (Chiriquí Province) with the representatives of the Ngäbe-Buglé Comarca.

Panama has a tradition of consensus that has become a characteristic of the country's democratic culture. Public opinion values consensus on the rule of the majority, not only to defuse conflicts, but to make decisions. This can even be seen in the National Assembly, where the actual debates and the results of votes are largely kept secret. Almost all discussions and negotiations happen in private and subsequent votes are consequently almost consensual. When a consensus cannot be reached, legislation is not voted upon, which is a problem for the decision-making process. Indeed, some reforms that would possibly have majority support in parliament are not voted upon because of lack of consensus.

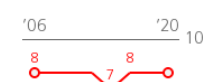
The political leadership allows the participation of civil society in some instances, though well-organized business organizations enjoy primary influence on government policy. Civil society's role in Panamanian politics is rather weak. Therefore, there is little incentive for the political leadership to seek a participation of civil society actors in agenda setting, policy formulation, decision-making and performance monitoring.

In the National Assembly, the National Directorate of Citizen Participation allows citizens to propose draft laws. However, in its first 15 years of existence, only 4.3% of the initiatives received became law, suggesting that the system may be inadequately used by citizens (proposing many non-viable initiatives) or by the National Assembly not following up on citizen proposals. Citizens can also participate in the first debates about a piece of legislation by stating positions for or against particular legislative proposals. After asking permission, they may even speak in the second debate, which takes place during a plenary.

In other instances, such as the National Electoral Reform Commission, a number of organizations interested in democracy and elections participated in debates on electoral reforms. In the most recent electoral reforms, the role of these organizations was institutionalized in the electoral code. In other processes of public policy-making or accountability, civil society is often invited to participate. This was the case, for example, in the preparation of reports submitted by the country to human rights committees.

Cleavage /
conflict
management

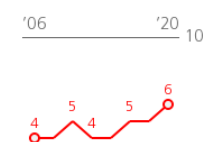
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Civil society
participation

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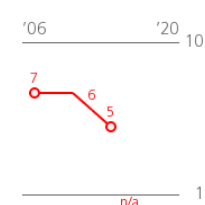
Despite these advances, civil society's capacities to influence policy processes are limited in terms of human and financial resources, and civil society positions are often not taken into account. The State Pact for Justice that has given civil society a role in modernizing and increasing the transparency of justice since 2005 is commonly disregarded by the executive.

The greatest injustices committed in the past occurred during the years of Panama's dictatorship (1968–1989) and the U.S. invasion of Panama in December 1989. In both cases, reconciliation processes were unsatisfactory for the victims. Some cases have had to be treated at supranational level, due to the lack of diligence by the Panamanian justice system, as was the case in the disappearance of the leader Heliodoro Portugal, which was tried at the Inter-American Court of Human Rights in 2008.

A truth commission was established in 2001 to investigate the crimes committed by the dictatorship. The results were not satisfactory to the families of the disappeared persons, which have not been able to access the documentation that was collected by the commission. Most of the cases are still in limbo. In the case of the United States' invasion of Panama, there have been no measures taken to determine the number of victims or to pursue compensation. In 2017, the Inter-American Commission for Human Rights recommended that the United States initiate an extensive investigation in order to identify responsibilities, impose sanctions and implement the complete reparations of human rights violations during the invasion. In 2018, a report from the commission pointed out that the United States had not complied with the recommendations. Even though a commemoration process is still pending, the executive requested a day of reflection for December 20, 2018.

Reconciliation

n/a

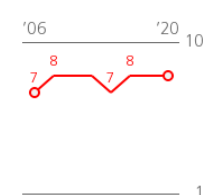


17 | International Cooperation

As a high-income country, Panama needs less and less international assistance. However, thanks in part to the presence of numerous international organizations (such as the UNDP, UNICEF, UNPE, FAO, et cetera) as well as non-U.N. organizations, the country continues to receive technical and financial support in a number of areas. The objectives of political and economic development are well defined and the support is mainly to fix existing shortcomings in training and human resources.

Effective use of support

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However, the unwillingness to create sound tax revenues, which is directly related to the promoted economic model with low taxation rates, means that the government faces difficulties in securing financing for projects and its search for international assistance might appear to be nothing less than a search for income.

Because of its critical geographical location and the country's advantages – such as a hub airport, political stability, etc.), Panama hosts the regional headquarters for a number of NGOs and international organizations. There are numerous projects in the

country financed in particular by the World Bank and the Inter-American Development Bank (IDB). The IDB granted a \$400-million loan for the expansion of the Panama Canal and an \$87-million loan in 2018 to expand the country's road networks in the western and central regions to increase access to the Ngäbe-Buglé indigenous rural communities. In 2018, the World Bank approved an \$80-million project to improve the infrastructure and quality of health, education, water and sanitation services in 12 indigenous territories, in an attempt to address the country's persistent inequality.

The repeated failure of successive governments to comply with their obligations in different areas has significantly affected Panama's credibility. The issue of financial transparency is a very illustrative example. Despite repeated financial and money-laundering scandals, condemned by the international community, Panama has initiated only a late and unwilling attempt to improve the regulations in this area of fiscal transparency. To overcome the damage to its reputation caused by the Panama Papers and to safeguard and strengthen Panama's role as an international financial hub, the country's authorities made significant changes to legislation regarding automatic exchanges of information and made tax evasion a crime. Panama succeeded in having itself removed from the main tax haven lists. However, according to an IMF special report of November 2018, Panama is still exposed to ML/FT risks and needs to enhance the effectiveness of its AML/CFT system to not appear again on the FATF's International Cooperation Review Group "gray list."

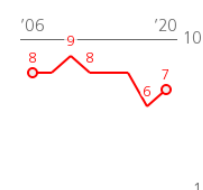
Likewise, the required national reports to the United Nations human rights treaty bodies were not submitted on time and have been pending for years. In spite of these deficits, it is noteworthy to recognize the transformational work being done by the Ministry of Foreign Affairs with support from the High Commissioner for Human Rights to deliver the set of outstanding reports during Varela's current term and to take a more active role in the international community, such as nominating and electing a Panamanian to the Inter-American Commission on Human Rights or applying for membership in the United Nations Human Rights Council.

At the regional level, adherence to sentences issued by the Inter-American Court of Human Rights generally results in at least partial fulfillment of those sentences.

Panama is the seat of the Latin American Parliament and is part of other regional organizations such as the Organization of American States (OAS), the Community of Latin American and Caribbean States (CELAC) and the Central American Integration System (SICA) or PARLACEN. It is an observer in the Pacific Alliance and has free trade agreements in force or under negotiation with all alliance members. Panama remains interested in becoming a Pacific Alliance member or associate member. The election of a Panamanian woman to the Inter-American Human Rights Commission shows a willingness to take a more active role in the regional community.

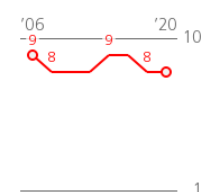
Credibility

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Regional cooperation

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Panama has a tense relationship with Venezuela, with which diplomatic relations have been suspended three times since 2004. The most recent diplomatic crisis happened in 2018 when Maduro announced the end of Venezuela's commercial relationship with Panama. Panama's ambassador in Caracas was removed for a couple of months. Panama's government applied sanctions to 55 Venezuelan public officials for being considered "high risk" for money-laundering, as well as financing terrorism. Panama is part of the Lima Group, comprised of 14 countries in the region that oppose the current government in Caracas. In 2019, Panama recognized Juan Guaidó as president of Venezuela and his new ambassador in Panama.

There are also some tensions with Colombia regarding a trade and tax dispute dating from 2013. Despite the World Trade Organization's ruling in favor of Panama, reiterated on appeal in June 2016, Colombia has not accepted the decision and continues to apply tariffs to textiles from Panama. In addition to this, the Panama Papers revealed fiscal evasion by hundreds of Colombians with regard to Panama. Colombia was among the countries that accused Panama of being a tax haven, which also contributed to worsening relations. A more recent source of tension comes from Panama's ambition to become an oil-producing country. Panama is carrying out oil exploration studies, hoping that recently discovered oil fields in neighboring Colombia close to Panama's border could extend into Panama.

Strategic Outlook

Panama faces several key pressing difficulties. One doubtlessly is its ability to bring corruption under control. Another is the challenge of facing one of the worst population inequalities in the world. In fact, the country's future democratic stability likely hinges on solving this latter problem.

The global scandal caused by the Panama Papers, along with other recurring corruption scandals, have shone a very uncomfortable light on the conflicts of interest and dishonest practices that are regular practices in the country. This failure of democratic transparency undermines the legitimacy of the political and economic elites. The population's mistrust of political parties and democratic institutions was apparent in the 2019 elections with the massive emergence of "independent" candidates (outside the party system), whose agendas were not always democratic or transparent. Concurrently, the growth of the political authority of religious actors and the strong evangelical currents in public opinion could play an important role in future legitimacy crises.

In the absence of a radical reform agenda, Panama might simply adopt a better framework for incorporating new actors – other than the elite – into politics, increase accountability and improve protections of human rights. A reform to the judicial system would be very welcome to increase the judiciary's independence, end the impunity that prevails with regard to corruption and introduce a true system of checks and balances. To this end, Panama needs to implement policies that mandate professionalization of the judicial system and a coordinated attack on organized crime activities, such as money-laundering.

In sum, Panama's political elites are under pressure to avoid a populist backlash and to regain citizens' confidence.

Given Panama's unique economic structure, no major political party has presented an alternative economic strategy. Because of the lack of alternatives, future administrations will continue to promote the economy's competitive advantage as a hub for international trade and services. However, this strategy increases the economy's vulnerability to external economic and financial shocks, particularly if a significant number of ships begin to use the Northwest Passage, which could inflict a serious wound in Panama's canal-dependent economy. Tightening fiscal policy would help to reduce inflationary pressures and exposure to external shocks.

Continued structural reforms are crucial to maintain international competitiveness, reduce poverty, address income inequality, enhance human capital and increase productivity. Also, sustained economic growth cannot be perennial without substantial investments in the education sector, a sector perceived by citizens and economic actors in the country as performing extremely poorly.

Current calculations anticipate that there will be demand for an additional 100,000 skilled workers in the near future. If the current deficiencies in the education system persist then the domestic workforce will fail to meet this increased demand, which will undermine future

economic growth. The lack of skilled labor also results in significant inequality, low average wages (the minimum wage in 2018 in the capital was \$721 per month) and the occupation of the most skilled and best paid jobs by foreign workers, which results in outbreaks of xenophobia in the country that could become a political issue of importance in the next years.

Another strategic issue is the new relationship between Panama and China, which began in 2017. Important questions remain as to the consequences for the Panama's economy and politics.