PANAMA
COUNTRY STRATEGY 2015-2019
This document is an operational instrument that allows CDBEI to tie its strategic guidelines for 2015-2019 to Panama’s development priorities and needs. The proposals presented in this document have the general objective of providing a strategic vision for the Bank’s interventions in the country, by orienting initiatives that stimulate economic growth and social development. At the same time, it aims to consolidate the Bank’s relevance as a strategic ally for the development of Panama. In order to achieve this goal, this strategy has the flexibility and capacity to make adjustments to a changing environment; so it can be adjusted to respond to the requirements, contingencies, and unforeseen requests from the authorities of the country. The figures and projections included are those available as of December 31, 2015. The process of creation of this Country Strategy included dynamic meetings with officials from public and private institutions in Panama, to whom the Bank is grateful for their willingness and valuable collaboration.

Throughout this Strategy, you will find graphical elements, such as hexagons and a color palette, which have a specific meaning and are observed in key areas of the document, such as the cover page and the Infographic found in Section IV "Strategic Offer of CDBEI for Panama. Five-year period 2015-2019 ".

The hexagons found throughout the document represent the six focus areas that define the strategic offer of CDBEI for Panama, in line with sustainable development, and guiding its contributions towards strategic axes of social development, competitiveness and regional integration. The color palette used in this Strategy represents four traditional elements of the Panamanian culture: the celestial of the two oceans of the Panama Canal, economic engine of the country; the green representing the country village of the Valley of Anton; the yellow of the harpy eagle, national bird, part of the biological diversity of the territory; and the purple of the traditional textile art mola, Guna of Panama.

The cover is a composition of six hexagons with graphical representations of the six areas of focus, whose dynamism represents the operational flexibility and availability of the Bank with Panama.

Tegucigalpa, Honduras, 2017.
www.cdbei.org
Central American Bank for Economic Integration.
Annex DI-27/2017
Panama Country Strategy 2015-2019
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EXECUTIVE SUMMARY

Panama has been able to take advantage of its geographical position to consolidate a high growth economy along with improvements in social and environmental development; maintaining favorable prospects with a clear orientation towards the strengthening of its competitiveness, addressing social gaps, and managing environmental issues. The country has established itself as one of the fastest growing nations in Latin America and the Caribbean, taking advantage of its status as a regional logistic and financial hub, advantages that continue to be strengthened through an ambitious investment plan, a cautious economic and financial management, as well as public politics oriented to facilitate trade and investment. In terms of social features, both, high growth rates coupled with the implementation of social policies has allowed progress to be acknowledged in poverty and inequality indicators, although some areas for improvement persists, mainly in the most vulnerable groups, these aspects have been incorporated in the social programs of the government. In the environmental sphere, the country has defined lines of action to promote the sustainable use of its natural resources and handle the consequences of climate change, prioritizing issues related to water resources.

The operations that CABEI has approved in Panama are aimed at promoting social development, competitiveness and regional integration. During the five-year period from 2010 to 2014, the Bank approved 5 interventions on the order of US$77.8 million, equivalent to 1.0% of approvals during the five-year period in the region (US$7.62 billion). These resources were channeled to the areas of energy, human development and social infrastructure, and agriculture and rural development; 100% of the resources were allocated to projects in the private sector. On the other hand, in terms of disbursements, the Bank strengthened its commitment to attending the development needs of Panama through the execution of US$75.2 million, which represented 1.1% of the disbursements during the five-year period in the region (US$6.97 billion), which went entirely to the private sector.

CABEI’s value proposition will support Panamanian authorities to improve the population’s welfare through interventions that contribute to the sustainability of inclusive economic growth and to strengthening aspects of inclusion and social equity, as well as environmental sustainability. In the framework of its management efforts, the Bank recognizes the challenge of maintaining a capacity for adaptation and continuous operational flexibility, mainly as a result of its goal to increase its presence and relevance in the country as a multilateral source of resources for development. In this sense, it is important emphasize that, while this strategy constitutes a road map, the approaches presented are, to a certain point, indicative of the actions that the Bank wishes to and may take in the country. Therefore, in a context with ample opportunities for participation, execution must be adjusted to respond to the requirements of the authorities of the country so that the Bank can support the achievement of the objectives of Panama’s 2015-2019 Strategic Government Plan (PEG).
The implementation of the strategy will be carried out based on the provisions set out in the Institutional Strategic Framework. In order to maximize the contribution to the development of Panama, the value proposition for Panama should ensure flexibility and adaptability according to the particular and fundamental changes in the country, always taking into account the objectives and goals of the CABEI 2015-2019 Institutional Strategy. On the other hand, attention to initiatives must be carried out through the application of the instruments and mechanisms defined for each focus area.
SECTION II

EVOLUTION OF THE CONTEXT AND PERSPECTIVES

Panama’s socio-economic performance has shown a solid trend whose results suggest favorable prospects. Panama’s strategic location and its integration into the world economy have converted it into the fastest growing economy in Latin America and the Caribbean, and it has strengthened its position as the main regional logistical hub. While growth has enabled the reduction of poverty and inequality, there are still areas of improvement to foster more inclusive social development mainly focused on vulnerable populations. From an environmental point of view, the country recognizes the need to strengthen integral management in order to reverse environmental deterioration, reduce vulnerabilities to climate change, promote the environmental compatibility of agricultural activities and facilitate land use planning.

ECONOMIC ASPECTS

Panama’s strategic location and its integration into the world economy have converted it into the fastest growing economy in Latin America and the Caribbean. With average GDP growth of 7.4%1 between 2011 and 2016 and relatively controlled inflation2, Panama showed high resistance to the global crisis, recovering quickly through the application of countercyclical fiscal measures, market opening3 and an ambitious public investment program4. In addition, foreign direct investment (FDI) was an important factor in the economic development, averaging close to 8.8% of GDP between 2011 and 20165 and becoming one of the main sources of foreign exchange to cover the current account deficit (5.5% of GDP). On the other hand, public management has shown favorable results, such as increasing tax revenue and reducing the deficit (2.5% of GDP), as well as compliance with the provisions of the Social and Fiscal Responsibility Law (LRSF 2008), especially as regards transparency and accountability. Together, these aspects of performance have supported the confirmation of the sovereign risk rating granted by the investment rating agencies6.

Panama showed a high resistance to the crisis by recovering quickly through the adoption of counter-cyclical fiscal measures, trade liberalization, and an ambitious program of public investment.
The country continues to consolidate its position as an important regional financial services center. With the ability to deal with a wide range of external and internal shocks, the financial sector is stable and well-regulated. To deal with some of the risk elements, the supervisory authority has implemented streamlined loan provision and risk-based oversight. In addition, given the size of the financial system and the depth of its integration into the world economy, authorities have placed special emphasis on strengthening the supervision of nonbank financial institutions and containing the risk of money laundering and terrorism financing. In 2015, the Financial Action Task Force (FATF) recognized Panama’s progress, and in early 2016 the agency paid a visit to the country to verify the implementation of the new measures implemented for the prevention of money laundering and terrorism financing. The removal of Panama from the FATF grey list will resolve one of the most important challenges the country has faced in recent years.

The authorities have carried out measures to continue reinforcing competitiveness. The 2016-2017 Global Competitiveness Report ranked the country 42 out of 138 and highlighted such aspects as the development of the financial market, provision of infrastructure and market efficiency, as well as innovation and the sophistication of businesses. With the push for free trade agreements with other countries, Panama has focused on improving the times for administrative procedures and logistical processes; it has also promoted the modernization of customs transit and the updating of road and airport infrastructure and the Free Trade Zones Act; these efforts have converted Panama into the most competitive economy in Central America and the second in Latin America. Despite this progress, the country presents opportunities for improvement in such aspects as government efficiency and the quality of the educational system.

Medium-term prospects are positive, but they will require the authorities’ efforts to maximize revenues. To preserve and expand on Panama’s achievements to date, it must create greater space for the implementation of additional policies, as well as reinforcing the frameworks of financial and fiscal policies. The latter would be possible through measures primarily aimed at the Prevention of Money Laundering and Combating Terrorism Financing; in addition to strengthening the regulatory framework for the proper enforcement of the Social and Fiscal Responsibility Law. In economic terms, GDP growth is estimated at around 5.2% for 2017 and, in the medium term, it is expected that the increase of canal transit, a dynamic service sector and investments in the sectors of energy, mining and logistics will contribute to maintaining vigorous growth. In addition, improvement in the results of the current account deficit (4.9% of GDP), NFPS debt (38.1% of GDP) and the fiscal deficit (1.7% of GDP) is expected.
Economic growth has contributed to a significant reduction of poverty and inequality. The poverty index descended from 29.8% in 2010 to 22.3% in 2015, while the extreme poverty rate fell to 10.3% at the close of the same period. Likewise, inequality as measured through the Gini Coefficient decreased from 55.1 in 2000 to 50.7 in 2014. This progress is the product of the implementation of social investment plans and programs and cash transfers, which are also part of the 2015-2019 Social Strategy; this will enable sustained economic growth, promoting new opportunities for the most vulnerable groups. Despite this progress, the country still has high rates of poverty and inequality, and there are other areas of potential improvement with respect to different social variables, particularly in rural areas with a high concentration of indigenous people; this is partly caused by poor connectivity and the difficulty of accessing public services.

Greater efforts are needed to reduce gaps in strategic sectors that have an impact on human development. According to the analysis of the Government’s Strategic Plan, it is vital to foster improvement in aspects of the education and public health systems. In particular, it is essential to renovate schools and classrooms, introduce full uninterrupted schooldays and launch programs to improve foreign languages and technical skills, as well as provide opportunities for carrying out research and development activities. In the health sector, efforts should concentrate on strengthening the preventive system, as well as on ensuring universal access to primary care. Doing so will help reduce the shortage of skilled labor, reduce youth unemployment, raise productivity and will ultimately have a positive impact on the population’s quality of life.

The authorities’ commitment to social programs presents a scenario with favorable prospects. The 2015-2019 Administration recognizes that a high level of inequality can lead to important constraints on growth and must be attacked through a more effective system of social security networks and educational programs that meet the needs of indigenous households in particular. They should carry out reforms to improve educational standards, as well as taking measures to combat poverty and inequality, which will help to develop human capital and promote sustainable and more inclusive growth.
Environmental Aspects

Panama is one of the countries in the region that stands out for its work and commitment to environmental preservation. Currently ranked 51 of 178 on a global level in Yale University’s Environmental Performance Index (EPI) with a score of 78; it is the fifth best evaluated country in Latin America, behind Costa Rica, Argentina, Cuba and Brazil. While during the last decade there was progress of 7.0% in the index, the trend in recent years is clearly negative according to the Pilot Trend EPI Rank; this demonstrates that the country’s environmental problems have been progressively worsening and that applied management has not been enough to completely stop, much less reverse, this process of deterioration. As a result, the country through its Ministry of Environment is working on raising the awareness of its citizens about natural resource conservation.

The country is exposed to risks related to natural phenomena and the effects of climate change. Panama is listed as environmentally ‘At risk’ by the South Pacific Applied Geoscience Commission (SOPAC), an entity that is part of the United Nations Environment Program (UNEP). According to its analysis, the aspects that present greatest vulnerability are loss of forest coverage, the degradation of ecosystems and the damage caused by imported materials (exposure to physical, chemical and biological damage by flora, fauna and sensitive ecosystems). The latter is a result of high volumes of cargo and products passing through the Panama Canal.

At this point, the conservation of aquifers and the management of water sources are priorities. Changes in rainfall patterns caused by climate change could affect the operations of the Panama Canal, electric power generation and agriculture, which is the main income source for several of the most impoverished sectors in the nation. Currently, there is the possibility to improve and expand drinking water and sanitation services and hydroelectric development, among others. The most significant projects that authorities are carrying out with regard to water resources are the “Water Harvesting Project”, the “The Integral Project for the Development Colon Coastline (PIDCAC)”, the “Program for the Reduction of Vulnerability and Environmental Degradation (PREVDA),” the “PROCUENCAS program” and the “La Villa Project.”

The authorities have defined action lines for promoting environmental conservation and sustainable natural resource use, as well as for facing the consequences of climate change. Through the Ministry of the Environment, the current administration is executing a series of projects aimed at safeguarding protected areas, protecting watersheds, mitigating the effects of climate change, promoting an environmental culture and preserving environmental quality. These projects are of vital importance for reducing the impact of large infrastructure projects, rapid urbanization and the risk of natural disasters. The preservation of these resources is critical for maintaining the current growth model, which is linked to the Panama Canal and other economic activities.
The operations that CABEI has financed in Panama are aimed at promoting social development, competitiveness and regional integration. During the five-year period from 2010 to 2014, the Bank approved 5 interventions on the order of US$77.8 million, equivalent to 1.0% of approvals during the five-year period in the region (US$7.62 billion). These resources were channeled to the areas of Energy, Human Development and Social Infrastructure, and Agriculture and Rural Development; 100% of the resources were allocated to projects in the private sector. On the other hand, in terms of disbursements, the Bank strengthened its commitment to attending the development needs of Panama through the execution of US$75.2 million, which represented 1.1% of the disbursements during the five-year period in the region (US$6.97 billion), which went entirely to the private sector.

All interventions carried out by the Bank in favor of Panama were aligned with the Institutional Strategic Framework. The resources channeled through the adoption of new development interventions and disbursements targeting different sectors of the Panamanian economy are framed in three of the six focus areas set out in 2010-2014 Institutional Strategy.

CABEI approved 3 interventions to boost Panama’s energy infrastructure with a focus on renewable energy. The interventions approved for US$62.2 million involved the construction and operation of 2 hydroelectric power plants (The Changuinola I Hydroelectric Project and the Barro Blanco Hydroelectric Project) for US$32.2 million and 1 wind power generation plant (the Penonome II Wind Power Project) for US$30.0 million. In that order, CABEI managed to disburse 100% of the resources approved for the 3 abovementioned projects and also disbursed funds to complete the execution of the first part of the Changuinola I Hydroelectric Project (approved in 2007 by the Resolution No. DI-23/2007).

The Bank approved an operation in the area of Human Development and Social Infrastructure in order to expand basic health services coverage. CABEI approved US$10.0 million to finance the design, construction, equipment, operation and maintenance of hemodialysis centers for the Panamanian Social Security Institute, disbursing 100.0% of the resources approved during the five-year period from 2010 to 2014.
The Bank approved an operation to promote Agriculture and Rural Development through the industrial commercialization of African palm oil. In that context, there was a US$5.6 million approval, which were subsequently deobligated because conditions prior to the first disbursement were not complied with in a timely fashion.

**2010-2014 CABEI APPROVALS AND THE MILLENNIUM DEVELOPMENT GOALS (MDGs)**

As the entity responsible for the promotion and integration of the economic and social development of its member countries, CABEI supported the country to comply with the Millennium Development Goals. Approvals during the 2010-2014 period were directly tied to the MDGs, categorized by the level of expected development impact as measured by the I-BCIE tool. The 5 interventions approved for Panama in the 2010–2014 period were linked with at least one of the Millennium Development Goals. Most of the approvals were geared to contributing to the fulfillment of the MDGs: Eradicate extreme poverty and hunger, MDG 4: Reduce infant mortality and MDG 7: Ensure environmental sustainability.

**DURING THE FIVE-YEAR PERIOD 2010-2014, CABEI APPROVED 5 INTERVENTIONS IN THE ORDER OF US $ 77.8 MILLION.**

### TABLE I.

**Approvals by institutional and market sector (millions of dollars)**

<table>
<thead>
<tr>
<th>INSTITUTIONAL SECTOR</th>
<th>MARKET SECTOR</th>
<th>AMOUNT</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>Business Sector</td>
<td>77.8</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>77.8</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: CABEI-OPEP.

### TABLE II.

**Disbursements by institutional and market sector (millions of dollars)**

<table>
<thead>
<tr>
<th>INSTITUTIONAL SECTOR</th>
<th>MARKET SECTOR</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>Business Sector</td>
<td>75.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>75.2</td>
</tr>
</tbody>
</table>

Source: CABEI-OPEP.

### TABLE III.

**Approvals and disbursements by focus areas (millions of dollars)**

<table>
<thead>
<tr>
<th>FOCUS AREA</th>
<th>APPROVALS</th>
<th>DISBURSEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>62.2</td>
<td>65.2</td>
</tr>
<tr>
<td>Human Development and Social Infrastructure</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Agriculture and Rural Development</td>
<td>5.6</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>77.8</td>
<td>75.2</td>
</tr>
</tbody>
</table>

Source: OPEP.
LESSONS LEARNED

In the context of the assessment of institutional management in Panama (2010-2014), there are some specific recommendations aimed at increasing the CABEI’s presence among multilateral agencies, as well as the relevance of the Bank’s contribution to the development of Panama.

- **Align the design and formulation of the country strategy with the existing methodology for planning and evaluating.** The inclusion of objectives, targets and indicators, according to best practices and international standards, contributes to the process of monitoring and evaluation; they provide valuable information about the impact of CABEI operations in the country and identify areas for improvement. There should also be clarity regarding the way in that they contribute to the achievement of institutional goals (especially with regard to the strategy of geographical diversification of sovereign exposure, and other objectives linked to non-founding countries) and their interrelation with the rest of the instruments that make up the Institutional Strategic Framework. Additionally, it would facilitate the review of the results of the CABEI strategy in Panama to the light of the evaluation criteria established in current norms.

- **Deepen rapprochement with official counterparts and sector management in search of business opportunities.** On the basis of the development needs and priorities defined by the country, CABEI should institute more aggressive management, especially in the focus areas where it has recognized expertise and knowledge. This approach should be more direct and prioritize the public sector so that the Bank is considered as an alternative for financing the large projects that the country has been developing, mainly in infrastructure. In this regard, joint sector management (sector specialist and project executive) must be strengthened for the formation and administration of the pipeline; in addition, the participation of pre-investment should be strengthened.
Increase CABEI’s participation in the financing of energy projects and seek opportunities in productive infrastructure projects. CABEI’s experience and knowledge in the area of energy, particularly with regard to projects undertaken in the area of influence of the Central American Electrical Interconnection System (SIEPAC) could lead to new projects that would contribute to integration and regional connectivity, especially considering the geographical location of Panama and its possibility of serving as a bridge to South America. Likewise, the Bank must seek to participate in infrastructure projects, which, as a result of their size, have a high impact on the overall development of the country.

Seek opportunities for intervention in those focus areas where the country faces major challenges. Given that Panama has room for improvement in terms of poverty and inequality reduction, especially in rural areas with the presence of indigenous population, it is of vital importance to support interventions in the areas of Agriculture and Rural Development and Human Development and Social Infrastructure. In this way, the Bank could support compliance with the country goals aimed at reducing inequality and promoting sustainable and more inclusive economic development.

Ensure that financial management is adequate for the country’s particular conditions. Based on Panama’s economic and financial conditions, it is of vital importance to conduct a review of the financial conditions that CABEI plans to offer when participating in development-related interventions. In other words, the investment grade rating assigned to the country by the main risk rating agencies requires the offer of financial conditions that are different from those contained in the Bank’s management in its founding countries.
The country strategy has been designed by taking into account the country’s development priorities, the institutional strategic framework and the main elements of the world development agenda. In order to increase CABEI's presence and create relevance for its value proposition in Panama, this document takes as reference the Panamanian Government’s 2015-2019 Strategic Plan: One Sole Country (PEG 2015-2019), whose main objective is to improve the country’s competitiveness by promoting inclusion in sustainable and equitable economy. In addition, the proposal is based on the 2015-2019 CABEI Institutional Strategy, which defines the long run strategic approach to the Bank’s management, especially through its strategic axes of Social Development, Competitiveness, Regional Integration and Environmental Sustainability. Similarly, the proposal is strengthened through the incorporation of the principal elements of the world development agendas, particularly in relation to the Sustainable Development Goals (SDGs).

The CABEI value proposition will support authorities to improve the population’s wellbeing through interventions that contribute to the development of sustainable habitats; strengthening productivity as a basis for promoting the sustainability of economic growth; and improving transportation means and systems in order to facilitate connectivity. In the framework of its management efforts, the Bank recognizes the challenge of maintaining a capacity for adaptation and continuous operational flexibility, mainly as a result of its goal to increase its presence and relevance in the country as a multilateral source of resources for development. In this sense, it is important emphasize that, while this strategy constitutes a road map, the approaches presented are, to a certain point, indicative of the actions that the Bank wishes to and may take in the country. Therefore, in a context with ample opportunities for participation, execution must be adjusted to respond to the requirements of the authorities of the country so that the Bank can support the achievement of the objectives of the 2015-2019 PEG.
CABEI FOCUS AREAS AND STRATEGIC INITIATIVES

The management and coverage of the focus areas will be aligned with priority initiatives defined by the authorities. While the 2015-2019 institutional strategic approach provides a broad framework for action, sector coverage will materialize according to the country’s level of prioritization and CABEI’s opportunities for pursuing those priorities, which opens the possibility of placing resources in only some focus areas. Thus, considering the Bank’s historical management in Panama, as well as the goals of the 2015-2019 PEG, CABEI may support interventions related to building productive infrastructure that increases the country’s logistical and competitive potential; the development of social infrastructure aimed at improving Panamanians’ quality of life through improved access to and quality of basic services; the expansion of power generation, as well as of transmission and distribution lines, to foster energy efficiency and security, and strengthening the country’s financial system.

The strategic approaches of the authorities present a number of opportunities where CABEI may contribute. After an analysis of the 2015-2019 Government Strategic Plan and dialogues with the country’s authorities, it was possible to identify some aspects in which the country wants to deepen efforts in order to promote higher levels of growth and development. In that context, there are a number of links with the Bank’s interest areas, mainly Productive Infrastructure, Energy, Financial Intermediation and Development Finance, as well as Human Development and Social Infrastructure and Competitiveness Services, without neglecting to attend any operation related to the area of Rural Development and the Environment.
Human development and social infrastructure

Panama has made significant progress in human development over the past decade; however, the 2015-2019 PEG aims to orient efforts toward reducing asymmetries in the territorial, social and economic areas. Faced with this reality, CABEI will support the authorities’ interest in increasing access to and improving the quality of the water and sanitation services by establishing wastewater treatment plants and associated networks. Likewise, the Bank can support initiatives to improve the population’s quality of life by reducing the housing backlog with the integral improvement of human settlements.

In that sense, the Bank may support the modernization and renewal urban of the city of Colon, through the provision of social housing, water and sanitation projects and the renovation of historical buildings and places that contribute to the development of a safe urban environment. The Bank may also support the Bay of Panama sanitation project, thereby contributing to minimizing health risks, the improving the environment and promoting the city’s tourism development.

The Bank will also contribute to improving the coverage and quality of health services through initiatives involving infrastructure or equipment, such as the development and equipment of a hospital for the Gorgas Oncological Institute. In the field of education, the Bank could also contribute to improving coverage and quality through the provision of equipment and infrastructure.

In every case, interventions will follow an approach involving the principles of inclusion and social cohesion in order to strengthen the balanced economic and social development of minorities.
Panama has the best logistical infrastructure in Central America; however, the country faces the challenge of developing the potential of the transportation system for people and overcoming the functional shortcomings of the principal and secondary road networks, mainly in relation to mobility and accessibility. Faced with this reality, CABEI may participate mainly in the development of projects to construct and expand highway and rural road infrastructure. In addition, the Bank may promote the development of transportation systems for people through improved road connectivity and greater efficiency and sustainability in public transportation systems; in this sense, the Bank will support the development of the metro system and may support other infrastructure initiatives and the acquisition of buses for public transportation. Additionally, the Bank could support the country with infrastructure interventions to strengthen the platform of services and transportation and logistical activities that contribute to the objective of the country’s authorities to consolidate the country as a regional logistics hub. On this matter, the Bank could support the development of Terminal 2 of Tocumen International Airport, through works like asphalting of tracks and fueling and loading systems. In this area, CABEI would be supporting the strategic axes of competitiveness and social development.
The Panamanian authorities recognize the importance of continuing to foster productive efficiency through a more balanced, sustainable and competitive energy matrix. In that sense, and in line with the 2015-2050 National Energy Plan, CABEI may contribute mainly to the increased use of non-conventional renewable energy sources, and other renewable and clean energy sources, as well as to the consolidation of traditional energy sources already present in the country. In this context, the Bank has identified an opportunity to support the authorities in their efforts to expand generation based on liquefied natural gas, an initiative aimed at reducing the costs of energy and diversifying fuel sources.

In addition, the Bank could support the strengthening and expansion of the SIEPAC transmission and distribution infrastructure, as well as the safety and quality of the country’s electricity supply by strengthening its domestic electricity market.

CABEI may contribute mainly to the increase of non-conventional renewable energies, other types of clean and renewable energies, as well as to the consolidation of the traditional types of energies already present in the country.
At present, Panama is an international financial center par excellence, where global institutions offer a range of local and international financial, insurance and offshore services, some of which are more specialized than those offered in the rest of the region. In this focus area, CABEI has accumulated more experience in recent years through its strategic axis of competitiveness, and it is expected to continue to develop new programs of intermediated resources. In that context, while Panama’s financial depth is significantly higher than that of the rest of Central America, CABEI has identified opportunities for intervention through the granting of Global Credit Lines, mainly for promoting productive sectors, supporting activities related to foreign trade, social housing and media and bolstering the liquidity of the financial system and its expansion.
COMPETITIVENESS SERVICES

This focus area has a high potential for influencing the country’s competitiveness so it is presented as an option for supporting the process of full use of Panama’s productive capacity, promoting the adaptation of the economic base and opportunities for new scenarios. Of the priority needs set out the 2015 - 2019 PEG in the framework of this focus area, CABEI may provide support by promoting the development of customs infrastructure that facilitates the border transit of people and merchandise, the dynamism of logistical business services, the development of the tourism sector, transportation efficiency for urban mobility, the strengthening of territorial development and citizen safety.

CABEI will be able to support, through the development of customs infrastructure, initiatives, which facilitate border crossing for migration and trade, in the dynamism of business logistics services.
RURAL DEVELOPMENT AND THE ENVIRONMENT

The 2015-2019 PEG stresses the need to strengthen management in this sector in order to address the deterioration of environmental resources, vulnerability to the effects of climate change, as well as the need for strengthening agri-food and territorial management. Facing these challenges, CABEI may attend initiatives for the benefit of the region’s ecological development through the preservation of the environment, natural resources and environmental services, as well as interventions for adaptation and mitigation to climate change and integrated disaster risk management.

CABEI will be able to take initiatives to benefit the ecological development of the region through the conservation of the environment.
PANAMA
COUNTRY STRATEGY
2015 - 2019

SUSTAINABLE DEVELOPMENT GOALS

GOVERNMENT STRATEGIC PLAN
2015-2019
"Only One Country"

BCIE
2015-2019 CABEI INSTITUTIONAL STRATEGY
INTEGRATING SUSTAINABLE COMPETIVENESS AND DEVELOPMENT

HUMAN DEVELOPMENT AND SOCIAL INFRASTRUCTURE

PRODUCTIVE INFRASTRUCTURE

FINANCIAL INTERMEDIATION AND DEVELOPMENT FINANCE

RURAL DEVELOPMENT AND THE ENVIRONMENT

ENERGY

COMPETITIVENESS SERVICES

ENVIRONMENTAL SUSTAINABILITY

COMPETITIVENESS AND ECONOMIC GROWTH

SOCIAL INCLUSION AND EQUITY
SECTION V

IMPLEMENTATION

BUSINESS MODEL AND STRATEGIC ALIGNMENT

The institutional proposition for the following five years requires policies oriented at promoting economic integration and balanced economic and social development, both within the country and in its interactions with its fellow Central American countries. In addition, strengthening the CAF's value proposition requires key efforts to reinforce its relevance to the region, such as diversifying the market, services and products; and improving the credit risk rating to facilitate funding in international markets.

The Bank should strengthen its resources at different levels to ensure greater impact and efficiency of its operations. In the period from 2015-2019, the Bank must strengthen its strategic alliances and develop its human, economic and technological resources; strengthen relationships with its members and develop service channels; consolidate a viable, sustainable and consistent financial strategy, as well as a portfolio of products better tailored to the characteristics and needs of its members; and focus its attention on the development needs prioritized the members, in a scenario of financial sustainability. In this sense, in the case of Panama, the Bank will seek to continue identifying mechanisms to provide more specialized and closer attention to the authorities, based on the country’s express requirements and according the possibilities provided by the Bank’s capitalization scheme.

The implementation of the strategy will be carried out based on the provisions set out in the Institutional Strategic Framework. In order to maximize the contribution to the development of Panama, the value proposition for the country should ensure flexibility and adaptability according to the particular and fundamental changes in the country, always taking into account the objectives and goals of the CABEI 2015-2019 Institutional Strategy. On the other hand, attention to initiatives must be carried out through the application of the instruments and mechanisms defined for each focus area. Likewise, the proposed financial programming must be indicative and serve as a reference for the formulation of the annual operational programming over the five year period.

The definition of strategic supply maintains harmony and consistency with the objectives of the assistance provided by the main development agencies present in the country. In order to increase the CAF’s presence and importance in the context of international cooperation in Panama, the Bank’s value proposition will seek to complement actions that other donors are carrying out in the country, particularly in the areas of equity and social inclusion, sustainability of economic growth and integration. Giving special attention to the initiatives arising from the requirements and express interest of the authorities.
EXECUTION

CABEI will execute this strategy through the joint work of the office in charge of operations in Panama and the advice of other technical areas involved in the various stages of the project cycle, pursuant to its regulations; among others it may carry out the following activities:

- Ensure that successive annual operational and strategic business plans correspond to the strategic principles set out in the present country strategy.
- Prioritize those operations and projects that better to deepen the strategic principles and development priorities identified in the present country strategy.
- Stimulate the design and the approval of financial instruments that facilitate the progress of attention to the defined focus areas.
- Propose alliances and collaboration agreements, technical cooperation and business with other institutions in order to strengthen the country strategy’s execution.
- Create synergies, additionality and complementarities with other cooperation agencies with a presence in the country with the aim of promoting interventions in sectors in which the Bank has less presence.
- Maintain links with information sources in the government, private enterprise, financial and academic circles, given the possible changes that might arise in the country, in order to update the country strategy.

MONITORING & EVALUATION

CABEI carry out an evaluation of the Panama Country Strategy pursuant to its existing regulations. The evaluation will analyze the fulfillment of the objectives and goals of these strategies to draw conclusions about institutional performance in the country and to generate lessons that promote the Bank’s effectiveness in contributing to the development of Panama.
The implementation of the Strategy will be subject to changing internal and external factors. The execution is exposed to various risks that can generate deviations from the strategic plan and that can affect the normal process of approvals, disbursements and project execution, as well as the expected impact of development interventions, among other effects. In this regard, project identification and appropriate management is essential. The following are some of the major risks, which can come from both inside and outside the country or that are inherent to CABEI.

EXTERNAL RISKS

Deterioration in conditions of the international economy. The country could be affected by a scenario in which its main trading partners experience drops in their rates of economic growth. In addition, deterioration of terms of trade, mainly an eventual recovery in oil prices, could reduce growth prospects.

Increases in external financing conditions. Successive increases of interest rates in international markets could affect financing costs in the coming years.

Vulnerabilities associated with natural disasters and the effects of climate change. Due to its geographical location, Panama can be exposed to a series of adverse natural events, whose occurrence may involve a change in the country’s priorities and postponement or termination of public and private investment decisions, which also may occur due to the long-term effects of climate change.

INTERNAL RISKS

Fiscal Deterioration. Scenarios involving fiscal restriction could limit the country’s debt capacity and/or lead to a reorientation of its priorities.

Deterioration of the business climate. Events that damage the underlying conditions to the business climate, such as the citizen security conditions, the execution capacity of public investment, legal stability, red tape, transparency in governance, access to financing, provision of productive infrastructure, and productivity in the labor market.

Reduced capacity to establish political agreements. Difficulties in achieving consensus and reaching political arrangements could delay the legislative approval of new operations that require public debt with a sovereign guarantee.
INTERNAL AND EXTERNAL RISK MITIGATORS

In order to mitigate the potential impact of external and internal risks, the Bank will constantly monitor the most relevant variables of the country’s situation, assessing the impact that its evolution may have on operations with the country, enabling timely prevention measures. The Bank will also maintain continuous communication mechanisms with the country’s authorities and may provide technical support to improve the management capacity of the executing units.

CABEI RISKS

**Delays in programming capitalization.** Lower levels of capitalization would cause in a less availability of loanable resources. **Mitigators:** Generation of profits and generation of strategic alliances with other organisms.

**Failures in integral risk management.** This refers to events that could cause economic losses to the Bank in case of failures in integrated risk management and controls against money laundering and terrorism financing. **Mitigators:** Strengthening and implementation of comprehensive risk management policies. Likewise, the strengthening of risk management procedures and controls based on the adoption of best practices and international standards.

**Deterioration of the of credit risk ratings.** This could make access to other sources of financing more expensive. **Mitigators:** Strengthening of share capital, geographic diversification of sovereign exposure and generation of profits.

**Interruptions in the Project Cycle.** Delays in the process of project formulation, approval and/or management that could affect the continuity of the business. **Mitigators:** Strengthening operational efficiency throughout the stages of the project cycle and mechanisms linked to the business continuity plan.
REFERENCE NOTES

SECTION II

1. International Monetary Fund (IMF). World Economic Outlook (WEO) Database, October 2016.

2. Inflation volatility reflected changes in the international prices of commodities. As the prices of petroleum and raw materials fell, so did Panamanian inflation, reaching its lowest point in the five year period in 2015 (0.1%), reverting this tendency in 2016 (0.7%).

3. The main objective of the Panamanian trade policy is to increase Foreign Direct Investment and exports. The process of opening to outside markets has focused on concluding different trade agreements and improving the country’s competitiveness. In addition, Panama seeks to attract high added value investment, which leads to the training of its human resources and the transfer of technology to key economic sectors, such as financial services, logistics, tourism and agriculture.

4. The approach included massive investment in infrastructure and housing and the expansion of trade, tourism and transportation.


6. The principal international rating agencies hold the country’s rating and an stable perspective, pointing out aspects as an improving performance and a diversified economy based on services. In addition, it is considered that the expansion of the Panama Canal and the increase of FDI in mining, energy and tourism will help to further diversify the economy: Fitch Ratings (BBB), Moody’s Investor Service (Baa2), and Standard and Poor’s (BBB).

7. World Economic Forum (WEF). The 2015-2016 Global Competitiveness Index. These aspects position Panama in a stage of development involving transition towards an economy based on innovation and sophistication; in this respect it is superior to its Central American counterparts. Panama is among the 10 countries with the world’s best port and airport infrastructure.


12. World Bank. Global Development Indicators, Panama.


14. For example, according to the World Bank, the Gender Inequality Index (GII) worsened between 2009 and 2014, rising from 0.56 to 0.58 which means that the country loses 58.0% of its human development potential because of gender inequality.

15. Global Metrics for the Environment - 2016 Report, prepared by Yale University. The EPI is an index that measures nine environmental factors: i) climate and energy, ii) biodiversity and habitat, iii) fisheries, iv) forestry, v) agriculture, vi) water resources vii) water and sanitation, viii) air quality, and ix) exposure to health risks.


17. Environmental Openness is an indicator used by SOPAC to calculate the Environmental Vulnerability Index, and it measures average annual cargo imports of any type in US$ per square kilometer of territory; these foreign products represent a risk mainly as a result of the introduction of (mostly unwanted) pests, species and genetically modified organisms, as well as of chemicals that could cause environmental damage if not contained.

SECTION III

18. Sector Note: The Environment in Panama prepared by the Junta de Andalucía.

19. The approval corresponds to an increase in the amount agreed upon in Loan Contract No. 1857.

20. The Plan proposes maintain a solidly expanding economy and, at the same time, ensure that all Panamanians achieve a better quality of life; promoting territorial, ethnic, and cultural integration as a means to reduce social inequality.

21. For further reference, see the Central American Bank for Economic Integration document: “Sustainable Development Goals: Institutional Strategic Alignment”

22. Regarding the latter, the authorities intend for contracts to be awarded for the...
# Abbreviations, Symbols and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AB</td>
<td>Abbreviations, Symbols and Acronyms</td>
</tr>
<tr>
<td>CAMEI</td>
<td>Central American Bank for Economic Integration</td>
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<tr>
<td>EPI</td>
<td>Environmental Performance Index</td>
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<tr>
<td>FATF</td>
<td>Financial Action Task Force</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>I-BCIE</td>
<td>CABEI Development Impact Index</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>LRSF</td>
<td>Social and Fiscal Responsibility Law</td>
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<tr>
<td>MEF</td>
<td>Ministry of Economy and Finance</td>
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<tr>
<td>MDG</td>
<td>Millennium Development Goals</td>
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<tr>
<td>NFPS</td>
<td>Non-Financial Public Sector</td>
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<tr>
<td>OPEP</td>
<td>Strategic Planning and Programing Office</td>
</tr>
<tr>
<td>PEG</td>
<td>Strategic Government Plan 2015-2019: One country</td>
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<tr>
<td>PIDCAC</td>
<td>Integral Project for the Development Colon Coastline</td>
</tr>
<tr>
<td>PREVDA</td>
<td>Program for the Reduction of Vulnerability and Environmental Degradation</td>
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<tr>
<td>SDG</td>
<td>Sustainable Development Goals</td>
</tr>
<tr>
<td>SECMCA</td>
<td>Executive Secretariat of the Central American Monetary Council</td>
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<tr>
<td>SIEPAC</td>
<td>Central American Electrical Interconnection System</td>
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<tr>
<td>SOPAC</td>
<td>South Pacific Applied Geosciences Commission</td>
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<tr>
<td>NFPS</td>
<td>Non-Financial Public Sector</td>
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<tr>
<td>UNEP</td>
<td>United Nations Environment Program</td>
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<tr>
<td>US$</td>
<td>United States Dollar</td>
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</tbody>
</table>
BIBLIOGRAPHY

- International Monetary Fund (2016). Consultation report on Article IV of Panama. IMF, Washington DC.


- Documento técnico de la Gerencia de Sectores y Países y la Oficina de Planificación Estratégica y Programación. BCIE, Tegucigalpa, Honduras.


- Executive Secretariat of the Central American Monetary Council (SECMCA), 2016. Informes trimestrales de riesgo país. Informes trimestrales de la SECMCA. San José, Costa Rica.

ANNEX I:

2015-2019 STRATEGIC GOVERNMENT PLAN

The 2015–2019 Strategic Government Plan, One Sole Country, is an instrument to guide the management of the Government of Panama and its main objective is improve competitiveness, promoting inclusion for a sustainable and equitable economy. The Plan is based on the reality that Panama has been growing rapidly in this century, but that it faces challenges with regard to reducing social inequality. Therefore, the Plan proposes to maintain a solidly expanding economy and, at the same time, ensure that all Panamanians achieve a better quality of life by promoting territorial, ethnic and cultural integration. To achieve its objectives, the Plan contains two great strategies - one economic and the other social, which are supplemented by the cross-cutting axes of territory and environmental sustainability, as well as governance and institutional strengthening.

The economic and social strategies involve six action areas with a series of specific intervention lines and allocation of investment resources. Economic development includes initiatives that seek to diversify and increase the productivity of the economic base, mainly in the sectors of tourism and agriculture, with investment projected investment of US$1.09 billion (5.6%). The scope of infrastructure is related to the above and includes US$3.16 billion investment for the areas of transportation and logistics (6.2%); of this amount 93.6% corresponds to roads, and to a lesser extent, investments in ports, airport and energy. The field of social development includes interventions for US$11.46 billion for the improvement of the citizens’ quality of life; this is more resources than those assigned in the PEG (58.8%). US$2.47 billion was allocated to the field of personal development to strengthen basic education and technical training. In terms of the strategic axes; territory and environmental sustainability total US$216 million, and governance and institutional strengthening received an allocation of US$973 million for institutional reforms, justice and security.

In the economic sphere, the Plan seeks to promote intense and sustained economic growth by boosting the sectors with the greatest potential to generate employment and increase productivity. Panama is committed to strengthening the country’s positioning as an economic enterprise hub of the Americas, which involves strengthening the following components: i) a worldwide transportation and logistical services platform; (ii) international financial services center; (iii) directional center and logistical platform for business, cultural and institutional activities; (iv) regional center for commercial distribution. In addition, the country seeks the best way of linking with the most dynamic economic agents of the regional and global environment in local development, which have an impact on stakeholders and internal production structures; this will make it possible to transform unequal growth into a process of sustainable development based on a platform of advanced services on a regional and international scale in a productive economy able to fully activate its resources on a global scale. The full incorporation of the country’s productive resources into the development process involves the following policies: i) food security and agro-food export activities; (ii) a balanced, competitive and sustainable energy matrix; (iii) full utilization of the country’s tourism development potential; (iv) sustainable harnessing natural resources, biodiversity and the landscape.

Priorities of the Social Strategy. The social strategy is focused on the sectors of water and sanitation and urban mobility, notable the completion of Metro Lines 1 and 2, among others; housing projects with equipment for basic services and financing mechanisms; development of an accessible and efficient health system; as well as education and technical and vocational training.
ANNEX II:

CABEI’s strategic proposition contains instruments to assist Panama in the fulfilment of the objectives of the 2015-2019 Strategic Government Plan. CABEI’s scheme of focus areas and their respective strategic initiatives includes tools to support the country in all of the fields of action of its PEG. The One Sole Country Plan has a significant orientation toward enhancing competitiveness and promoting social, cultural and ethnic inclusion in a framework of a sustainable and inclusive development.

Taking into account the Government’s strategic positions, CABEI could concentrate its interventions in the areas of productive infrastructure, energy, human development and social infrastructure, competitiveness services, rural development and the environment. It should be noted that while the aforementioned focus areas are those that are most closely related with the PEG action lines, the Bank will also support the country through interventions in the focus area of financial intermediation and development finance to support the sustained growth of the country’s financial sector, where indicated. Finally, it is important to note that the strategic focus of the Bank’s interventions shall be subject to the definition and express requests of the country’s authorities.

<table>
<thead>
<tr>
<th>PEG SCOPE</th>
<th>PEG INTERVENTION LINES</th>
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<tbody>
<tr>
<td>Economic development</td>
<td>Logistics</td>
</tr>
<tr>
<td>Diversification and productivity of the economic base</td>
<td>Tourism</td>
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<tr>
<td></td>
<td>Agriculture</td>
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<td></td>
<td>Water and sanitation</td>
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<tr>
<td>Social development</td>
<td>Garbage removal</td>
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<tr>
<td>Improving the quality of life</td>
<td>Housing</td>
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<td></td>
<td>Healthcare</td>
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<td></td>
<td>Urban transportation</td>
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</table>

**CABEI FOCUS AREAS AND STRATEGIC INITIATIVES**

**Competitiveness Services**

- Business Services
- Tourism

**Rural Development and the Environment**

- Productivity and environmental sustainability of agriculture, livestock, forestry and fishing

**Financial Intermediation and Development Finance**

- Intermediated financing with productive and development-related ends

**Human Development and Social Infrastructure**

- Water and Sanitation
- Elimination of waste, treatment of waste and similar activities.
- Social Housing
- Health
- Social Inclusion

**Competitiveness Services**

- Transportation and Warehousing
<table>
<thead>
<tr>
<th>PEG SCOPE</th>
<th>PEG INTERVENTION LINES</th>
<th>CABEI FOCUS AREAS AND STRATEGIC INITIATIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of people</td>
<td>• Basic education</td>
<td>Human Development and Social Infrastructure</td>
</tr>
<tr>
<td>Reinforcement of human</td>
<td>• Technical training</td>
<td>• Education</td>
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<tr>
<td>capabilities</td>
<td>• Roads</td>
<td></td>
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<tr>
<td>Infrastructure</td>
<td>• Ports</td>
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<tr>
<td>Connectivity</td>
<td>• Airports</td>
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<tr>
<td></td>
<td>• Energy</td>
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<tr>
<td>Environment</td>
<td>• Territorial Ordering:</td>
<td></td>
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<tr>
<td>Territory and environmental</td>
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<tr>
<td>sustainability</td>
<td>• Environmental management</td>
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<td>Governance</td>
<td>• Justice and security</td>
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<td>Institution-building and</td>
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<tr>
<td>governance</td>
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**Human Development and Social Infrastructure**
- Education

**Productive Infrastructure**
- Road infrastructure
- Port, airport infrastructure or related services.

**Energy**
- Renewable Energy Generation.
- Non-Renewable Energy Generation.
- Energy efficiency
- Management, transmission and distribution of electric power

**Competitiveness Services**
- Territorial Development.

**Rural Development and the Environment**
- Climate change adaptation and mitigation
- Reforestation and conservation of the environment, natural resources and environmental services.
- Integrated Management of Natural Disaster Risks.

**Competitiveness Services**
- Public safety
The infographic is composed, by three hexagons at the top, that represent the main inputs of this Strategy; The Strategic Government Plan 2015-2019, the Sustainable Development Objectives (ODS) and CBEI Institutional Strategy 2015-2019. In the middle, a hexagon with the focus areas represents the ways in which this strategic proposal will be implemented through strategic development initiatives. At the bottom, the main objectives stated, which are addressed in this Country Strategy. All these elements are integrated with two opposing triangles that allegorize the dynamism, strategic alignment and flexibility of the Country Strategy.