

PPIAF Assistance in Panama

Panama is an upper-middle income country with a dollarized economy and per capita gross national income of US\$6,990 (2010). The country has about 3.5 million people; nearly three-quarters of them live in urban areas, mostly around the Panama Canal. About 10% of the population is of indigenous origin and primarily resides in remote rural areas. Panama's strategic location between two oceans and the engineering marvel of its canal defines this Central American country's place in the world. The transit of thousands of ships through this waterway is the country's main engine for economic growth.

President Ricardo Martinelli was sworn-in for a five-year term on July 1, 2009, backed by an unprecedented 60% election victory. The Martinelli administration took office with a strong mandate for change, an ambitious investment agenda, and a battle against insecurity and corruption. The government has committed to address key development challenges including bottlenecks to growth as well as expanding economic opportunities for the poor. Martinelli's administration is looking toward leveraging private sector economic development with public investment to assist with some of the country's most difficult challenges, and to improve Panama's competitive advantages (logistics, tourism, and agriculture). The Martinelli administration has launched initiatives such as "*Las metas imperdonables*" ("goals to be met with no excuses"), a number of objectives linked to the Presidential Agenda that include high-profile infrastructure projects and social programs with tangible public targets. The government has also followed up on the implementation of the "*Acuerdos de la Concertación Nacional para el Desarrollo – ACND*", agreements that identified long-term strategic goals to transform Panama into a more democratic, equal, prosperous, dynamic, and regionally balanced society.

In recent years Panama's economy has experienced a boom, with growth in real gross domestic product averaging over 8% from 2006–2010. The Panamanian economy has been among the fastest growing and best managed in Latin America. Despite Panama's superb growth performance, the country has not yet been able to exhibit a corresponding progress in poverty and extreme poverty reduction, and still over one-third of Panama's population lives in poverty, and around 15% in extreme poverty. Compared to the rest of Latin America, Panama has actually underperformed in alleviating destitution. The region grew at a slower pace between 1990 and 2009, but was able to reduce poverty and extreme poverty by 28% and 41%, respectively. In contrast, Panama has only experienced drops of 13% and 25% in poverty and extreme poverty.

PPIAF provided support to the government of Panama to improve the public transit system in the City of Panama, with two grants approved under the administration preceding President Martinelli. A third PPIAF grant to Panama was approved in November 2011 for the "Preparation of a Performance-Based Efficiency Improvement Contract for *Instituto de Acueductos y Alcantarillados Nacionales* (IDAN)'s Colón Business Unit" in the water sector. This activity is currently ongoing.

Technical Assistance for Panama's Transportation Sector

The government of Panama requested PPIAF assistance in 2006 to redesign the bus transport system in the capital city, Panama City. In early 2006, about 50% of the country's population lived in the Panama City Metropolitan Area, with the peripheral areas having some of the poorest communities in the country. Urban poverty was estimated to be around 500,000 people in the Panama Metropolitan area, the majority of which relied solely on public transport to access their workplaces and education facilities. The quality of the existing public transport system was arguably the worst in Central America, imposing an additional burden on the poor, by reducing their access to the domestic economy and equal opportunities. This activity was expected to improve the availability and quality of public transportation services to the population of Panama City, through a concessioning process that would increase the obligations of operators in improving the quality of services and provide better regulatory instruments to the authority to control the quality of services.

The government of Panama had decided to undertake urban transport reforms in Panama City, and a clear mandate was given to *Autoridad del Tránsito y Transporte Terrestre* (ATTT), the government agency responsible for managing and regulating the provision of public transportation, to carry out the reform centered around the introduction of a mass transit system on the main corridors where transport demand is concentrated. The World Bank was financing an Urban Transport Study, concentrating on the definition of the Urban Transport policy and strategy, and delineating the policy and defining the programs and subprograms that should be developed in coherence in order to achieve the overarching goals that the government of Panama was seeking. The ATTT had also identified projects that were expected to be implemented soon, among which was the development of bus rapid transit (BRT) lines on the main corridors. The PPIAF grant was related to this BRT project.

The PPIAF activity delivered the following outputs: i) a socio-economic survey of the public transport industry to assess the impact on income that the activity has on the individuals and families that live directly off this activity; ii) a regulatory model and implementation strategy of the bus operators in Panama City in which the regulation would evolve from the current situation of licensing to the preparation and management of concession contracts for each or group of bus routes (this model takes into consideration the sector (traffic, institutional strength...), the urban poverty distribution and social implication for current operators, and city specificities); iii) seminars to disseminate results and facilitate consultation with operators; iv) draft laws and regulation, requests for proposals, and model contracts for the bus operators; and v) technical assistance to accompany the process. In addition, the activity produced a legal amendment to allow foreign direct investment into Panama's public transport sector. This amended law came into statutory existence in October 2007.

The recommendations provided by the PPIAF-funded activity were clear and actionable, and momentum was generated for the government to begin the process of creating a \$2 million Project Preparation Facility that was part of a World Bank loan. A follow-on PPIAF grant was approved in May 2008, centered on implementing the recommendations of this activity.

In particular, the second PPIAF activity was designed to refine the necessary tendering documents and contracts to achieve actual implementation. In addition, the activity aimed to provide hands-on technical assistance and advice to the government of Panama during the implementation process to continually update the strategy according to real on-the-ground situations and to help implement the proposed strategic steps.

By January 2009, two of the expected outputs had been finalized: i) final bidding documents for the tendering of the operation of bus services; and ii) final contracts for the bus service concessions. Once these documents were finalized, before proceeding to opening the bids, the government of Panama decided to validate the final bidding documents and contracts, as well as other parts of its public transportation strategy, with the National Comptroller's Office (*Contraloría General de la República*). The Comptroller's Office authorized proceeding with the overall strategy, as recommended by the consultants hired with PPIAF funds in the earlier grant.¹

Presidential elections were held in May 2009, and it became difficult for the outgoing administration to move forward with the reforms, as they became a politicized campaign topic. The new administration, which took over in June 2009, initially decided to continue with the same reforms recommended by the original PPIAF studies and to restart the implementation process, taking the plans and documents from the previous administration. However, this did not last. While the previous government participated constructively on the activity, the new government indicated no willingness to engage with the World

¹ As in many countries in Latin America, the National Comptroller is a powerful actor because it oversees overall government expending. Typically the Comptroller intervenes once the government requests an authorization to pay a contractor. Quite often, the comptroller raises questions about the bidding documents used and about the overall government strategy. To avert this risk, the government decided to involve the Comptroller's Office in the planning of the public transit reform. But to involve it, the government needed a first full draft of the documents, which the consultants hired with PPIAF funds helped finish. The Comptroller's Office saw the documents, held discussions with government officials, and requested minor changes to the documents.

Bank, and the Bank eventually pulled out. This PPIAF grant was coupled to a Project Preparation Facility loan that Panama never signed. The bidding documents, contracts, and advice to achieve actual implementation of the public transit system in Panama City were delivered but did not affect the government's policies. The government of Panama stopped requesting support and did not follow the advice provided, as the proposed technical steps required to implement a sweeping reform did not take place.

Despite this situation, Panama moved forward with implementation. In July 2009 the transport authority of Panama invited bids for the operation of the public transportation system in the metropolitan area of Panama. Panama's metropolitan bus service was to be divided in sub areas, and each concessionary would operate a minimum of 500 buses. Two national and four foreign companies applied to participate in the bidding process. In July 2010 bids were invited for the Panamanian Metro Bus Administration. Panama's Land Transport Authority carried out the tender for financial administration of the capital's Metro Bus system. Ten companies participated in the process. In January 2011 the Chilean Consortium Sonda SA won the \$180 million tender to manage the new mass transit system, and the concession was granted to the firm for a period of ten years. Sonda is responsible for recharging the cards for access to Metro Bus as set out in the terms and conditions of the bid, once the card system becomes operational one thousand points of sale will be available, of which 10% will be run 24 hours a day. In March 2011, a tender for the concession to design, construct, and provide supplies for the metro bus transit system stops was launched, but this was cancelled in May 2011 after an existing concession contract was discovered. ATTT has also put out tenders for the sale of buses removed from service.²

Results of PPIAF's Activities in Panama's Transportation Sector

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • Socio-economic survey of the public transport industry/evaluation of bus operation in Panama City, December 2007
<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> • Draft laws and regulations to allow more private participation in the provision of bus services, December 2007 • Legal amendment to allow foreign direct investment into Panama's public transport sector, December 2007
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> • Regulatory model and implementation strategy of the bus operators in Panama City, December 2007
Project cycle-related assistance	
<i>Transaction support</i>	<ul style="list-style-type: none"> • Draft requests for proposals and model contracts for the bus operators, December 2007 • Bidding documents for the tendering of the operation of bus services finalized • Contracts for the bus service concessions finalized

² <http://www.centralamericadata.com/en>

Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • Seminars to disseminate results and facilitate consultation with operators • Two-day workshop in Panama City to present the findings of and receive feedback from the Presidential Commission on the study/strategy "Design and Implementation of Reforms in the Bus Industry in Panama City," August 30–31, 2007

Category	Outcomes
Enabling environment reform	
<i>Policies adopted, legislation passed/amended, or regulations issued/revised</i>	<ul style="list-style-type: none"> • A law was amended and adopted to allow foreign direct investment in Panama's public transport sector, October 2007
Project cycle-related assistance	
<i>Transactions facilitated</i>	<ul style="list-style-type: none"> • Chilean Consortium Sonda SA won the \$180 million tender to manage the new mass transit system, January 2011