PANAMA - Country Assistance Strategy

1. We would like to thank Mr. Changanuqui, Mr. Sheahan, and their colleagues for their work on this accurate and thorough document. We also welcome the progress which staff have made since the last CAS in expanding their dialogue with civil society on the Bank’s program. We strongly support the Bank’s plans to deepen this consultation process. We believe this outreach can play an important role in deepening public ownership and better appreciation for the economic reform program underway.

2. We commend the Government for the good record it has compiled in implementing its economic reform program, liberalization, and modernization, including the progress recorded this year in financial sector reform. We note that some of the reforms have been controversial, are opposed by vested interests, and have become an issue in the current election campaign. In its collaborative efforts with the Government, we believe the Bank should highlight those areas that need important attention. We see both social security reform and civil service reform as needing priority attention.

3. In the area of banking reform, we understand that the IDB is advising the new Superintendent of Banks in drafting implementing regulations for the new banking law. We further understand that the President of the Superintendent’s Board of Directors has expressed particular interest in World Bank assistance in training bank officials, including examiners, an area in which the IDB is apparently not involved. We would encourage the Bank to consider providing such assistance.

4. There is also a particularly strong need for continued sound fiscal discipline. With the fiscal deficit projected to increase to 0.7 percent of GDP this year and 1 percent in 1999, it is important that expenditure remain tightly controlled. We welcome the plan to undertake a public expenditure review in FY99 and anticipate that this review will assist the Government in improving and targeting and efficiency of social spending. In this context, we note that the Government has abolished its armed forces – and would be interested in knowing what the resultant budgetary savings were and the extent to which they have been redirected to priority development purposes.
5. With increased economic opportunities available relating to the reversion of the Panama Canal, we would expect potential increases of private investment. To provide the incentives necessary for private investment to continue expanding, the legal and regulatory framework for investment needs improvement. It will be important to ensure fair, transparent, and uniform application of laws, regulations, and procedures affecting investors, including foreign investors. There are several areas needing increased Government attention such as the large backlog of cases in the courts and the lack of enforcement of laws protecting intellectual property rights.

6. We agree with the assessment of the Government and the Bank that the focus of the CAS should be on assisting Panama in achieving a significant reduction in poverty and inequality. The large number of Panamanian poor and the fact that inequality has worsened markedly over the last fourteen years demonstrate the magnitude of the problem which has to be addressed as does the fact that more than half the children and 95 percent of the indigenous population are poor. We were pleased to note the key role which the Bank-supported Living Standards Management Survey and Poverty Assessment provided as the analytical basis for the Government’s Poverty Strategy and Action Plan. We welcome the intent to broadly disseminate the results of the Poverty Assessment in efforts to build the political consensus for undertaking and sustaining necessary policy reforms. We also hope that the Government will agree to disseminate this CAS document.

7. The Bank’s proposed lending program for 1999-2001 tracks the assessment that poverty alleviation can be most effectively addressed by support for human resource development, targeted poverty programs, growth policies and environmentally sustainable development. We very much welcome the introduction into this CAS of specific monitorable indicators for poverty reduction which provide a way to objectively monitor the success of the CAS program. However, in view of the fact that 95 percent of the indigenous people are poor, 88 percent of them extremely poor, and 50 percent of indigenous children are malnourished, we suggest the Bank consider the feasibility of moving forward the Indigenous Communities Development pilot LIL scheduled for FY2001. We also hope that some of the Bank’s other projects can be structured so as to include significant benefits for the indigenous people.

8. We applaud the broad efforts made by the Government and the Bank to strengthen the participation of beneficiaries and affected peoples in project preparation and policy formulation. We consider sustaining these efforts will be essential to project effectiveness and to improve the targeting and efficacy of poverty alleviation programs.

9. We commend the Bank for explicitly addressing the corruption issue and commend the Government for the steps it has taken to decrease corruption and improve governance. We particularly welcome the 1995 law on transparency in government procurement. We also note that there has been progress on money laundering and we hope to see effective enforcement of money laundering laws in the near future. As the Board discussed earlier this week, corruption can have a major adverse impact on development prospects and we urge the Bank and the Government to remain alert for opportunities to effectively reduce this problem,
10. The description of Panama’s environmental problems is very troubling. Not only is the uniquely rich biodiversity of the country seriously threatened but such critical assets as the Panama Canal and Panama’s largest hydroelectric plant are also threatened by deforestation and erosion. We commend the recent adoption of the General Environmental Law and urge that necessary regulations and mechanisms for the Law’s enforcement be put into place. We believe that if further environmental damage is to be avoided, the environmental units in the ministries have to be given the authority and independence to ensure that analyses are carried out and mitigation measures integrated with construction or other economic activities which affect the environment.

11. As noted in the CAS, progress in strengthening institutional capacity in the environmental area, especially in the transport sector, has been slower than expected. The problems being experienced with the Corredor Norte and Corridor Sur highway projects illustrate this deficiency. Given the very significant resources which the World Bank and the Inter-American Development Bank are devoting to the road sector in the next few years (i.e., about $250 million for road rehabilitation alone plus more for new road building in the Darien region), and the Government’s plan for new roads, improved environmental planning, monitoring and mitigation will be critical. Otherwise, as past experience has painfully demonstrated, projects aimed at improving access will lead to further impoverishment of rural inhabitants and indigenous communities. In this respect, we commend the Government for its recent commitment under the Panama Road Project to apply World Bank environmental guidelines to all transport projects, regardless of funding source, and appreciate the increased responsibility this places on Bank staff. We hope that this commitment will be fully supported and monitored by the donor community.

12. The proposed Land Administration Project will improve land security for many farmers and, we hope, lead to greater investments, productivity and the adoption of sustainable practices in the agricultural sector. However, in regions such as Bocas del Toro and Darien, where new road-building has begun or will begin shortly, there are urgent land use issues, including protection of indigenous lands from illegal logging and settlement, that we believe should be addressed sooner rather than later. We urge that the Government and the Bank use resources from existing programs to address these land use issues as soon as possible.

13. The Canal Watershed Project proposed for FY2001 is expected to slow or stem degradation of the forests in the Canal Zone and support the adoption of sustainable farming practices. Much work is also needed outside the Canal Zone to stem deforestation, reduce pollutants from mining, and change agricultural practices. Given the concentration of poverty in the rural areas and among the indigenous communities, these “environment activities” also form a critical part of effective and sustainable poverty alleviation efforts.

14. It seems that only one project in Panama has been evaluated by OED in the last five years. As poverty alleviation projects are typically difficult to implement, it would be helpful to have OED evaluate one of the ongoing projects when they are completed (e.g., “Basic Education” or “Rural Poverty and Natural Resources”). In
addition, given the large investments in the transport sector, we believe the first road rehabilitation loan should also be evaluated at an early stage.

15. We welcome the inclusion of IFC and MIGA activities in the CAS. We note the heavy IFC focus on infrastructure and urge due diligence to environmental concerns. We also wondered if IFC sees any potential investment opportunities in the rural areas, where poverty is so entrenched. With regard to MIGA, we note that Article 285 of the Panamanian Constitution limits foreign government ownership of property. For this reason, the Government will not agree to OPIC guarantees, which, in the event of a problem, could transfer property to a USG entity in the course of settling a claim. Has MIGA encountered a problem in this area?

16. We are pleased the CAS acknowledges the importance of close coordination with the IDB, and hope that this effort will receive the priority and serious attention of both institutions. Our USAID representatives also have a dialogue with the Bank on areas of mutual concern, but believe this interaction needs to be intensified to ensure programs are complementary and to avoid duplication of effort.

16. On a number of occasions in the past, we have urged that a representative of the IDB be invited to attend and participate in our CAS discussions just as IMF representatives frequently do attend Board sessions. While this idea has not generated much support, we continue to believe such participation would be useful — particularly in cases like Panama where the IDB has such a large lending program — and would also be a signal of the seriousness which the Board accords to the effective collaboration among the MDBs.