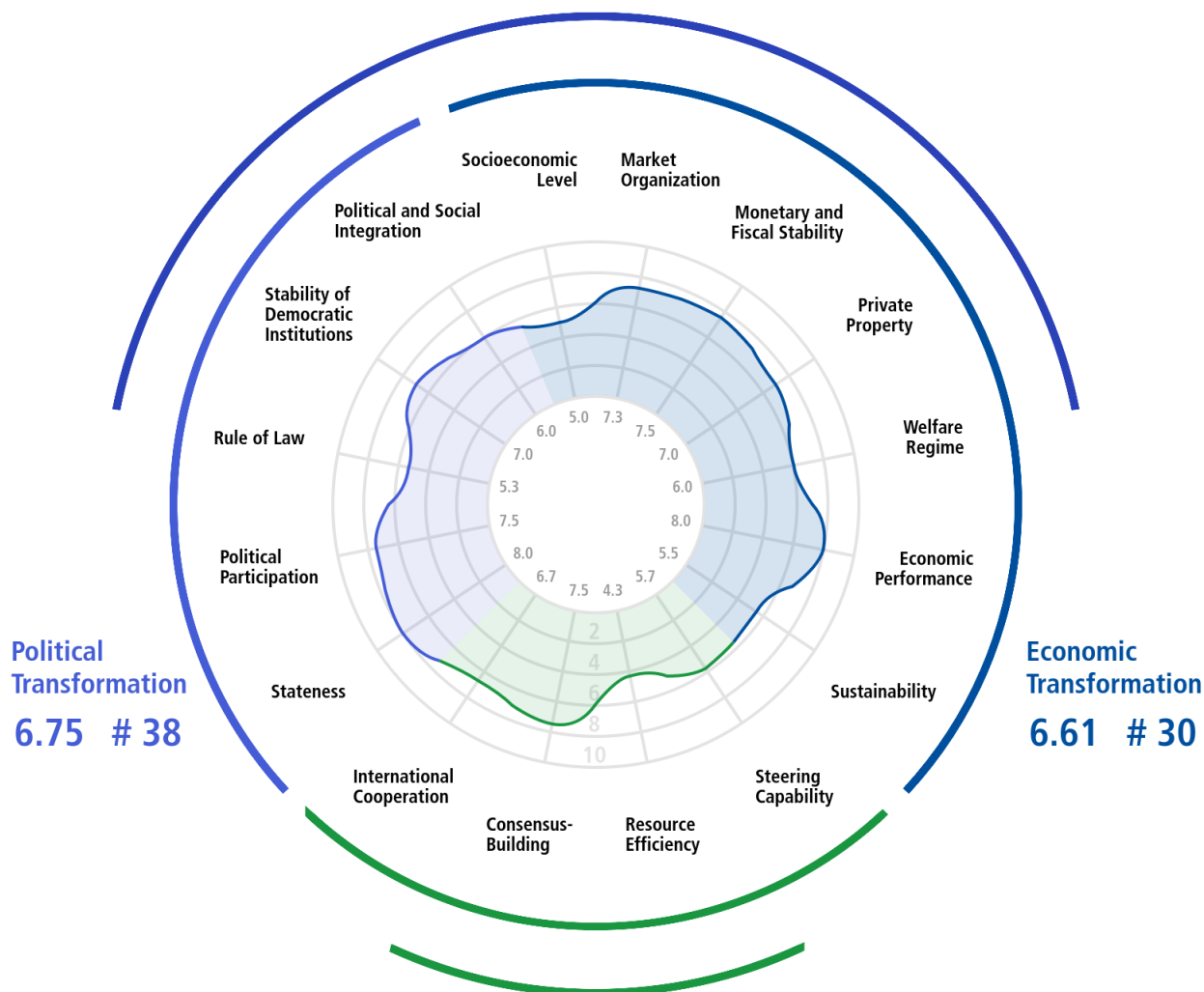


Panama

Status Index

6.68 # 26

on 1-10 scale out of 137



Political Transformation
6.75 # 38

Economic Transformation
6.61 # 30

Governance Index

5.18 # 46

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. 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	4.4	HDI	0.805	GDP p.c., PPP \$	39280
Pop. growth ¹	% p.a.	1.3	HDI rank of 189	61	Gini Index	50.9
Life expectancy	years	76.2	UN Education Index	0.714	Poverty ³	% 4.3
Urban population	%	69.1	Gender inequality ²	0.392	Aid per capita \$	20.8

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Although Panama's democracy has remained stable following the COVID-19 pandemic, several structural problems affecting the country have become more evident, which has led to an unprecedented social crisis. While the institutional architecture has been maintained, institutions have proved inefficient due to corruption, political interference and a lack of transparency. This is compounded by executive interference in the other branches of government and the growing weight of individual actors who have established their own policy domains based on particular interests.

Despite the absence of an authoritarian risk and the majority of the population's support for democracy, Panamanians are dissatisfied with governance in their country. However, the type of regime in place is not the main concern of the country's most vulnerable population groups, who do not really care what type of system prevails as long as the expectations and campaign promises made by their political leaders are fulfilled. In this sense, the last few years have been particularly discouraging in Panama. The Cortizo government, in office since July 2019, has failed to implement some of the measures contemplated in the Strategic Plan (2020 – 2024). The management of welfare policies, such as those related to employment, the cost of living, citizen security, health care and education, remains deficient. Insecurity driven by drug trafficking is increasing, while poverty remains the main social problem.

Even though Panama has achieved better results in terms of its post-COVID-19 economic recovery than other Latin American countries, economic growth has not been accompanied by a reduction in poverty and inequality. Inflation and the institutional inability to address urgent reforms (e.g., pension reform) make the scenario even more complex. Moreover, the Panamanian economy faces problems stemming from weak institutionalization. Although market competition operates within an institutional framework, its rules are not always applied consistently or uniformly to all market participants. In this sense, the greatest problems to economic development in Panama are the country's weak institutional framework, which impedes the development of micro, small and medium-sized enterprises, coupled with the increasing level of the informal economy.

As a result of widespread disenchantment with the way politics and the economy operate, Panama is currently experiencing its largest social crisis since the 2022 social outbreak. The protests can be seen as the result of a series of accumulated institutional, social and economic factors that were intensified by the COVID-19 pandemic and were not promptly addressed by the state, despite repeated warnings in reports, surveys, academic articles, and sectoral mobilizations prior to and during the pandemic. In response to the social outbreak, the Cortizo government initiated social dialogue processes with various social groups, although not all of these processes have been successful.

History and Characteristics of Transformation

In 2021, Panama commemorated the bicentennial of its independence from Spain, after which it immediately joined Colombia voluntarily. After several attempts at secession from Colombia, in 1903, a group of patriots succeeded in establishing a Panamanian state.

This long-cherished goal, however, was only achieved through support from the United States, which subjected the small republic to its overpowering influence with the objective of dominating the transit zone to build and operate a trans-Isthmian ship canal. Tensions between Panama and the United States continued throughout much of the 20th century, culminating in bloody flag riots in 1964 and bilateral treaties in 1977 that mandated the transfer of the canal to the Isthmian Republic on December 31, 1999. U.S. influence, however, has remained an important force in Panama, with Washington exercising hegemony in matters of interest to U.S. policymakers, especially in the areas of security, international finance and foreign relations.

A military coup interrupted constitutional government on the Isthmus in 1968, inaugurating an authoritarian regime that remained in power until a U.S. invasion dislodged it in 1989. The military government officially assumed power on October 13, receiving recognition from the United States and other Latin American countries over the following weeks. In the days after the coup, the military continued to persecute and arrest opponents, leading many of them to seek exile and resulting in the disappearance of constitutional guarantees.

Panama's current political system originated with the military dictatorship, particularly its 1972 constitution, which is still in force (although it was modified in 1978, 1983, 1994 and 2004). The 1972 constitution was instrumental in forming the party system, which dates back to 1978, and the electoral system, which was established in 1983. Both the party system and the electoral system have played a significant role in shaping Panama's political system.

After the U.S. invasion, Panama transitioned to democracy between 1989 and 1994 under the leadership of President Guillermo Endara of the Partido Panameñista (PPAN), then known as the Arnulfista party. Since then, civil society has grown considerably, both in terms of the number of non-governmental organizations (NGOs) and affiliates active in the country. Under the 1972 constitution, Panamanian democracy acquired its most significant features, including executive rotation through elections every five years, no tampering with the president's constitutional term of office, the dominance of "partyarchy," clientelism and vote-buying.

Following Endara, six presidents have held office, all without any disturbance. Candidates of the Partido Revolucionario Democrático (PRD) have held the presidency three times (1994 – 1999, 2004 – 2009 and 2019 – present), while PRD has controlled the legislative branch throughout most of Panama’s democratic period. Additionally, the PRD has commanded a majority of municipal councils throughout the country and dominated the national bureaucracy. Since 1994, two other presidents, Mireya Moscoso and Juan Carlos Varela, were members of the Partido Panameñista. In addition, a candidate representing Cambio Democrático (CD), a personalistic grouping formed in support of businessman Ricardo Martinelli’s presidential aspirations, won the presidential election in 2009. In recent years, an anti-system tendency has gained traction, fueled by frustration with corruption, socioeconomic inequities and poor government services.

During its democratic period between 1989 and 2022, Panama was characterized by continued economic growth, except during the COVID-19 pandemic. This economic growth was stimulated by foreign investment, public works, increased trade, international services provided by local suppliers, and, after 1999, the operation of the country’s emblematic asset, the Panama Canal.

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

In principle, the state's monopoly on the use of force is established nationwide. However, at the same time, it is contested and often challenged by domestic and transnational organized crime and several illicit economies. Homicides and drug trafficking-related activities remain a serious problem. For example, in 2022, according to the Attorney General's Office, the country recorded 446 homicides, representing a rate of 10.6 homicides per 100,000 inhabitants, down from 11.5 in 2021 (550 homicides). The province of Panama is the area with the most cases (175), followed by Colón (95), San Miguelito (76) and Panamá Oeste (40). The Indigenous areas of Emberá and Guna Yala did not report any homicides.

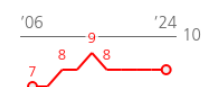
According to data from the Public Prosecutor's Office, more than 56% of these homicides are linked to organized crime (gang rivalry, drug trafficking, the settling of scores, fights over territory and other criminal activities). Panama's role as a sophisticated drug trafficking hub, rather than simply a transit point for cocaine, was exposed when the country was designated the logistical center of the recently dismantled "super-cartel." According to the security minister, as long as the country's port facilities remain vulnerable to drug trafficking, these figures will continue to rise.

Panamanian authorities are concentrating resources on the fight against drug-related activities in order to weaken gangs and other criminal organizations. According to the national police director, there are 240 registered gangs with at least 2,400 gang members. Not all of them make their living from drug trafficking, although the strongest ones are involved in transport, custody, assassination and receiving drugs from foreign cartels. Finally, transnational organized activities are not being prosecuted.

Question
Score

Monopoly on the
use of force

8



1

All individuals born on Panamanian territory are considered citizens from birth (*jus solis*). Their accreditation as citizens is normally not an issue. In addition to those born in the country, according to Article 10 of the constitution, foreigners may opt to become citizens after five consecutive years of residence in Panama or three consecutive years of residence, as long as they have a Panamanian spouse or children born in the republic to a Panamanian father or mother.

Panama is characterized by its diversity. With a population exceeding 4.3 million, the country is characterized by its diverse demographic composition. Approximately 67% of the population identifies as mestizo (mixed European and Indigenous American ancestry) or mulatto (mixed African-European ancestry), 14% as black, 10% as white, 6% as Amerindian (Indigenous) and 3% as other. Panama's seven Indigenous groups are based in semi-autonomous territories. The prevailing version of the nation-state is normally accepted by most segments of the population, with exceptions among some Indigenous groups, often in response to complaints of government abuse, land-grabbing of reservation land by outsiders or poor public services. For example, in 2022, Indigenous peoples protested in favor of land titling and against the high prices of fuel and the basic family basket.

Despite the fact that the large majority of the population accepts the legitimacy of the nation-state, not all individuals and groups enjoy the right to citizenship without discrimination. Immigrants, many of them from Venezuela, Colombia, Nicaragua and other neighboring countries, commonly encounter obstacles obtaining legal residency and citizenship. These include excessive bureaucracy, prolonged waiting periods, exorbitant fees, a lack of highly trained immigration officers, institutional weakness and corruption. As a result of these hurdles, many live in the country precariously, trying to earn a living without legal authorization or protection, which exposes them to continuous police harassment, including extortion, sexual abuse and brutality.

Freedom of worship and a majoritarian affiliation to Catholicism are constitutionally recognized (Article 35). The constitution also limits the public positions that religious leaders and members of religious orders may hold to those related to social assistance, education and scientific research. The constitution forbids the formation of political parties based on religion, as well as discrimination against public servants based on their religious practices or beliefs. Traditionally, the most widespread confession has been Catholic, with almost 90% of the population identifying as Catholic.

In practice, the state-church relationship is evident in Panama. Religious invocations are made at public events, priests are given positions of honor, millions of U.S. dollars are allocated to religious organizations, Catholicism is taught in public schools, and Christian morality is even constitutionally established as a barometer to determine what is right or wrong. Respect for Christian morality serves as a constitutional and legal parameter to authorize certain activities, particularly religious practices, entertainment activities and public gatherings, although prohibitions on this basis are

State identity

9



1

No interference of religious dogmas

8



1

not normally invoked. Religious leaders, especially from the Catholic Church (but also from evangelical denominations), exercise influence over the political establishment on matters of interest to the organizations they represent, particularly reproductive health and education issues. In 2022, due to widespread unrest, the government requested the mediation of the Catholic Church to create a space for dialogue with protesters.

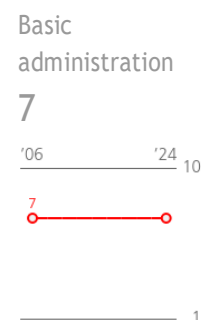
Most basic public services are provided throughout the country, but their operation is deficient. The Public Services Authority (ASEP) is the regulatory body for public services in Panama. Access to health care, education, water, sanitation, security and justice at all levels is normally problematic owing to precarious staffing, inefficiencies, budget constraints and widespread corruption. The absence of transparency in all areas is a serious problem affecting the state's performance as a provider of goods and services. In terms of health care, a new hospital, the Ciudad de la Salud, will be completed by the end of 2023. Temporary measures have also been adopted to gradually improve public access to medicines. For example, a temporary measure, in force since August 2022, has reduced the price of 170 medicines by 30%.

Nationwide, 94% of people have access to reliable electricity. However, in largely Indigenous areas, average rates are lower. For example, in the Indigenous comarca of Ngäbe Buglé, only 4% of the local population has access to reliable electricity. Most people in Panama live in urban areas, where they have greater access to water than in rural areas. Approximately 79% of rural households have access to piped water, compared to 97% of urban households, while 8% of households do not have access to an improved water source, according to the last national census. A larger proportion of people living in urban areas (85%) have access to sanitation than people living in rural areas (only 42% of rural households).

Currently, there are various plans and programs aimed at improving public infrastructure. These include the construction of a new water management system for the Panama Canal (\$2 billion), the second phase of the construction of the Gorgas Memorial Institute (\$200 million), the construction of the North Panama Hospital (\$180 million), and the electricity interconnection between Panama and Colombia. The national territory of Panama has a road network of approximately 15,137 km, of which 6,351 km are paved. The government has announced that, over the coming years, it will carry out a series of projects for which funding could exceed \$3 billion.

Concerning the administration of justice, by 2023, 100% of the budget requested by the judiciary has been allocated, providing it with resources and financial autonomy.

In terms of security, the country has no armed forces. Civilian authorities maintained effective control over the security apparatus.



2 | Political Participation

Elections for the country's president, 71 National Assembly deputies, 81 district mayors and 681 municipal council members were last held in 2019. Following the country's transition to democracy between 1989 and 1994, multiparty elections for all elected offices have taken place punctually every five years, according to the constitution and without delays. According to the Organization of American States (OAS) Election Observation Mission (EOM), the 2019 elections were free and fair overall, although shortcomings remain. Fair and equal access to the media for all candidates and parties is generally guaranteed during elections.

Independent candidates have been increasingly allowed to participate, although registration procedures are cumbersome, and allocated funds continue to benefit mainly political parties. Independents repeatedly complained of discrimination against them and arbitrary filing impositions that placed significant obstacles to their securing candidacies. Women's and disabled groups also complained that several aspects of the voting process discriminate against them. Although the electoral law provides for gender equality, it is watered down by exemption clauses, so that only 16 of the 71 seats in the National Assembly are filled by women.

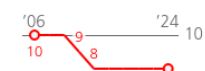
Voting takes place in a heavily clientelistic environment. However, while vote-buying was common in the past, especially in National Assembly elections and municipal elections for mayors and county representatives, the 2014 and 2019 elections saw almost no electoral crimes in this regard. Another problem is the repeated changes in electoral regulations and their inconsistent application, especially the procedure for allocating seats, which has been "reformed" for almost every election since 1916. The National Assembly, through the Government, Justice and Constitutional Affairs Subcommittee, is currently analyzing an Electoral Code reform bill, with the electoral process for the 2024 elections already open. The initiative aims to prevent the incineration of ballots after the voting process, advocating for ballots to be preserved for up to 30 days after the elections in the event of any challenges.

Generally, elected political representatives in Panama have the effective power to govern. However, different actors have established their own policy domains based on particular interests.

After the abolition of the armed forces by constitutional amendment in 1994, the most important potential veto power disappeared. Notwithstanding, the United States continues to exercise influence over Panama's external relations and certain internal matters of interest to Washington, DC, including security. The government of Martín Torrijos (PRD, 2004 – 2009) initiated a policy, continued by his successors Ricardo Martinelli (CD, 2009 – 2014), Juan Varela (PPAN, 2014 – 2019) and Laurentino Cortizo (PRD, 2019 – present), of strengthening and militarizing the national security services. Acting as veto players, security services prevent any oversight over or

Free and fair elections

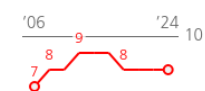
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1

Effective power to govern

8



1

democratic control of their organizations. Additionally, they monopolize security policy, imposing arbitrary, inconvenient or pointless measures (e.g., roadblocks throughout the country) on the civilian population.

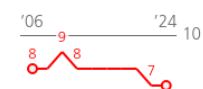
Large business interests and the Catholic Church, as noted above, may also influence policy in matters of interest to them. Likewise, in recent years, such individual power groups have set domains within the executive, the legislative and even the judiciary. The high level of political factionalism is even reflected within the Executive Council (Ministers Council) where the country's vice president dominates (even over the president), directly clashing with other PRD factions that tend to represent the party's popular base. Within the legislative branch, incumbent party deputies do not follow the party's government plan, instead challenging the executive branch and openly legislating against other actors' interest policies.

The constitution guarantees freedom of assembly (Article 38) and association (Article 39), subject to government approval, provided such associations do not promote objectives contrary to "morality," unlawful goals or racial discrimination. Generally, political and civil society groups have been able to operate free of unwarranted state intrusion or interference in their affairs. During the COVID-19 pandemic, however, to intimidate protesters, the government made threats against demonstrators based on decrees issued by the executive, curtailing the exercise of civil rights.

In July 2022, protests broke out in Panama. The protests can be understood as the product of a series of accumulated institutional, social and economic factors that were aggravated by COVID-19. These protests harbored claims of unsatisfied basic needs related to water, food, health care, labor, education, social inequality and corruption. But the mobilizations were also triggered by the rejection of the constitutional reform presented by the government to the National Assembly. The protests were led by various unions, some of which are grouped into two major alliances: the National Alliance for the Rights of the Organized People (ANADEPO) and the Alianza Pueblo Unido por la Vida. The participation of the National Coordinating Committee of Indigenous Peoples of Panama was also noteworthy. Even though each union or sector had its own demands, they all agreed on three points: the lowering of fuel prices to \$3 per gallon, which in mid-June 2022 had exceeded \$6 per gallon; the reduction of the price of the basic food basket; and control of medicine prices. Panamanian union leaders have denounced the government for the harsh repression it has deployed against the protests.

Association /
assembly rights

7



1

Article 37 of the Panamanian constitution recognizes freedom of expression. However, statements threatening the honor or reputation of individuals, as well as “social security” or “public order,” are subject to “legal responsibilities.” Through these legal means, the freedom of information legislation that is in place may be rendered ineffective. Though formally there are no legal norms on journalistic censorship, in the last decade, criminal norms on slander and libel have been used to sue dozens of journalists, editors, directors and several media outlets for their coverage of high-profile corruption cases. In the Reporters Without Borders 2022 Press Freedom Index, Panama ranks 74th out of 180 countries.

Although Panama’s printed media generally provide for a plurality of opinions, radio and, especially, television outlets do not broadcast the same amount of pluralism. Journalists who criticize government policies or cover corruption-related issues, especially international financial scandals, may find themselves in trouble with the judiciary. Some journalists face legal proceedings for defamation, which often result in fines. The Press Freedom Report, Panama Chapter, prepared by the Inter-American Press Association (IAPA), bluntly states that the persistence of judicial harassment is the main threat to journalists, executives and media outlets. The document, published during the 78th IAPA General Assembly in 2022, provides a list of journalists and media outlets that have been subject to lawsuits by politicians, powerful officials and others.

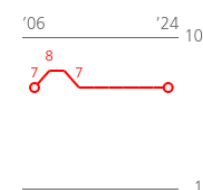
Panamanian media is led by several corporations. Print media is dominated by Corporación La Prensa, Editorial El Siglo and La Estrella de Panamá, Editorial Panamá América S.A. Meanwhile, radio, cable, TV and digital media are dominated by Corporación Medcom (Telemetro, RPC, ECO), Alfredo Prieto’s Group and Televisora Nacional S.A. (TVN and TVMax). Such dominance is the result of decades of intricate relationships between economic and political power and media corporations. Media corporations openly support political candidates, while journalists leave their positions to serve in executive and even diplomatic positions. The symbiotic relationship between the political-economic elite and media corporations has resulted in the disarticulation and laxity of media legislation, especially that relating to radio and television.

3 | Rule of Law

Panama is a presidential democracy constitutionally organized according to the republican format. The separation of powers is described in the Panamanian constitution in Titles V, VI and VII. In practice, however, the executive branch has considerable powers over the legislative and judicial branches. Regarding “constraints on government powers,” Panama scored 0.53 on a scale of 0 to 1 in the World Justice Project’s Rule of Law Index 2022. In the global ranking, Panama ranked 70th out of the 140 countries evaluated. Among the 32 Latin American and Caribbean countries that were analyzed, it ranked 16th.

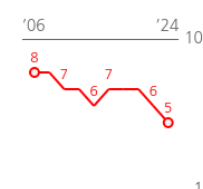
Freedom of expression

7



Separation of powers

5



The capacity for checks and balances between the executive and legislative branches also depends on the weight of the president's party in the National Assembly, as was demonstrated during a period when the government was divided (2017 – 2019). In the 2019 general elections, President Cortizo's coalition won 35 out of the 71 seats in the National Assembly, but due to the coalition splitting into factions, there is friction with the executive.

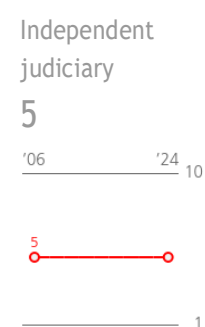
The Supreme Court of Justice has the power and duty to prosecute members of the National Assembly, while the National Assembly can prosecute members of the Supreme Court. However, the appointment of Supreme Court members by the executive, with ratification of the National Assembly, creates a conflict in terms of judicial independence from the two branches of government.

The judicial system consists of the judiciary, headed by the Supreme Court, and the Public Prosecutor's Office, headed by the Office of the Prosecutor General (Procuraduría General de la Nación) and the Office of the Solicitor General (Procuraduría de la Administración). Responsibility for investigations lies with the National Directorate of Judicial Investigation. The judicial system is sufficiently differentiated territorially and functionally. However, it suffers severely from corruption and a lack of merit-based professionalism, which most international representatives and observers, including the U.S. government, deplore.

The judiciary has repeatedly drawn attention as a focal point of corruption, with allegations ranging from the sale of court rulings to judges servicing the interests of politicians, businessmen and even drug traffickers. This is part of the skeleton of a system that, according to civil society organizations, requires urgent change. The vulnerability of judges, judicial dismissals and the absence of a clear career path are critical aspects that further weaken Panama's judicial system. To these problems can be added judicial delays and backlog, the high number of unconvicted prisoners, the lack of budgetary autonomy, the perception of impunity and selectivity of justice and the lack of transparency.

Supreme Court appointments are particularly problematic. The court is composed of nine justices, who are appointed by the government and ratified (or rejected) by the National Assembly for a period of 10 years. In recent years, complaints against the nominating procedure for Supreme Court justices have increased, with claims that the Supreme Court is now packed with incompetent presidential cronies. Among other things, the crisis within the Supreme Court is evidence of the exhaustion of the current appointment model, which lacks pre-established procedures based on merit and is not open to public scrutiny.

In 2022, leaders of Panama's political opposition questioned the Supreme Court decision to appoint jurists Luis Guerra Morales and Jacob Carrera Spooner as principal and deputy magistrate of the Electoral Tribunal (TE), respectively. Their evident militancy within the ruling PRD had raised concerns about potential bias in their roles.



The fight against corruption and fraud in Panama has experienced progress and faced challenges in recent years. On the one hand, the authorities have opened more investigations than ever. However, cases often stagnate or fail to reach the courts, while the idea that impunity is too big a monster to beat prevails among the public. Over the past decade, there has been a lack of real institutional progress in enhancing the transparency and accountability of the public sector, and effectively punishing acts of corruption.

Traditionally, officeholders who break the law, no matter what level of government they work at, have rarely been prosecuted. However, this has begun to change. For example, the Brazilian construction conglomerate Odebrecht was accused of bribing government officials following its arrival in Panama in 2004. Despite Odebrecht confirming it had engaged in bribery to obtain government contracts, it reached an agreement with the Public Prosecutor's Office to pay a fine in exchange for terminating the case. The main political actors involved in the case have not been convicted. However, as part of this case, the two older sons of former President Ricardo Martinelli were prosecuted and found guilty in a U.S. federal court in New York of laundering bribe money from Odebrecht through the U.S. financial system.

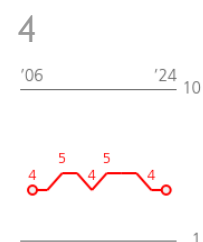
Panama is a member state of several international organizations and has ratified the central UN human rights treaties as well as the American Convention on Human Rights. Article 4 of the constitution establishes that the country will abide by the norms of international law. De facto, however, civil rights are not properly respected and protected, largely due to judicial inefficiency.

Despite constitutional provisions, discrimination against Afro-Panamanians, Indigenous peoples, women and the LGBTQ+ community remains a concern. For Afro-Panamanian groups, the structural racism and racial discrimination that permeates society is expressed through racial profiling, police abuse, mistreatment, humiliation, invisibility, exclusion and social marginalization. Indigenous groups continue to be denied their legal rights to participate in decisions that affect their lands, culture, traditions, and the allocation and exploitation of natural resources. Women, girls and teenagers are more vulnerable and disadvantaged in terms of gender-based violence, economic empowerment, food security, political participation and representation, according to UN Women data. Finally, there is no law that protects LGBTQ+ individuals from any kind of discrimination.

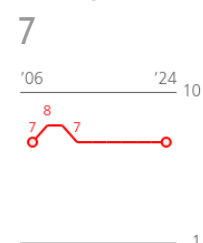
Another problem is police abuse during security operations, with little or no redress in most cases. Investigative units within the security forces are not independent or functional and access to justice in these and other cases is ineffective. The country has witnessed violations of elementary guarantees, unconstitutional actions and excessive use of force by the security forces. The extent of impunity is unclear, as there is a lack of government transparency regarding cases of police abuse, and no meaningful statistical data are available.

Regarding access to justice, the system suffers from inefficiency, slowness and excessive bureaucracy, which is compounded by corruption. This situation seriously affects the right of all citizens to effective, prompt and independent justice.

Prosecution of office abuse



Civil rights



4 | Stability of Democratic Institutions

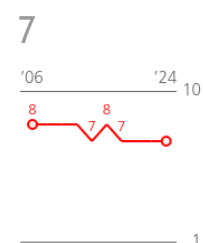
Democratic institutions perform their functions in principle but are often inefficient due to corruption and a lack of transparency. One of the latest examples is reflected in the call made by Transparency International (TI) to the government of Panama in December 2022 regarding the lack of transparency in the frustrated negotiations with Minera Panamá, a subsidiary of Canada's First Quantum Minerals (FQM). TI warned that the legal obligation of transparency and access to public information has regressed alarmingly under the current administration, with the obligation instead replaced by unprecedented silences, illegal refusals and impunity. Panama's public administration is also affected by corruption scandals and lacks transparency.

Friction among branches of the government has normally been avoided through executive dominance over other organs based on a system of rewards and the occasional punishment of members of the National Assembly, the Supreme Court, other agencies and municipal governments – at the cost of democratic consolidation. Even though the ruling party controls the National Assembly, the number of bills that have been vetoed by the executive branch during 2022 reveals the existence of internal fissures within this political group.

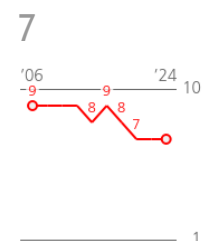
Democracy and its institutions and rules are accepted in principle by the relevant actors in Panama, though they do not agree on whether or how they should be improved. Acceptance of the rules by dominant actors includes clientelistic multiparty elections every five years, dominance by the executive branch and disregard for checks and balances, as well as a low-intensity commitment to fighting corruption and money laundering.

A group of less dominant but increasingly relevant actors critical of the halfheartedly committed democrats are too discordant to present clear alternatives for democratic improvement but at least have enough power to prevent further deterioration. This became clear when President Cortizo announced in late 2019 the withdrawal of his constitutional reforms – intended to strengthen democracy but altered significantly by the National Assembly to its advantage – and a promise to begin a new, more participatory process for defining constitutional and political changes. This came after massive protests against the reform made evident the deep dissatisfaction of civil society and minority political activists with a political elite perceived as corrupt.

Performance of democratic institutions



Commitment to democratic institutions



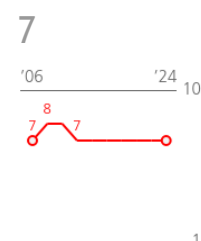
5 | Political and Social Integration

Political parties in Panama are, basically, clientelistic machines. The electoral rules generate incentives for clientelism because the circuits are small and the candidates are financed without party support, which means candidates can maintain personal relationships with their constituents instead of having a relationship through the organization. Panamanian political parties are deeply rooted in the population, as indicated by the relative longevity of the parties, while trust in political parties has been steadily declining in recent years.

After peaking at 43% in 2009, when a third-party candidate was elected president (Ricardo Martinelli), electoral volatility has oscillated between 20% and 30% in presidential elections. In the National Assembly elections, volatility also peaked in 2009 (at 29%). Since then, it has ranged between 14% and 18%. The party system is dominated by the PRD, founded by military dictator Omar Torrijos in 1979. Other parties in the system include the PPAN, founded in the mid-1930s; CD, founded in 1998; Partido Popular (PP), established in the early 1960s; Movimiento Liberal Republicano Nacionalista (MOLIRENA), established in 1982; and Partido Alianza, founded in 2018. These parties have endured throughout the democratic period because of their participation in the spoils of the system. Since the 2019 elections, three parties have emerged: Realizando Metas (RM), with 204,847 adherents; Movimiento Otro Camino (MOCA), with 38,120 adherents; and Partido PAIS, with 23,490 adherents.

One of the most notable characteristics of the Panamanian party system is the lack of ideological polarization. All parties are positioned in the center of the political spectrum, with the exception of the CD, which is usually located further to the right. Thus, a regularly noted anomaly of the Panamanian party system is the absence of a major leftist party, despite 21.8% of the population declaring themselves leftist in 2020 (Latinobarómetro). Regarding affiliation, as of September 2022, the Electoral Tribunal of Panama has reported that 55% of citizens of legal age have registered in political parties, while only 45% prefer to stay out of them. This figure demands attention because – despite the growing level of distrust, disaffection and disapproval in aspects of political party representation – the political behavior of Panamanians reflects relatively high and stable levels. On average, 75% of the voting-age population votes in elections.

Party system



Panamanian civil society consists of organized religious, professional and business organizations, unions, and various interest groups, including civil society, environmental and cultural associations. Community organizations exist but, generally, lack strength. Social movements have occurred but normally fail.

The Catholic Church and the main business associations constitute the best organized and effective civil society groups. These are most likely to be represented in the political system. Even among these groups, however, strong particularistic interests prevail. As a result, civil society fails to attain broad social representation beyond certain narrowly defined objectives. The Catholic Church has substantial influence in politics, even acting as a mediator between the government and civil society, as evidenced in the 2022 protests. For its part, the business elite can also significantly influence and possess the capability to penetrate Panamanian politics. The Club Unión, founded in 1909, is a meeting place for the political and economic elite.

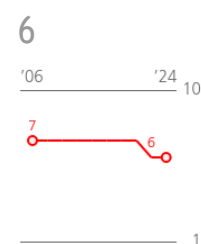
Unions tend to be hierarchical and dominated by their leadership, which often transacts with political parties (especially the PRD) to obtain personalist benefits for their leaders. The most belligerent labor organization is the Construction Workers Union (SUNTRACS), which has a track record of successful negotiations with business owners in their sector. Trade union organizations gained special visibility in 2022 due to the social crisis the country went through. The protests have been led by a plurality of actors, such as unions and social movements, and have included doctors, teachers, construction workers, students and Indigenous groups.

According to the Americas Barometer 2021, democracy continues to be supported by a majority in the Latin America region and in Panama (61%), with support increasing three percentage points for Latin America and seven percentage points for Panama. Regarding satisfaction with democracy as a government regime, the regional percentage was 43%, four percentage points higher than in 2018, while in Panama it rose 12 percentage points to 38%. According to the survey, support for and satisfaction with democracy are rising.

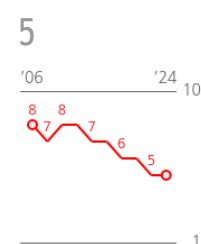
However, the results also suggest that dissatisfaction with elections and the idea of political representation is increasing. Respondents also increasingly favor a strong executive branch that is capable of solving problems such as food insecurity or corruption. Overall, 32% of Panamanians would tolerate a coup d'état by the executive over the legislature in the event of a crisis (compared to a regional average of 30%), an increase of seven percentage points. Similarly, 42% would justify a military coup if there were too much corruption, an increase of eight percentage points.

People with more education, higher incomes and urban residents are the groups most dissatisfied with the political regime. Younger people are also more dissatisfied in general, as are women. Panamanian institutions face significant challenges in terms of public trust. The National Assembly registered a distrust rate of 84.2%, the government 77.2%, the judiciary 75.9% and political parties 87.5%, according to the Centro Internacional de Estudios Políticos y Sociales (CIEPS) in 2021.

Interest groups



Approval of democracy



Interpersonal trust is practically nonexistent (e.g., 74.2% of respondents think that people are “never or rarely trustworthy”). According to CIEPS (2021), since the COVID-19 pandemic, citizens have lost confidence in both public and private institutions. This explains the difficulty in coordinating between the different groups mobilized.

The Catholic Church is the institution that enjoys the greatest level of trust among the population (70.6% say they trust it). However, between the beginning of the 1990s, when the Catholic Church mediated all significant pacts and dialogues involved in designing the country’s current economic and political project, and the present, trust in the Catholic Church has declined 20 percentage points. The people with the least access to goods and services, with whom the state is attempting to engage in dialogue through the mediation of the Catholic Church, are precisely those who say they have the least confidence in the Catholic Church.

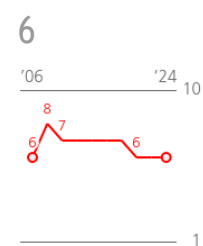
On the other hand, since the country’s transition to democracy, Panama has been characterized by the multiplication of dialogue processes, roundtables and pacts aimed at establishing the political and economic foundations of the country. These mechanisms have reflected a political culture that values consensus, but also very weak democratic institutions that have failed to channel these conversations. Overall, these mechanisms have placed the private sector at the center of policies and sought economic growth through the classic liberal recipes of the 1990s. However, these mechanisms are proving increasingly less effective at convincing the population of their usefulness. In 2021, organized workers walked out of the dialogue process regarding the Social Security Fund. Meanwhile, the bicentennial pact, an online platform for citizen proposals, has failed to convince the public of its usefulness, while the current negotiation tables have not achieved any greater success.

II. Economic Transformation

6 | Level of Socioeconomic Development

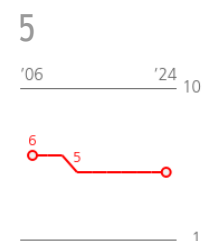
Panama’s Gini coefficient of 50.9 in 2021 reflects its status as one of the most unequal countries in the world. The country exhibits a range of stark realities. In the capital city, wealth and opulence coexist with poverty belts that are impossible to conceal. Outside the capital, marginalization is even more prevalent, particularly in Indigenous regions. Despite experiencing a period of robust economic growth in recent years, Panama has not witnessed significant changes in inequality. This can be attributed to the profound territorial imbalances that persist within the country. According to the 2022 Human Development Report, which presents data for 2021, Panama ranked 61st on the Human Development Index (HDI), with a score of 0.805,

Social capital



Question Score

Socioeconomic barriers



categorizing it as having high human development. Among the 22 Latin American countries, only Chile (0.855), Argentina (0.842), Costa Rica (0.809) and Uruguay (0.809) achieved higher scores.

Poverty in Panama represents the biggest social problem. According to the World Bank, in 2021, 4.3% of the population were living on less than \$3.65 a day. According to the Annual Report on Poverty and Extreme Poverty in Panama 2022, issued by Iniciativa Panamá Sin Pobreza, the overall poverty rate is estimated at 25.0%, affecting more than 1.1 million Panamanians. Meanwhile, the extreme poverty rate in Panama is estimated at 10.6% (2022), affecting more than 464,000 Panamanians. Rural areas account for the greatest proportion of general poverty, including Indigenous areas, while urban areas are relatively less affected.

On average, women are more affected than men by extreme poverty, with more than 217,000 indigent women (10.3%) compared to 204,000 men (9.7%). Panama scores 0.395 on the Gender Inequality Index (latest data from 2020). The age groups most affected by extreme poverty are those aged 0 to 14 (12.1%), those aged 15 to 24 (21%) and those aged 35 to 44 (10.2%).

Economic indicators		2019	2020	2021	2022
GDP	\$ M	69721.8	57086.8	67406.7	76522.5
GDP growth	%	3.3	-17.7	15.8	10.8
Inflation (CPI)	%	-0.4	-1.6	1.6	2.9
Unemployment	%	6.3	14.1	10.3	8.8
Foreign direct investment	% of GDP	6.1	-4.3	2.6	3.5
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-4025.3	-189.3	-2050.7	-
Public debt	% of GDP	40.3	62.0	55.6	53.7
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2019	2020	2021	2022
Net lending/borrowing	% of GDP	-5.6	-8.2	-6.6	-
Tax revenue	% of GDP	8.7	8.0	7.5	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	3.1	3.6	3.3	3.9
Public health spending	% of GDP	4.8	5.9	-	-
R&D expenditure	% of GDP	0.1	0.2	0.2	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

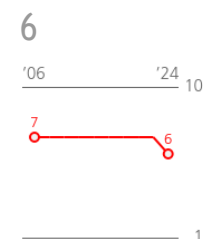
7 | Organization of the Market and Competition

Though market competition operates under an established legal framework, its rules are not always consistent or uniform for all market participants. The greatest problem is the weak institutional framework that impedes the development of micro, small and medium-sized enterprises, coupled with the increasing size of the informal economy. According to ILO statistics, the informal sector was estimated at 55.7% of total employment in 2021, a significant increase since 2019 (52.8%).

Panama's economic arrangement facilitates the formation of monopolies and oligopolies. In this regard, the business association urges the Panamanian authorities to assist the owners of micro, small and medium-sized enterprises in various aspects to foster competition. These include accessing funds, receiving training in soft skills for enhanced business management, establishing processes for value chain development and ensuring efficient use of funds, among other measures.

The Panama Canal is the best-known component of Panama's economy worldwide. Since its transfer from the U.S. administration, beginning in 2000, revenue for the country has increased significantly. However, there are complaints about nontransparent personnel recruitment policies and resistance to external scrutiny of its management and operations. Panama remains an important banking center, with no restrictions on inflows or outflows of funds. For money-laundering surveillance purposes, banking regulations typically require reporting transactions above \$10,000.

Market organization



In terms of restrictions, Article 293 of the constitution stipulates that only Panamanian citizens or companies (with some exceptions) may participate in retail trade. Additionally, there are at least 49 professional activities that may only be exercised by Panamanians, particularly in the health care, legal and engineering sectors.

In 2022, trade union leaders and the government reached a consensus to reduce and control the prices of over 70 products in the basic food basket. These measures represent a departure from typical Panamanian economic policies. The Chamber of Commerce has cautioned that implementing measures such as price controls, profit margin controls and trade barriers ultimately impact not only the private sector and the country's producers but also consumers themselves, yielding conflicting effects.

Competition legislation was introduced in 1996. The law prohibits any act, contract or practice that restricts, diminishes, damages, impedes or in any other way violates free economic competition and free concurrence in the production, processing, distribution, supply or commercialization of goods or services, as contemplated in the norm. However, Panama has a distorted and oligopolistic economy in practice. Oligopoly could be observed in sectors such as communications, energy, fuels, banking services, food imports, ports and medicines.

On the other hand, the consumer protection and competition defense agency, ACODECO, was created in 2007. ACODECO is a member of the International Competition Network. According to the OECD, ACODECO has effectively fulfilled its obligations, despite receiving scarce resources and limited support from the government. Both practitioners and the business community regard ACODECO highly, as do members of the judiciary who handle competition issues.

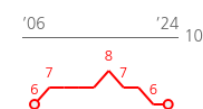
Law 45 of 2007 prohibits unfair and monopolistic trade practices. It also regulates consumer relations and specifies consumer rights, including the responsibilities of suppliers to the consumer. Ultimately evolving into a large and inefficient bureaucracy, ACODECO has been notoriously incapable of protecting consumers against abuses, especially in the utilities sector – electricity supply, in particular.

Complaints of cartelization are widespread in certain crucial sectors, including pharmaceuticals, foodstuffs, electricity, agricultural supplies, telephony, cargo transportation and digital communication. For example, in 2022, Digicel Group announced its exit from the Panamanian telecommunications market after Liberty Latin America's Cable & Wireless Communications successfully acquired Claro's assets from América Móvil, leading to the creation of a new company with the state holding up to 49% of the operation. Judicial proceedings in this area, as in others, are cumbersome, costly, ineffective and prone to corruption, especially when significant interests are involved.

The government provides numerous subsidies for urban transportation, electric power provision, agricultural production and certain industrial activities.

Competition policy

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Panama's economy has historically been linked to the service sector. Foreign trade is widely liberalized, with uniform, rather low tariffs and few non-tariff barriers. The average tariff in Panama is between 10% and 15%. In 2021, the simple average most-favored nation (MFN) applied tariffs were 5.1% (12.1% for agricultural products and 4% for non-agricultural products).

Currently, Panama is party to the following free trade agreements (FTAs) and international economic relations: the Central American Integration System (SICA), the Central American Common Market, the Latin American and Caribbean Economic System (SELA), the Association of Caribbean States (ACS), the Mesoamerica Project, and several bilateral FTAs with Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua), Chile, Singapore, the United States, Canada, Taiwan, Colombia, Mexico, the Dominican Republic and the European Union.

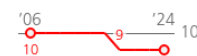
Political risks in Latin America have undermined access to certain export and re-export markets, such as Colombia, which has avoided implementing a ruling from the World Trade Organization (WTO) in recent years. Crisis-ridden Venezuela used to be a significant market for Panama. Additionally, the image of Panama in Central America and the Caribbean has been tarnished due to the use of the Colón Free Trade Zone by transnational organized crime for trafficking contraband and counterfeit products throughout the region. Moreover, Panama has been unsuccessful in persuading China, a fellow WTO member, to adhere to most-favored nation (MFN) terms and grant access to its market, citing the absence of diplomatic relations. Despite Panama shifting its recognition from Taiwan to China, this issue has not improved considerably.

There are no export limitations in place, although bureaucratic procedures and corruption constitute obstacles in this area. Panama's degree of trade openness is currently 81.5% – one of the highest in Latin America. The open and competitive services sector leads to a large surplus in the balance of trade in services, which compensates for the large deficit in the balance of trade in goods.

Panama's banking system is highly regulated, risk-averse and can be considered conservative. Legislation introduced in 1970 established the National Banking Commission, creating a framework for Panama's banking center. In 1998, the commission was renamed the Superintendency of Banks (SBP) and given administrative and financial autonomy, following the norms and principles of the Basel Committee. According to a 2022 IMF report, the SBP has strengthened efforts to comply with the Basel III core principles over the past decade, although full compliance has yet to be achieved. The same applies to the country's efforts to exit the FATF's gray list concerning AML/CFT.

Liberalization of foreign trade

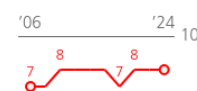
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Banking system

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In February 2021, 59 banks operated in the center, including 40 general-license, 17 international-license and two official (state) banks. Over the last two decades of the 20th century, Panama consolidated its position as one of the most significant financial centers in Latin America. This is attributed to its legal infrastructure for establishing financial institutions, active promotion by the state, favorable geographical location, relative stability and the adoption of the U.S. dollar as the national currency.

The total assets of the International Banking Center are equivalent to approximately 2.2 times the size of Panama's GDP, with international and domestic operations each accounting for roughly 50%. The banking center operates without a lender of last resort and does not have a deposit insurance institution. This has contributed to a strong banking culture of risk-avoidance in credit and liquidity management within the system. According to the World Bank, Panama's bank capital-to-assets ratio was solid at 12.2 in 2021. Moreover, the ratio of bank non-performing loans to total loans was 2.3 in 2021, indicating significantly low levels of non-performance. The only systemic crisis was due to political problems at home and with the United States in 1988/1989. Overall, the banking system is highly stable, guaranteeing both the payment system and financial intermediation, as well as maintaining macroeconomic stability.

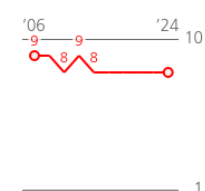
8 | Monetary and fiscal stability

The U.S. dollar is Panama's legal tender pursuant to a 1904 monetary convention with the United States. The country does not issue paper money and has no independent monetary authority. The government only mints coins for ordinary use, in equivalent size and denomination as U.S. coins, which also circulate freely. Therefore, the Panamanian government is unable to pursue a monetary policy or adopt stabilization measures. According to the Economic Commission for Latin America and the Caribbean (ECLAC), the real effective exchange rate index (2015 = 100) has remained fairly stable over the past decade, though there has been a slight devaluation of late (2020: 97.7, 2021: 104.1, 2022: 106.2).

Panama's CPI fell to 1.5% year-on-year in November 2022. To combat inflation, Panama implemented several measures. As a temporary and non-renewable measure, Panama provided \$8.50 per quintal (wet and dirty) to rice producers to ensure the 2022–2023 agricultural cycle's harvest. The country has experienced social protests since May due to fluctuations in the fuel and food markets following Russia's invasion of Ukraine. In response, the government initiated a dialogue table with the main social actors responsible for leading the protests. The purpose was to negotiate measures to reduce the costs of the basic food basket, energy and fuels. The price control program expanded to include additional products in the basic food basket. This program involved the government purchasing 36 domestic products from producers and selling them at a 25% discount. Furthermore, the government

Monetary stability

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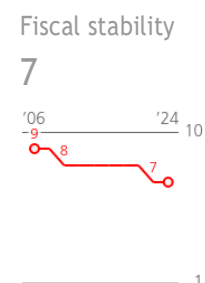
implemented a maximum limit for the retail marketing margin of 17 products, which ranged between 15% and 20%, depending on the type of product. Each of these measures accounted for approximately one-third of total household consumption in the basic food basket.

Despite a lack of institutional safeguards and ad hoc policy changes, budgetary policies have generally promoted fiscal stability. However, this trend underwent a dramatic shift during the COVID-19 crisis. The fiscal deficit surged from 4.1% in 2019 to 9.1% in 2020, before recovering somewhat to 6.3% in 2021, according to ECLAC.

Panama's executive reformulated the 2022 general state budget and raised it by 0.66% to \$25.3 billion after the bill was returned by parliament on the basis that operating and investment spending needed to be increased. The adjusted budget of \$25.3 billion for the fiscal year 2022 complies with the fiscal deficit levels included in the Social Fiscal Responsibility Law. The ministry pointed out that revenues needed to increase to compensate for the greater expenditure. Thus, in the last decade, Panama's public debt and subsidies have tripled, and the payroll of state employees has increased by a factor of 2.7.

Gross public debt increased from 46.3% of GDP in 2019 to 68.4% in 2020, then decreased slightly to 63.6% in 2021, according to ECLAC. As of June 30, 2022, Panama's public debt balance was approximately \$43 billion, reflecting an 8.8% increase compared to the balance on June 30, 2021, as reported by the Ministry of Economy and Finance (MEF). Foreign debt accounted for 82.3% of the total, while domestic debt constituted 17.7%.

The average maturity of the total debt remained stable at the end of June 2022 compared to June 2021. During the second quarter of 2022, the risk rating agencies Standard and Poor's (S&P), Moody's, and Fitch Ratings maintained their investment grades (BBB, Baa2 and BBB-) and outlooks (negative, negative, stable) for Panama, which economists consider stable for the country, with the economy still considered investment grade. In that sense, the increase in the reference rates of the U.S. Federal Reserve, the increase in the prices of raw materials, and the low liquidity in the markets have had a relatively minor impact on the country compared to other Latin American countries due to Panama's dollarized economy.



9 | Private Property

Article 47 of the constitution recognizes the right to private property, subject to social priorities. In the pursuit of public utility or social interests, as defined by law, private property may be expropriated through special judicial proceedings and payment of indemnities (Article 48). Despite the constitutional and legal guarantees, seizures or misappropriations, especially through fraud and intrusions, pose risks to property owners.

A common practice is the invasion of private land by squatters, with squatters of uninhabited properties rarely evicted. According to criminal legislation, these acts are classified as crimes of usurpation when uninhabited houses are occupied without the owner's permission. Article 229 punishes the dispossession of tenancy or possession of a property, including when it is done clandestinely. Article 229A, introduced in 2013, directly addressed the illegal occupation of a property, land or building belonging to others. However, it was legally abolished after it was declared unconstitutional because it was argued that it impeded the exercise of acquisitive prescription.

The Public Registry is known for its inefficiency and corruption. In recent years, a fraud ring within the registry was uncovered after a journalist, who had planned to expose the ring, was assassinated. Within the registry, racketeers collaborated with public notaries and judges. Additionally, there are allegations that members of the executive and legislative branches purchase land in strategic locations with significant tourist potential at discounted prices that are unavailable to the general public.

Private companies are allowed to operate in accordance with the constitution. There are restrictions on the operation of foreign-owned companies in retail trade, as stipulated in Article 293 of the constitution. Except for allocations of state-owned real estate, privatizations of state property have not occurred in recent years. This is in response to the opaque and controversial sale of 49% of the stock in the telephone and electricity utilities during the PRD administration of Ernesto Pérez Balladares (1994 – 1999).

According to law, state-owned real estate may only be allocated at prices established through valuations conducted by the Comptroller-General's Office and the Ministry of Economics and Finance. These valuations are often manipulated in favor of government sympathizers and supporters. One of the most interesting regulations is the Public-Private Partnership Law, approved in 2019 and promoted by the government in view of the need to decisively reduce public investment in infrastructure so as not to increase the fiscal deficit and public debt. The COVID-19 pandemic forced a further reduction in the number and scale of exclusively publicly financed projects, as aid to citizens and companies had to be financed in the face of the severe health crisis.

Property rights

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Private enterprise

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Finally, with regard to the protection of private companies, there have been instances of economic extortion by the highest executive authority. Consequently, business owners have been compelled to sell, transfer or relinquish their businesses due to political interests.

10 | Welfare Regime

Medical care in Panama is divided into two large systems managed by the Ministry of Health (Minsa) and the Social Security Fund (CSS). Both are administratively divided into 14 health care regions, with a parallel presence and organized by levels of complexity. They offer the population health care services in accordance with their problem-solving capacity. Ninety percent of the population has access to health care services from at least one of the two public institutions, regardless of whether they are affiliated with social security, since there are cross-subsidies between MINSA and the CSS. (It is estimated that the CSS covers 84%).

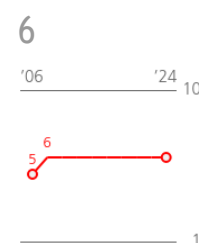
The CSS, founded in 1941, also provides retirement pensions, as well as maternity, illness and disability subsidies. The CSS is one of the most poorly administered, inefficient and corrupt government organizations in Panama. Its hallmarks include long delays in the provision of medical services and shortages in the availability of medications. In 2021, public spending per capita in Panama was €3,045. According to the latest published data, Panama devoted about 12% of its public spending to education, 20% to health care and 0% to defense.

One of the main problems in Panama is the looming bankruptcy of the pension program, which comprises two “subsystems” – a redistribution plan and a partial pay-as-you-go scheme. The sharp reduction in the number of active contributors in the formal economy (due to the increasing size of the informal economy), the associated reduction in contribution income and the increase in the number of new pension claims are creating significant pressure, with total reserves projected to be depleted in 2024. Since 2009, the last three governments have avoided taking concrete steps and making decisions to save Panama’s social pension fund and fund old age and disability programs.

Low-income households were the greatest beneficiaries of the subsidies granted by the state during the fiscal year 2021, according to the Report on the General Treasury Account presented by the Ministry of Economy and Finance (MEF). The approximate amount of these subsidies was \$2.312 billion. Of the total subsidies directed to households, 49% were for COVID-19 social support, 14.6% for electricity subsidies, 14.5% for universal scholarships, 3.9% for liquefied gas, 3.5% for preferential interest and 2.5% for the Metrobus (public transport).

Non-citizens’ access to the social safety net is problematic. Although legalized foreigners are eligible, the highly discretionary nature of distribution often excludes them.

Social safety nets



Article 19 of the constitution prohibits discrimination based on race, condition of birth, disability, social class, sex, religion or political views. However, in reality, various forms of discrimination persist and have significant economic and social consequences. According to the 2022 Global Gender Gap Index, Panama ranks 40th worldwide with a gender inequality rate of 74.3%. This is due to the fact that 750,000 women in the country, who are capable and of working age, are not part of the labor market. The majority of these women fulfill the roles of housewives and shoulder family responsibilities.

Women comprise 41.3% of the total labor force. Female and male literacy rates (96%), and enrollment in primary and secondary education are nearly equal. Women are notably overrepresented in higher education. Nonetheless, despite their educational achievements, women are consistently undervalued in the labor market and comprise the minority within sectors of opportunity such as logistics, wholesale trade, and information and communication technologies (ICT). Furthermore, despite assurances of equal opportunity, public sector positions at all levels are typically granted to members and supporters of the ruling political parties, following a long-standing system of distributing spoils. Even though the electoral law stipulates gender parity, only 16 out of the 71 seats (22.5%) in the National Assembly are held by women.

Discrimination based on ethnicity and sexual orientation is an ongoing concern. At least four lawsuits seeking to legalize same-sex marriage have been brought before the judiciary since 2016, but they are all still awaiting rulings. Non-citizens are not legally able to work in Panama unless they become residents. Many immigrants remain in the informal sector, operating in the shadows of the formal economy, where they are susceptible to police harassment and other forms of abuse.

11 | Economic Performance

The Panamanian economy is expected to experience a strong recovery in 2022 following the impact of the COVID-19 pandemic, according to reports from the World Bank, the Economic Commission for Latin America and the Caribbean (ECLAC), various international risk rating agencies, and the International Monetary Fund (IMF). The administration of President Laurentino Cortizo has prioritized economic resources to safeguard the health and lives of Panamanians, a strategy that has established the foundation for the country's economic recovery. These efforts are reflected in positive forecasts for GDP growth, with the IMF projecting a growth rate of 7.5%, the World Bank 6.2% and the ECLAC 8.4%. Additionally, GDP per capita has rebounded from the 2020 downturn (-19.2%) with growth rates of 13.6% in 2021 and an expected 6.9% in 2022 (ECLAC). Notably, the Panamanian economy experienced a growth rate of 11% at the end of the third quarter of 2022, with trade and the construction, transportation and communications sectors playing significant roles.

Equal opportunity

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Output strength

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Panama continues to lead economic growth in the region, with the IMF, World Bank and ECLAC estimating a growth rate of 4.2% for the year 2023. The country's economic dynamism is fueled by various activities, including the Panama Canal Authority, ports, railroads, airports and infrastructure projects (e.g., road expansion and Metro Line 3 to West Panama). Unfortunately, economic growth is not evenly distributed, resulting in significant inequality.

From September 2020 to April 2022, the unemployment rate decreased by 8.6 percentage points, according to a report by the Ministry of Labor and Labor Development (MITRADEL). In April 2022, it stood at 9.9%, compared to 18.5% in September 2020.

The same report reveals that the employment rate increased by 13.1%, which is reflected in an increase of 214,672 people in the employed population, of whom 196,739 are employed in formal jobs, representing an increase of 21.6%. According to ECLAC, inflation has been kept low at 1.7% through 2022 (2.6% in 2021 and -1.6% in 2020).

12 | Sustainability

While environmental concerns receive more than sporadic consideration, they are often subordinated to growth efforts. Environmental regulation is inconsistent and often not enforced. The Panamanian constitution stipulates that it is the responsibility of the state to safeguard the environment. The Panamanian constitution stipulates that it is the responsibility of the state to guarantee environmental protection, sustainability and “equilibrium” (Articles 118 – 119).

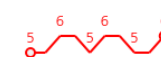
Environmental concerns are not a priority for the government, either at the national or local level, despite the proposals in the strategic government plan. However, during the XXII Forum of Ministers of Environment of Latin America and the Caribbean, which took place virtually in February 2021, Panama's minister of environment highlighted the need to take urgent regional action to overcome the emergency and drive a post-COVID-19 recovery. This approach focuses on green economy topics and building a national system of monitoring and evaluation of adaptation. The system will integrate 17 indicators that will verify progress in climate change adaptation measures in communities, ecosystems and production systems.

One of Panama's main problems is its water supply. Deforestation, climate change, contamination of sources and population increases threaten to deplete the availability of water for shipping operations. As a result, the Panama Canal Authority has prioritized the development of a new water management system and afforestation programs. Other efforts include the Alianza por el Millón project, which aims to reforest one million hectares, and the promotion of green energy. This partnership will contribute to the implementation of the national forest policy and climate change policy, as well as sustainable development and improved forest governance.

Environmental
policy

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'06 '24 10



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Other noteworthy initiatives include Our Ocean 2023 and an energy policy. Regarding Our Ocean 2023, Panama is one of the first countries to meet the objective of protecting 30% of its marine surface. Regarding energy policy, Panama has set a target to reduce energy consumption by 2030 through an increase in renewable energy. Currently, about 70% of Panama's electricity is generated from hydropower, and there has been a slight increase in the use of solar and wind energy over the past two decades. However, there are plans to "green" the transportation sector, which is responsible for approximately 40% of carbon emissions. In terms of recycling, landfill sites in Panama are overwhelmed. The United Nations reports a recycling rate of 9%, but the rate is only 3% in Panama. Additionally, recycling efforts are primarily concentrated in the capital city, with minimal recycling in rural areas.

Education is conceptualized as a right and a duty in Panama's constitution (Article 91). Although a state educational system for all levels of instruction is present across the country and macro-level statistics indicate that it is superficially acceptable, actual delivery and results are problematic. During the 2010s, public expenditure on education declined from 3.2% of GDP in 2011 to 2.8% in 2016, before recovering at the end of the decade (3.9% in 2020), according to World Bank data.

Panama ranks 11th among Latin American countries in the U.N. Education Index, with a score of 0.714, which is comparable to Mexico's score of 0.720. The literacy rate in Panama is also tied with Mexico's at 95.7% and 95.2%, respectively. As of 2022, there were approximately 954,000 students enrolled in kindergarten, preschool, as well as elementary, middle and high school, with 88% attending public schools and 12% attending private schools. Unfortunately, educational outcomes in Panama are disheartening, as evidenced by the most recent PISA data from 2018. Panama ranked seventh-lowest out of 77 participating countries for reading comprehension and third-lowest out of 78 countries for science and mathematics. In mathematics specifically, Panama's results fell below level one, indicating a widespread inability to perform basic calculations.

Restrictions imposed during the COVID-19 pandemic dealt a strong blow to Panama's educational system, compounding its inadequacies. Schools, which had just opened in March 2020, were ordered to close, and education came to a standstill until midyear, when it was announced that the state system would transition to online teaching. Schools opened again in March 2022. The digital platforms on which online education depends are privately operated and, thus, cost more than many families can afford. Additionally, internet connectivity does not reach many parts of the country. As a result, at least 40,000 students were completely unable to receive online instruction.

Panama's economy is dominated by the Panama Canal and banking. R&D expenditure is negligible and has hovered around 0.1% of GDP, according to the most recent comparable World Bank data from 2017.

Education policy /
R&D

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Governance

I. Level of Difficulty

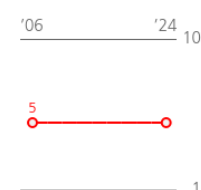
Panama is a tropical country with jungle character in some areas, although there are mountain ranges of important relief. The country has an approximate surface area of 78,200 km². To the east of Panama, the Darien jungle functions as a natural border between Panama and Colombia. Natural disasters, though not uncommon, are not as devastating as in neighboring countries. Tremors occur frequently, but they do not cause major damage. Heavy rains and flooding have increased in recent years, as has the intensity of dry season droughts. Generally, these issues do not cause serious disruptions, although in October 2022, 260 people were affected by heavy rains in Panama's Colon province associated with tropical storm Julia.

The country's privileged geostrategic position has enabled the economy to act as an international hub for goods, services, people and capital, and therefore for trade, banking and logistics. This position has led to a peculiar economic structure in Panama, which relies on powerful specific growth engines such as the Panama Canal and related activity (including ports), the Colon Free Trade Zone, tourism and airport services and the International Banking Center.

Other factors, however, are holding the country back, including a deficient infrastructure (especially in terms of ground transportation), causing, among other problems, nightmarish traffic jams. Poor road infrastructure and poor maintenance are the main challenges in Panama. Poverty and inequality also undermine development. The unequal distribution of resources reproduces educational problems, and, consequently, an environment of poverty and extreme poverty remains entrenched. These inadequacies have contributed to poor human capital formation. The country's labor force is deficiently educated (except in enclaves such as the Panama Canal).

Structural
constraints

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Generally, clientelism remains the main incentive for political participation, which is normally limited to electoral participation every five years. Social trust levels are low, as reported above. Even so, there is a trajectory of civil society associations going back nearly two centuries, starting with the foundation of the Society of Friends of the Country (Sociedad de Amigos del País) in the 1820s. Throughout the nineteenth century, aid and professional societies operated in Panama. Toward the end of the century, one of the main achievements of a yet-incipient civil society was the foundation of the fire brigade (1887). After the creation of the Republic of Panama in 1903, economic growth and U.S. influence contributed to the formation of lasting professional and civil society associations.

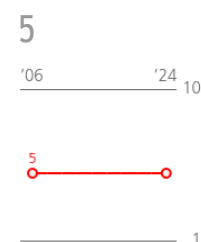
Currently, although numerous civil society associations exist, many are perceived as being penetrated by business or political interests. It is not uncommon for civil society leaders to use their platforms to help obtain political office. This was the case for environmental leaders who became the mayor (1999 – 2009) and vice-mayor (2014 – 2019) of the city of Panama, and for the executive director of an anti-corruption group, who obtained an appointment as the director of the National Transparency and Information Access Authority (ANTAI) for 2014 to 2019.

Although the level of political debate is quite precarious and inclined to personalism, since the transition to democracy (1989 – 1994) political violence has not been an issue. The main cleavage during the military dictatorship (1968 – 1989), which fractured society among those who supported the regime and those who opposed it, has been mostly healed, although the PRD, the dominant party in the system, founded by the dictatorship in 1979, still elicits strong revulsion in certain sectors.

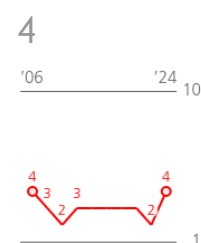
However, the year 2022 marked a turning point. Although the socioeconomic cleavage never translated into protests and social conflict, the end of the COVID-19 pandemic marked the beginning of social mobilization. In 2022, mobilizations of social collectives, street demonstrations and roadblocks proliferated. The increase in food, medicine and fuel prices compounded public discontent and gave rise to other political and social demands. Teachers began to protest, organizing an indefinite strike, and were joined by unions, social organizations, Indigenous groups and other sectors of the population.

An emerging cleavage, which is growing in fortitude, divides supporters and detractors of the political system. The central point of this fissure is the constitution of 1972, imposed by the military regime and still in place, which gave rise to the current political system. While certain sectors advocate for a complete overhaul through a constituent assembly, others support system continuity through adaptation and minor (even cosmetic) constitutional reform. The executive even initiated dialogue and presented a package of reforms to the National Assembly, which were rejected and generated different protests. After the COVID-19 pandemic, the dialogue has not been restarted.

Civil society traditions



Conflict intensity



II. Governance Performance

14 | Steering Capability

The priorities set by the Cortizo government have not been consistently strategic, as they have also been undermined by short-term political considerations and affected most notably by the COVID-19 pandemic. President Cortizo presented his strategic plan (Plan Estratégico del Gobierno 2020–2024, PEG) based on five pillars: good governance; rule of law; a competitive economy to generate employment; combating poverty and inequality; and education, science, technology and culture. Each of these strategic pillars contains a series of specific objectives and “priority actions.” Apart from being rather ambitious in an overall weak institutional environment, which tends to undermine long-term policies, the government met resistance on several fronts even before the pandemic.

Then, the COVID-19 pandemic led to an abrupt reversal of priorities. Panama was completely unprepared to face a crisis of such magnitude. Key challenges included an inefficient and corruption-ridden health care service, a weak epistemic community, very modest R&D and almost no inputs from the scientific sector. As a result, Panama suffered one of the steepest economic declines globally in 2020, fueling further discontent among citizens.

Nevertheless, the government has managed to “rescue” some of its strategic priorities and initiate important measures for social and economic relief (e.g., the Panama Solidario program and winning international support for the Plan Colmena strategy). Moreover, in November 2020, Cortizo – in urgent need of credibility – launched the Pacto del Bicentenario, which was supposed to deliver (and indeed did deliver) concrete reform proposals. Public protests in July 2022 demanded effective decision-making and the establishment of a strategic agenda that would provide national solutions. However, the solutions that they left behind have been few and of limited social impact.

While President Cortizo emphasizes evidence-based policymaking, progress has been meager and delayed, partly due to the pandemic. In addition, the Government Office (Ministerio del Gobierno), which acts as a strategic planning unit, attempts to organize expertise on various PEG topics, but the lack of a professional civil service, due to patronage, undermines effective implementation. Political appointments prevail, especially in the subordinate bureaucracy. The civil service is weak, since allocating jobs as electoral rewards is the *modus operandi* in nearly all Panamanian administrations.

Question
Score

Prioritization

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The Cortizo government has failed to implement some of the measures envisioned in the Strategic Plan (2020 – 2024). Apart from the constitutional reform, this is mainly due to the COVID-19 pandemic, which has delayed most of the initiatives since all other goals were submerged by the objective of confronting the health emergency. An oversaturation of the precarious health system was very narrowly prevented by imposing strict confinements, which handicapped the economy. Measures aimed at preventing contagion and deaths from the virus were not as effective as they were elsewhere, as statistics revealed much higher death rates per million population in global comparison by the end of January 2021.

After the initial standard (and harsh) response to the pandemic, the government was able to take several measures to improve the disastrous social and economic situation into which it had forced the country. The Panama Solidario program, the Plan Colmena strategy and the Pacto del Bicentenario were implemented professionally and have produced results. According to ECLAC projections on poverty rates, Panama was the only country – besides Brazil – in which extreme poverty did not increase in 2020, presumably due to the effectiveness of the Panama Solidario program.

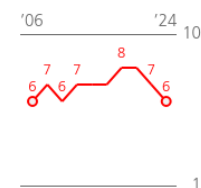
Government measures helped economic activity recover in 2021 and raised the country into the high-income category, as before the COVID-19 pandemic. However, the social impacts of the COVID-19 crisis continue to persist. In addition, there is widespread discontent with the policies implemented by Cortizo, which have been ineffective in addressing the high cost of living, corruption and the management of public funds in the country. Three years and nine months into its government term, the Cortizo administration has failed to address the imminent bankruptcy of the Social Security Fund, placing a significant segment of the Panamanian population at risk.

The government shows a reduced capacity for policy learning, which is not a particular strength of governance in Panama overall, despite some exceptions. A major difficulty is that significant knowledge is lost when officials rotate as a result of national elections or the dismissal of department heads. This is nearly always the case when a new government steps in, owing to a time-honored practice of replacing top and middle-level officials in the bureaucracy with political appointments. The learning curve is often steep for incoming officials, who frequently do not possess adequate qualifications for their jobs. While several reforms have been implemented to improve the civil service, progress has been slow.

Appointments to the bureaucracy at all levels continue to be seen as prizes to be awarded to loyal supporters and campaign activists, or as rewards to campaign donors. There is no formal institutional framework in place for learning or innovation, and international influence has to date been irrelevant with regard to contributing to the professionalization of the civil service. Public institutions employ many officials who are poorly trained and lack motivation. These individuals often feel frustrated due to the absence of incentives, low salaries and limited opportunities for career growth.

Implementation

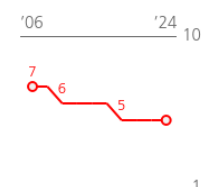
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Policy learning

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Panamanian administrations do not excel at consistently seeking expert advice, but they do so for certain important goals. For example, the Cortizo government sought advice from the UNDP for a renewed, dialogue-based constitutional reform process and the implementation of the Pacto del Bicentenario. There have repeatedly been alleged high-profile procurement irregularities, including several related to the government's pandemic response, which contributed to public skepticism regarding government transparency.

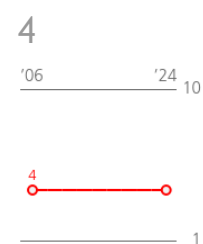
15 | Resource Efficiency

The government makes efficient use of some available human, financial and organizational resources. A major case in point is the government's administrative personnel. There are currently more than 260,000 state employees in Panama. Between 50,000 and 70,000 state employees are dismissed every five years when there is a change in the governing party. This means that between 25% and 30% of dismissals/appointments in Panama every five years are politically motivated. Recently, it has been demonstrated that political recommendations are a key factor in recruiting Social Security Fund personnel. Competitive, meritocratic personnel management procedures are alien to Panama's public sector.

Regarding the efficient use of budget resources, positive aspects are largely overshadowed by a lack of transparency and endemic corruption and clientelism. While fiscal deficits and public debt are considered manageable, despite some difficulties concerning the budgetary situation, the social security system appears to lack control (see "Social Safety Nets"). While the Comptroller-General's Office is responsible for exercising control over the legality of public administration acts, overseeing the receipt and investment of fiscal funds, in practice its independence and effectiveness are questionable. Budget planning and implementation have always been opaque, though the Cortizo government has attempted to respond to the recent public protests. The Ministry of Economy and Finance (MEF), through the National Budget Directorate (DIPRENA), launched the Open Budget initiative in order to present an accessible, understandable, efficient and transparent version of the National Budget to the public. The MEF also reported that the central government had reached historic levels of budget allocation during the COVID-19 pandemic (93.4% in 2020, 98% in 2021 and 94% in 2022).

With respect to administrative organization, public administration does not always enable effective management under the criteria of professional rationality. The system should reduce administrative processes and bureaucracy, improve personnel training, achieve objectives more efficiently and increase transparency. In 2009, a crucial decentralization law was approved. The constitutional reform incorporating decentralization into the administration of municipalities was approved in 2004 and became effective in 2014. However, the implementation of decentralization in

Efficient use of
assets

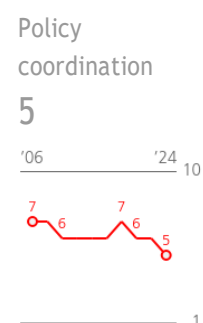


Panama has been plagued by corruption scandals. In addition, Panama lacks a proper and efficient commission dedicated to reforming and modernizing the state, responsible for training public servants in their assigned functions, integrating public administration technology systems, and ensuring the delivery of efficient, effective, transparent and quality public services.

The Cortizo administration has repeatedly failed to coordinate between conflicting objectives. Disputes between the government bloc in the National Assembly, the PRD leadership and the national executive have obstructed policy implementation. In addition, under the Cortizo administration, the cabinet has been reorganized, partially in response to the various crises the country has experienced. The first wave of changes took place in February 2020, eight months after the PRD candidate took office. After a brawl in La Joyita prison and the escape of Gilberto Ventura Ceballos, a high-profile inmate sentenced to more than 50 years in prison, the then security minister, Rolando Mirones, resigned from his post. The public security portfolio was left in the hands of Juan Pino. It was at that time that the first change in the Ministry of Government also took place. Carlos Romero was removed from his position. He was the main figure that the Movimiento Liberal Republicano Nacionalista (Molirena), an ally of the PRD, had in the executive. He was replaced by his party colleague, Sheyla Grajales, who also did not last long in office. Grajales was replaced by Tewaney, the current chancellor.

Another controversial departure was that of the former minister of health, Rosario Turner, in June 2020. The country had been in crisis for three months due to the COVID-19 pandemic, and Turner was the main face of the executive responsible for managing the crisis. Her departure was unexpected and abrupt. She was replaced by Luis Francisco Sucre. At the time, the executive attributed Turner's departure to "attrition" due to the nature of the position. However, her departure caused a storm in the PRD, especially among the faction of Pedro Miguel Gonzalez, who at the time was the secretary-general of the party.

The COVID-19 pandemic has made several discrepancies within the government more evident than they were previously. Some policies have counter-productive effects on other policies. During the COVID-19 emergency, numerous and inopportune restrictions issued by the Health Ministry lacked clarity and conflicted with regulations stemming from other areas. Unclear, ambiguous dispositions are left to the arbitrary interpretation of security forces, which tend to take authoritarian courses of action.



Although anti-corruption legislation exists and integrity mechanisms are in place, neither the government nor the judicial system manifest a strong willingness to contain corruption. According to Articles 279–280 of the constitution, all government spending is subject to auditing by the Comptroller-General’s Office. Appointment to the post of comptroller-general of individuals closely associated with the president or the ruling party often results in lenient treatment of activities not in the public interest, which, nonetheless, are submitted or recommended by prominent officeholders.

In 2004, the government created a National Transparency Council against Corruption, which in 2013 became the National Transparency and Information Access Authority (ANTAI). According to Law No. 26 of 2006, modified in 2020, all government contracts over \$50,000 must be awarded through public bidding. All contracting and procurement must be published by the government, for which the Panama Compra electronic portal is utilized. There is no specific conflict-of-interest legislation in Panama. The Public Servants Ethics Code (Executive Decree No. 246 of 2004) generally prohibits conflicts of interest but does not identify specific behaviors or establish explicit penalties. A bill to provide such legislation was introduced in the National Assembly in 2019, but it has thus far failed to receive the deputies’ attention. According to Article 304 of the constitution, top officials in all branches of government are required to publicly submit asset declarations before a notary within 10 days of both taking and leaving office.

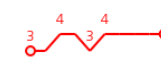
The Citizen Corruption Observatory of the Americas (OCC), in its 2021 report, reveals that Panama has not fulfilled its commitments established at the 2018 Summit of the Americas. The OCC report highlights the lack of policies aimed at improving transparency and combating corruption. It also states that the population needs more information and coordination in order to demand and help shape these policies. On the other hand, the results obtained in the commitment related to the strengthening of democratic governance are highly critical, with this being the worst-performing indicator evaluated by the participating organizations (1.07 points out of a maximum of three). Furthermore, although the issue of corruption prevention reached the highest rating (1.65), it does not reach a medium rating on the methodology scale. The information collected by the OCC shows that defining the body that should coordinate the process of compliance with the agreements at the national and local levels is not only necessary but urgent. The administration of justice must be strengthened through the implementation of the new Judicial Career Law, which establishes the incorporation of judicial officials based on meritocracy. In addition, financial independence must be guaranteed so that justice is not subject to the will of the political or economic class.

Campaign finance limits, considered in the Electoral Code, were introduced in 2015.

Anti-corruption
policy

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They include a \$10 million cap on presidential campaign spending and a \$300,000 limit on individual contributions to presidential campaigns. Law No. 23 of 2015, modified in 2017, introduced measures to prevent money laundering, as well as the financing of terrorist activities and the proliferation of weapons of mass destruction. This legislation, as well as measures adopted to implement it, have been considered insufficient by the OECD's Financial Action Task Force.

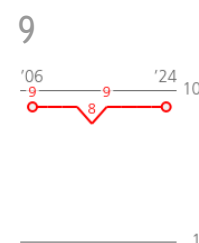
The latest reports presented by Panama to the OAS show progress over the last decade on issues such as the denial or impediment of tax benefits for payments made in violation of anti-corruption legislation; prevention of bribery of domestic and foreign public officials; and the prevention of transnational bribery, illicit enrichment and bank secrecy.

16 | Consensus-Building

Major political actors agree that the current configuration of Panama's politics, based on the 1972 constitution and overall stable since 1990, should be maintained; there has been no attempt at democratic rupture in recent decades nor a rise in authoritarian populism. While this consensus includes competitive elections on a five-year rotation, to date, it also means the acceptance of defects such as "partyarchy," clientelism and vote-buying, which create obstacles to reforming the current constitution to further democratize and liberalize the political system. Of the seven candidates in the 2019 presidential election, three proposed modest modifications based on a procedure involving the incumbent National Assembly, and another three suggested making changes through a constitutional convention also described in the constitution. Only one candidate proposed a complete overhaul by means of a constituent assembly.

Relevant actors concur that Panama's model of market economy should be preserved; there are no government parties with nationalizing strategies or that seek the increased presence of the state in the economy. This, however, also implies the maintenance of the cartel-based economic system against proposals to make it more transparent and competitive. The system is based on informal connections between the political and economic elites, partially based on bribery and other graft in exchange for political benefits and favorable regulations. For example, chiefly as a result of investigations carried out in other jurisdictions, it has been revealed that government contractors (including large construction companies such as Odebrecht and FCC Construction) normally bribe officials to obtain government contracts.

Consensus on goals



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In a strict sense, from the standpoint of procedural democracy, anti-democratic actors are not present in Panama. However, given the elitist nature of Panamanian politics, there are strong indications that these elites have no interest in, or at least find difficult, deepening democracy.

The election system facilitates that only those who have access to large sums of money or who are married to the party leadership can access a position in a popular election. It is very difficult – if not impossible – for truly independent candidates, who are not attached to a party network, to accede to a public position. Advocates of democratization are generally unable to get their initiatives past major roadblocks, including the Electoral Tribunal, the party system, the executive, the National Assembly and the judiciary. Actors in these sectors have prevented initiatives for constitutional reform, democratization and transparency from coming to fruition. A case in point was the constitutional reform submitted to the National Assembly in 2019, which deputies thwarted by introducing self-serving and confusing amendments. Mounting public criticism forced the government to withdraw the project.

Starting with the Martín Torrijos Administration (PRD, 2004 – 2009), the security services have gained strength, thanks to strong support from the Panamanian government and the United States. These services have become an informal veto player. Other veto players in matters of relevance to them include big business sectors and the Catholic Church.

The socioeconomic divide remains the most important divide in Panama today, and it partially overlaps with ethnic cleavages. Despite occasional outbursts of populist rhetoric, however, these fissures have not yet been activated politically or through elections. Nor have they become violent. Political actors assume that they can continue to prevent the escalation of conflict through traditional patronage measures, including massive subsidies. While Indigenous cleavages have recently become more visible, there are institutionalized mechanisms – such as the Indigenous comarcas with a degree of self-governance and specific equality rights – that prevent the potential escalation of conflict.

Notwithstanding, mounting frustration, because of deep-seated inequalities and poor government management during the COVID-19 pandemic, has provided fertile ground for repeated public protests, some of which have turned violent.

The 2022 protests were triggered both by cyclical problems, such as the rising costs of fuel and the basic food basket, and by structural issues, such as inequality and corruption. These conjunctural factors were the catalyst that transformed social discontent with structural problems into widespread public protests. This led to protests about health care, education, poverty and food insecurity issues. The fracture – which has intensified in recent years, especially during the COVID-19 emergency, and which is connected to socioeconomic cleavages – divides supporters and opponents of the political system. Anti-system activists, predominantly among the youth, are increasingly becoming more vocal and insistent.

Anti-democratic actors

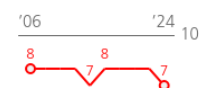
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Cleavage / conflict management

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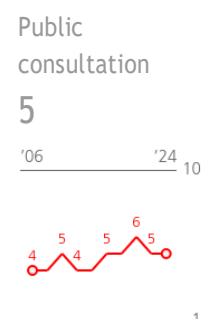
To try to deal with all these problems, the government sat down with union representatives on several occasions. Furthermore, the president adopted various measures to deal with the crisis, such as freezing the price of gasoline and the prices of 10 basic household products. The government also promised to reduce civil servants' expenses and cut the public workforce by 10%. However, these measures failed to put an end to the proposals.

Until recently, civil society participation in the political process oscillated between permission and neglect, given the weak role of most CSOs other than the well-organized business organizations. On occasion, the government invited supportive civil society organizations to national or sectoral consultations. Independent or adverse organizations have normally been excluded from political processes. During the COVID-19 pandemic, universities, think tanks, professional associations and civil society organizations, including scientific, medical, legal, business and other groups complained that the government avoided their consultation in the design and implementation of its COVID-19 response.

The 2022 protests opened the door to social dialogue. On July 21, talks began in the province of Cocle, with the Catholic Church facilitating. However, weeks later, the talks were interrupted due to the non-fulfillment of the first consensus by the executive. Subsequently, they were resumed. The organizations involved in the protest demanded a reduction in basic food basket, fuel, energy and medicine prices and an investment equivalent to 6% of GDP in public education and the state health care system. They also demanded measures to tackle corruption, amidst significant public criticism regarding the salaries of senior officials and the mismanagement of public resources.

The crisis opened a window of opportunity for dialogue. In fact, it was the president himself who pushed for negotiations with various civil society actors to achieve a coordinated solution to the issues raised. Since the beginning of the crisis, President Cortizo has met with the country's main business associations, including the Chamber of Commerce, Industries and Agriculture of Panama; the National Council of Private Enterprise; the Union of Industrialists of Panama; the Panamanian Chamber of Construction; and the Association of Business Executives. In addition, the president has met with agricultural and agro-industrial producers.

Negotiations are currently ongoing, although they are not always successful. The government has requested the support and technical accompaniment of the United Nations for the current phase of negotiations. Meanwhile, civil society actors have requested that future discussions be broadcast on public radio and television. The different parties agree to deepen thematic axes such as food security and sovereignty; human rights, the environment and Indigenous peoples; housing and habitat (public infrastructure); education, youth and social development; health care and social security; as well as transport and logistics.



Human rights violations during the military dictatorship (1968 – 1989) included arbitrary detentions, torture, exile, forced disappearances and political murders, some of which remain unsolved to this day. A truth commission was established in 2001, but it failed to reach any agreements with the victims. The commission investigated 110 cases and concluded that 70 people had been murdered, while 40 were still missing. The judiciary was notoriously incompetent.

In 2019, the victims of the dictatorship and the government of Panama signed a reparations agreement to acknowledge responsibility for the criminal acts and provide financial compensation to the victims. The pact contains measures of satisfaction, such as initiatives to recognize responsibility for criminal acts, the project to build a monument in memory of those executed or disappeared, as well as financial compensation measures.

One of the signatories is the Comité de Familiares Asesinados y Desaparecidos de Chiriquí (COFADECHI), a group of victims of the military dictatorship who, in 2003, requested assistance from the Inter-American Commission on Human Rights (IACHR) to hold the Panamanian state accountable for the crimes committed. The petition alleged that in the “context of violence and abuse of power” orchestrated by the military dictatorship, 109 people were victims of extrajudicial executions or forced disappearances, which could be attributed to elements of the state security forces. In 2015, 13 years after that petition, the IACHR agreed to evaluate the case, which facilitated the parties to bilaterally initiate the negotiation of a friendly settlement agreement. The commission, an autonomous body of the Organization of American States (OAS), helped with the working meetings and provided technical advice to the parties to advance the friendly settlement agreement.

17 | International Cooperation

As a high-income country, Panama needs less and less international assistance and will graduate from the Development Assistance Committee’s List of ODA recipients on January 1, 2022. However, thanks in part to the presence of numerous international organizations (such as the UNDP, UNICEF, UNPE, FAO, etc.), the country continues to receive technical and financial support in a number of areas. Panama’s overarching development goal is to further strengthen its role as a global crossroads of highly competitive service branches (including the canal and financial services), which account for 75% of GDP and are expected to provide economic and political stability. Overall, the government tries to use international assistance for its own development agenda as specified in its strategic plan, but implementation tends to be unreliable, delayed or hampered by administrative deficiencies. The World Bank approved a \$7.5 million loan in September 2022. The loan aims to invest in technical assistance, strengthen Panama’s institutional capacity, and mobilize private capital for the financing and management of infrastructure services.

Reconciliation

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Effective use of support

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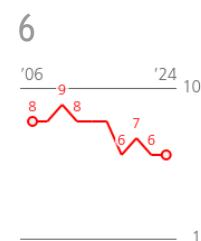
In recent years, Spanish Cooperation has collaborated with the Panamanian government, focusing on institutional strengthening of the sector to enhance access to financing for microentrepreneurs, particularly the expansion of financial services to underserved rural areas. Spanish Cooperation serves as a dialogue partner on technical and institutional cooperation, in line with the 2030 Agenda, with Panama as part of the group of Advanced Cooperation Countries. AECID uses instruments such as knowledge transfer, public-private partnerships for development (PPPD), reimbursable cooperation, and triangular and south-south cooperation to promote the Coopera 2030 Plan. Examples include support for professionalizing judicial positions and implementing the National Strategy for Corporate Social Responsibility. Their priorities in the country are based on strengthening Panama's role in the regional development agenda, as well as developing actions aimed at reducing poverty and inequality, strengthening democratic governance, improving access to drinking water and sanitation, and supporting decentralization, Indigenous peoples and social cohesion.

In terms of credibility, Panama presents a rather mixed picture. During its tenure, the Cortizo government has attempted to mend some of the cracks that have undermined the country's credibility and reliability, but it has repeatedly encountered difficulties in implementation, sometimes resulting in a constant back-and-forth assessment of compliance and reforms. Panama is a cooperative partner of regional, subregional, and international bodies and largely complies with international obligations.

However, the country's reputation has suffered greatly over the past decade due to its unwillingness and/or inability to combat money-laundering and tax evasion, as the Panama Papers clearly demonstrate. The European Union and the OECD, including its Financial Action Task Force (FATF), have placed and removed the country from their gray or black lists and placed it on them again, albeit without revealing any clear criteria for their actions. The country has remained on the European Union's list of non-cooperative jurisdictions for tax purposes since the February 2020 update, as well as on the FATF's gray list. While the European Union ruling is rather arbitrary – aside from the fact that Europe is one of the largest tax havens in the world, according to the Financial Secrecy Index 2022 – the failure to combat money laundering weighs heavily on the credibility of Panamanian administrations, despite their commitments to make changes. In its October 2022 statement, the FATF sharply criticized Panama for its inaction and considered “calling on its members and urging all jurisdictions to apply enhanced due diligence to business relations and transactions with Panama.”

Since June 2021, the European Union, through its Code of Conduct, has informed the Republic of Panama that it considers the territorial tax regime as pernicious based on five criteria (the low level of taxation, ring-fencing, substance, internationally accepted principles, and transparency), according to the Ministry of Economy and Finance (MEF). It is undoubtedly detrimental to its ability to attract investment and

Credibility



hinders the process of economic recovery. Panama has been on Brussels' radar for some time, especially since the Panama Papers scandal, when a parliamentary commission was created to study cases of tax fraud and money-laundering. Nevertheless, the country continuously cooperates with the relevant authorities, not least because the maintenance of its economic model depends on its credibility. In November 2020, Panama ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the Multilateral Convention, MLI).

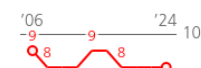
Panama belongs to many international and regional organizations and has traditionally expressed a commitment to international cooperation and hemispheric integration. The country's participation in international organizations has not normally been proactive. Recent years have seen a modest increase in Panama's presence internationally. Rotating leadership roles have been assumed in the U.N. World Food Programme (WFP), the U.N. Civil Rights Council, the International Labor Office (ILO), the International Civil Aviation Organization (ICAO), the Organization of American States (OAS), the Association of Caribbean States (ACS) and the Central American Integration System (SICA). Panamanian citizens have been selected to assume leadership roles in the U.N. Population Fund (UNFPA), the Inter-American Human Rights Commission and SICA.

Panama is active in regional cooperation, but its interests are divided between subregional cooperation with its Central American neighbors and its special relationship with the United States, given the strategic importance of the canal and the country's financial system as a magnet for money-laundering, especially drug money. In the years since Panama normalized relations with the People's Republic of China (2017), relations with the United States have been characterized by increased insistence from Washington, D.C., to "cool" relations with Beijing. The administration of Laurentino Cortizo (2019 – present) has appeared responsive to the United States' admonitions, aiming to distance itself from Beijing and endeavoring to cooperate with the United States, especially on security matters.

As for its immediate neighbors, Panama's relations with Colombia and Costa Rica are in good standing. Panama, however, has not been very proactive in addressing bilateral matters affecting the country. There are problematic issues with Colombia, including the spillover of thousands of irregular migrants across the border into the Isthmian Republic and trade sanctions maintained by the government in Bogotá, despite WTO rulings favorable to Panama. The Panamanian government has dealt with these troubles, as well as certain border problems with Costa Rica passively. However, as a result of the worrisome escalation in irregular migration, at Panama's request, the foreign ministers of both countries met in April 2021 to discuss an agreement regulating the "controlled flow" of irregulars. Apart from being a member of most regional and subregional organizations, Panama has become slightly more active in Central American cooperation, especially concerning the Central American

Regional cooperation

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Integration System (SICA) and the Economic Integration Subsystem (SIECA). As part of the Lima Group, Panama adopted early concrete measures against Venezuelan government officials for being “high risk in terms of money laundering, financing of terrorism and financing of the proliferation of weapons of mass destruction,” according to the National Commission against Money Laundering, Financing of Terrorism and Financing of the Proliferation of Weapons of Mass Destruction.

Strategic Outlook

The massive social and political protests of 2022 have shown that the citizens of Panama, who, over decades, had pragmatically come to terms with the many grievances in their country, are no longer willing to tolerate them. It has taken a considerable amount of time for this trend, commonly seen in defective democracies, to surface in Panama. However, it remains uncertain whether key political forces in the country will be able to navigate this challenging situation. The months leading up to May 2024 promise to be politically turbulent, as Panama prepares for its upcoming elections. On a single day, the president and vice president of the republic, 20 members of the Central American Parliament, 71 deputies of the National Assembly, 81 mayors, 11 councilors and 701 representatives of *corregimiento*, along with their respective alternates, will be elected. Statements from several presidential candidates suggest that the political debate may revolve around fundamental political and social change rather than the usual “more or less” rhetoric.

While this presents an opportunity, there is also a risk that discussions, which ideally should focus on the common good, might become fragmented during the election campaign, exacerbating divisions rather than bridging them. Both Panama’s citizens and politicians face the challenging task of selecting political representatives through the traditional electoral process while simultaneously determining the country’s future. It is no coincidence that there have been calls within politics and academia to hold a vote on drafting a new constitution alongside the elections. This could lead to a new social contract, distinct from the constitution enacted under military rule in 1972. However, no concrete proposals have been put forward regarding which deficiencies should be addressed and, more importantly, how to address them.

Regarding Panama’s institutional architecture from an external point of view, three measures are particularly urgent. First, there is a pressing need to create more representative, transparent, efficient and democratic institutions. This is essential to combating political disaffection and significant social discontent. Second, effective mechanisms for the separation of powers, with a strong emphasis on judicial independence, must be established. This includes addressing issues related to the appointment of Supreme Court justices and tackling corruption and the lack of effective autonomy among judges. Third, policies for modernizing the public administration, which is inefficient and negatively impacts the system’s functioning, should be implemented. These measures would also address the deficiencies in economic governance. Given the deeply rooted problems in Panama’s democracy, these reforms present a substantial challenge, and true reformers have yet to emerge.

Lastly, as singer-songwriter, lawyer and activist Rubén Blades has emphasized, international pressure on Panama in cases of corruption should not diminish but rather intensify. However, such pressure should be accompanied by transparency and detailed information regarding the detected cases. Panama’s “business model” allows international agencies to exert pressure in this regard, and both the European Union and FATF should continue their strong opposition to Panama’s corrupt practices.