



PANAMA

SELECTED ISSUES

August 2025

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July 9, 2025

Approved By
**Western Hemisphere
Department**

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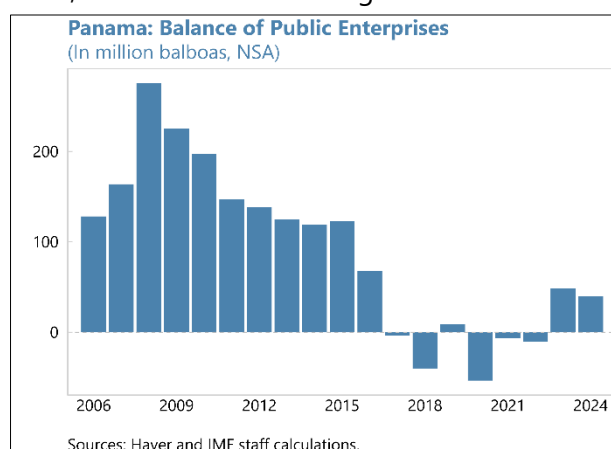
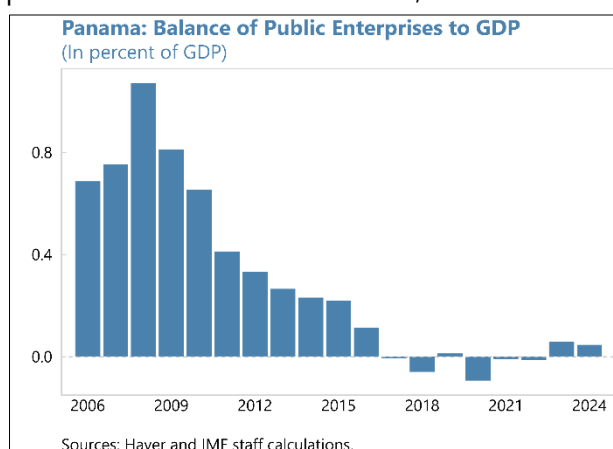
STATE-OWNED ENTERPRISES IN PANAMA

A. Introduction

1. Panama has a significant state-owned enterprise (SOE) sector. The sector comprises 16 non-financial enterprises and 8 financial institutions (see Annex I) that are fully owned by the state. The latter include three financial sector regulators (the superintendencies for banking, insurance and securities markets), which have no commercial activities and do not engage in financial intermediation. These regulators are outside the scope of this paper. Panama's largest SOE, the Panama Canal Authority (Autoridad del Canal de Panamá, ACP), operates under a specific legal and budgetary framework. It is not among the forementioned 16 non-financial enterprises but will be considered here. All these entities are consolidated in the general government budget, but only a subset of them is part of the non-financial public sector (NFPS) for budget purposes. In addition to these fully-owned entities, Panama holds equity stakes, including majority holdings, in other enterprises, such as AES Panama and Panama Petroterminal. Compared to other countries in Latin America, the size of Panama's SOE sector, as measured in SOE liabilities relative to GDP, is about in line with the average.¹

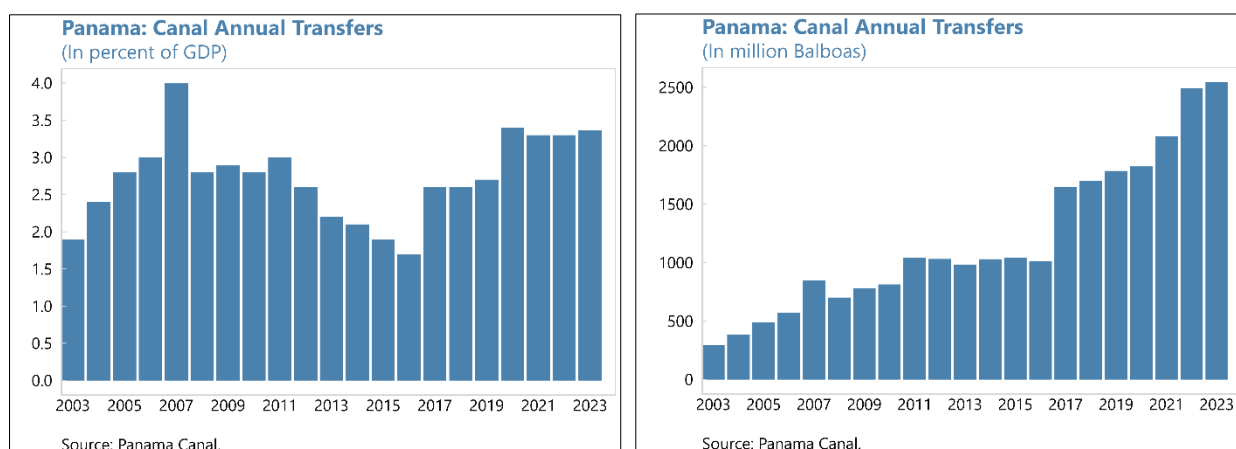
2. The sector is diverse. It includes very small entities with a budget below \$1 million and large corporations with sizeable operations. The ACP is by far the largest SOE. SOE activities span a broad range, from the provision of public services to purely commercial undertakings. Their performance has been mixed, and there are significant differences in public satisfaction with the services provided by SOEs. For example, the metro system and Tocumen Airport are generally perceived as functioning well, whereas many Panamanians have persistent concerns about water supply, sewage, and waste collection.

3. On aggregate, the sector does not contribute significantly to the government budget, except for the ACP. Aggregate data (see charts) show that the non-ACP SOEs contributed significantly to the budget in the second half of the 2000s, with that contribution exceeding one percent of GDP in 2008. However, between 2017 and 2022, these SOEs were a drag rather than a



¹ <https://blogs.iadb.org/gestion-fiscal/en/solving-the-state-owned-enterprises-puzzle-in-latin-america-and-the-caribbean/>

contributor to the government's finances. The ACP, by contrast, is a major and steadfast contributor to the government budget (see charts), with transfers of over 3 percent of GDP in recent years.



4. This paper aims to develop a better understanding of the SOE sector, its financial performance, its governance, and its relation to the budget. It also makes a comparison between the governance framework of the ACP and that of the other SOEs, with a view to drawing lessons.

B. Panama Canal Authority

5. Since the handover on December 31, 1999, the Panama Canal has been managed by the Panama Canal Authority (Autoridad del Canal de Panamá, ACP). The ACP is universally recognized as a well-run organization, far exceeding the expectations that prevailed before the handover (Gedan, 2016). It has reliably kept the Canal operating, has overseen major investments to expand the capacity of the Canal, and enjoys a credit rating that is better than that of the sovereign.

6. The ACP was established by law and constitutional amendment and operates in a specific legal framework. The Constitution gives it exclusive authority to manage its finances and operate the Canal. It is overseen by an 11-member Board of Directors with staggered 9-year terms. The Board selects the CEO and other top managers. It prepares its own budget that is approved by the National Assembly (NA) in a strict yes/no vote, i.e., the NA cannot amend this budget as it can for other SOEs. The Constitution also grants the ACP a special, merit-based labor regime. While the ACP is thus shielded from political influence, the ACP also seeks to stay out of politics. The members of its Board of Directors are banned from seeking elected office and there are limitations on the political activities of the ACP's staff.²

7. The ACP's autonomy has been key to its success. Gedan (2016) attributes the success of the ACP to its institutional framework that makes it a truly autonomous entity that is required to

² The ACP's Organic Law (Art. 16) prescribes that Directors may be candidates to elected office only if they resign from their posts at least six months prior to the election date. The ACP's Code of Ethics (Art. 46) prohibits employees from engaging in propaganda and party affiliation activities during their hours of service and on the ACP's premises, or from using the authority or influence of their offices to serve the interests of particular candidates in the electoral process or of the organizations that nominate them. However, the Code explicitly allows staff to vote or run for elected office (Art. 48).

make profits. The ACP is prohibited from buying Panamanian government debt (Art. 44 of the Organic Law) and the National Government may not use the ACP's revenues or patrimony as collateral for loans or other financial transactions (Art. 45 of the Organic Law). For the future, Gedan sees several risks for the Canal: the election of a populist President that does not respect the ACP's autonomy; the possibility of a fiscal crisis that prompts the government to raid the ACP's financial resources, thus depriving it of its potential to re-invest profits; and public dissatisfaction with the ACP's autonomy.

8. Under the ACP's stewardship, the Panama Canal has contributed greatly to Panama's economic development. The transfer of the Canal to Panama at end-1999 marked an inflection point for the Panamanian economy. Since then, the activities of the Canal have become much more integrated with the domestic economy and have fostered major growth in sectors like logistics and trade.

C. Governance of Other State-Owned Enterprises

9. The other SOEs work in a very different legal and economic environment than the ACP. In particular, they do not enjoy the constitutional protections that have been granted to the ACP. While there are significant differences between SOEs, they are largely organized and governed under similar basic arrangements and are considered as a group for many purposes. Economically, they work in sectors that do not offer the revenue-raising potential and pricing power that the ACP has.

10. The governance of SOEs is established in law. SOEs have typically been established through specific legislation. This legislation prescribes the basic governance arrangements for each SOE. These arrangements, and the applicable legislation, are outlined in the Manual de Organización del Sector Público de la República de Panamá, the most recent edition of which dates from 2017.³

11. Most SOEs are public limited companies, but some have a different legal form. The water and sewage company IDAAN, for example, is an autonomous entity of the state (IGCP, 2019). Those SOEs that are public limited companies are subject to general corporate governance requirements as established in Panamanian legislation.

12. The Ministry of Economy and Finance exercises the state's shareholder rights. Panama has a centralized ownership model in which the MEF acts as the ownership entity. However, other ministries may be involved in the governance of SOEs. For example, the Ministry of Agricultural Development is closely involved in the Instituto de Mercado Agropecuario, which implements marketing policies formulated by the Ministry.

13. Senior officials of SOEs are largely political appointees and tend to be replaced when a new government takes office. Most SOEs are overseen by a Board of Directors, which often includes ministerial participation. CEOs are appointed directly by the President or the Ministry of

³ <https://www.mef.gob.pa/wp-content/uploads/2020/03/Manual-de-Organizacion-del-Sector-Publico-2017-Reducir.pdf>

Economy and Finance, not by the Board of Directors, and tend to be replaced after elections, along with the boards of directors. Some boards have independent members and/or representatives of relevant business associations.

14. A 2021 OECD assessment identified some good practices but also considerable weaknesses in Panama’s SOE governance arrangements. The study (OECD, 2021) assessed SOE governance in 8 countries in Latin America⁴ against its Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises (the “ACI Guidelines”, see OECD, 2019). It is based on responses by national authorities (the ownership entities for SOEs) to a questionnaire. For Panama, the responses were formulated by the Ministry of Economy and Finance. The findings include some areas of strength, but they also indicate that there is significant scope for improvement in the arrangements for how the state’s ownership rights are exercised and in the governance of SOEs themselves (see Annex II).

15. An assessment by Panama’s Corporate Governance Institute also found a mix of strengths and weaknesses. The Instituto de Gobierno Corporativo – Panama (IGCP) did an evaluation of the corporate governance of five SOEs in 2016, which was updated in 2019 (IGCP, 2019). The SOEs in the study were the road operator ENA, the electricity transmission company ETESA, the water company IDAAN, Tocumen International Airport and Metro de Panamá. The governance practices of these companies were evaluated against the 2015 edition of the OECD Guidelines on Corporate Governance in State-owned Enterprises (OECD, 2015). It found that, on average, the five SOEs complied with 28 percent of the guidelines, with a minimum of 23 percent and a maximum of 36 percent. Among the main weaknesses identified were politicized boards that have little authority and no independence, lack of knowledge of good corporate governance practices, lack of transparency on corporate governance, and the absence of audit committees. The assessment compiled a list of the SOEs’ 10 best and worst corporate governance features (see Annex III).

D. Relationship with the Government Budget

16. The government budget sets revenue and expenditure targets for SOEs. The targets are established as part of the budgetary process and are therefore subject to approval by the National Assembly. However, the targets can, and frequently are, adjusted in the course of the fiscal year.

17. The SOEs are considered part of the government budget, but not in a uniform manner. The 2023 Fiscal Transparency Assessment⁵ found that the budgetary classification of SOEs is not consistent and not in line with international standards. Notably, four large SOEs are excluded from the Non-Financial Public Sector (NFPS): the ACP, Tocumen International Airport, ENA and ETESA. These companies, along with the state-owned financial intermediaries, are included in the General Budget. The budget does not cover companies in which the Panamanian government has an equity stake that is less than 100 percent. These include two large companies that are majority-owned by

⁴ The countries in the study are Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Panama and Peru.

⁵ A high-level summary of the report is available [here](#). The full report has not been published.

the Panamanian state: electricity generator AES Panama and Petroterminal de Panama, which operates an oil pipeline across the Panamanian isthmus. There are eight other commercial companies in which the Panamanian state owns equity stakes, but the Fiscal Transparency Assessment noted that it is not clear if the government has effective control over these companies.

E. Reporting and Accountability

18. SOEs report regularly to state bodies. SOEs report on a monthly basis to the MEF, the Office of the Comptroller General (OCG) and the Budget Committee of the National Assembly, focusing on budget execution. The OCG publishes basic financial information (budget execution, revenues, expenditures, and profit/loss) for the SOEs on a quarterly and annual basis. The OCG also audits the SOEs.

19. Public reporting practices vary considerably. Some SOEs publish only the bare minimum, as required by law. SOEs that are public corporations must produce financial statements in accordance with IFRS that are audited by a recognized auditor. Those SOEs that raise funds from financial markets (e.g., ENA and Tocumen Airport) tend to have the most informative websites in terms of financial information.

20. The transparency law requires SOEs to publish a range of information. Law 6 on Transparency sets disclosure requirements for state entities, including SOEs. SOEs typically publish this information on their websites. ANTAI (Autoridad Nacional de Transparencia y Acceso a la Información) monitors the disclosure practices of state entities and publishes the disclosed information of all these entities on its website.⁶ The quality of the disclosed information varies among SOEs. The published financial information, for example, is often very basic.

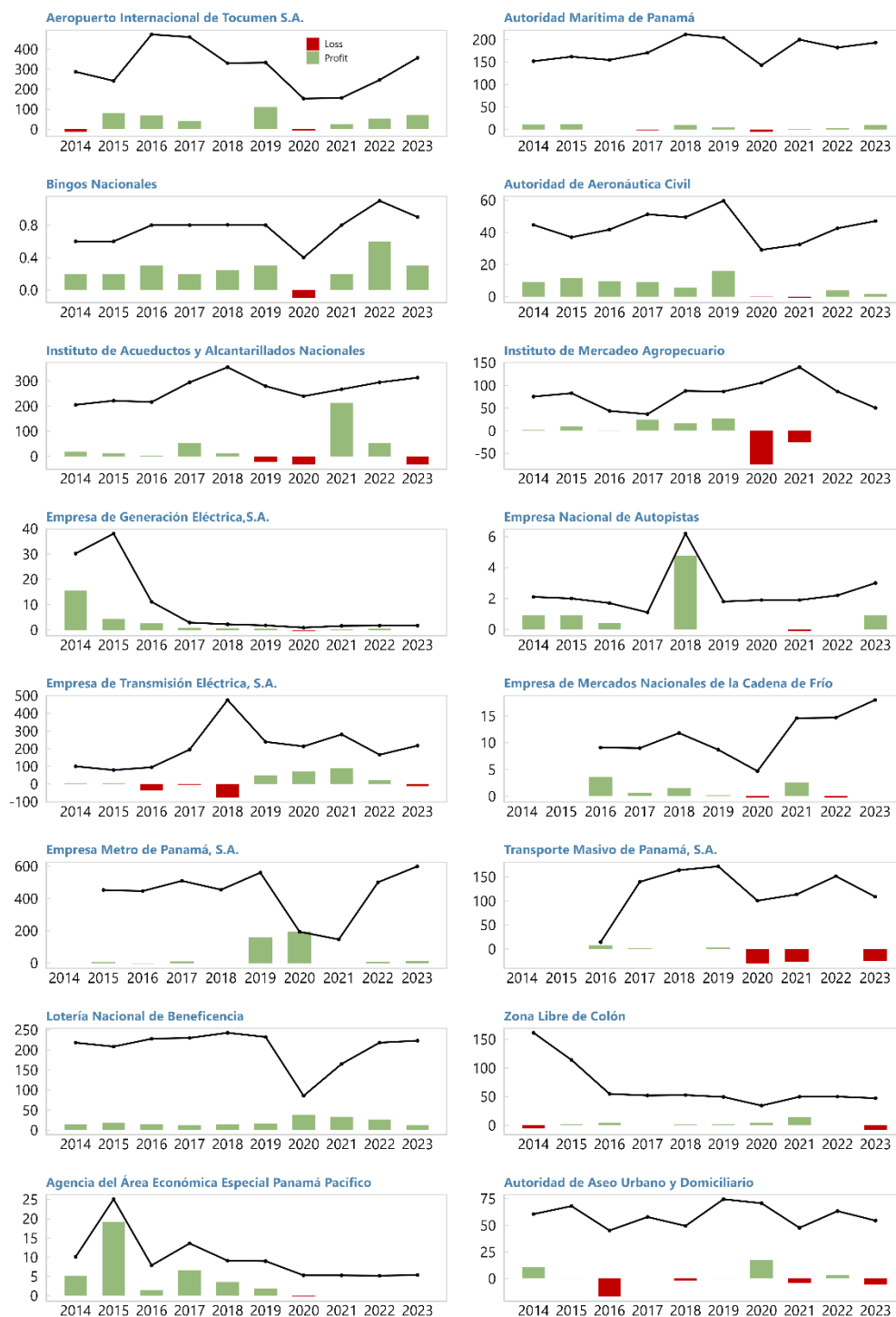
F. Financial Performance

21. While some SOEs are profitable and financially sound, others are dependent on budget resources. The charts below show revenues and profits or losses of the SOEs for 2014-2023 as published by the OCG. Earlier data are not available on the OCG website. It is a mixed picture. Some SOEs (such as Tocumen Airport) have solid revenues and are generally profitable. However, these charts do not show the full picture, as the revenue data include subsidies and capital injections by the state. The revenues of Metro de Panama, for example, largely consist of regular capital increases that help finance the expansion of the metro system. Ticket sales and other commercial revenues account only for about 25-30 percent of its revenues. Likewise, Bingos Nacionales, a small operator of bingo halls, depends on subsidies for about two thirds of its revenues, which has led to calls for its closure. Electricity generator EGESA, a small player in the market that operates a single solar plant, has seen its revenues collapse as its original business, the operation of a number of gas turbines,⁷ disappeared.

⁶ <https://www.antai.gob.pa/>

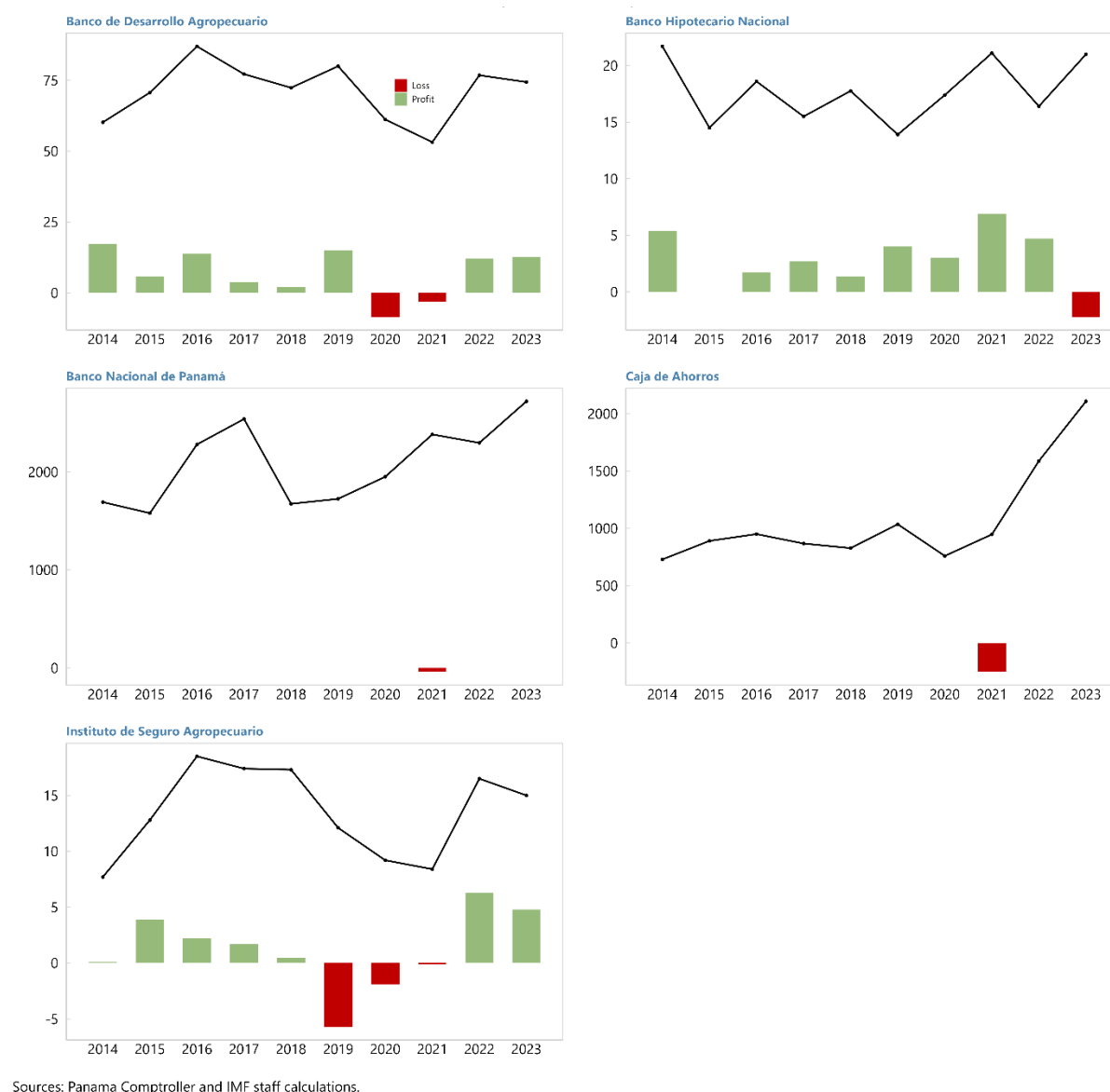
⁷ <https://www.egesa.net/quienes-somos/#historia>

Figure 1. Panama: Revenue and Profit for State-Owned Enterprises (2014-2023)
(In million of balboas)



Sources: Panama Comptroller and IMF staff calculations.

Figure 1. Panama: Revenue and Profit for State-Owned Enterprises (2014-2023) (concluded)
(In million of balboas)



G. Analysis of Differences Between the ACP and other State-Owned Enterprises

22. The ACP's strong financial performance has been supported by its unique market position. The Canal enjoys a monopoly position with only limited competition from alternative sea routes, in a global, capital-intensive sector with considerable financial resources. This assures constant demand and gives the ACP significant pricing power. The ACP has sought a balance between its profit objective and the needs of its clients (shipping companies), including by segmenting the market and differentiating its pricing in function of the types of vessels. It has also

raised its revenue and profit potential through various investments projects, notably the construction of the Neopanamax locks.

23. The other SOEs serve mostly domestic markets and pursue public policy objectives that limit their profit potential.

The domestic markets in which the SOEs operate have limited spending power, which constrains the SOEs' potential for revenue mobilization. Moreover, many of the products that the SOEs sell are public services (utilities, public transport, the promotion of food production, ...) that need to be priced taking into account social and public policy considerations. This means that not all SOEs can act as profit maximizers.

24. The ACP and the other SOEs have fundamentally different governance arrangements.

The ACP's constitutionally enshrined independence and its good governance practices, anchored on an independent supervisory board, are seen as key factors in its success. By contrast, the other SOEs are managed by politically appointed boards of directors and management teams and have only limited financial independence. Their corporate governance practices differ from international standards in significant respects. Transparency of their governance arrangements and financial performance can be significantly improved.

H. Privatization

25. Panama went through waves of privatizations and rationalization of the SOE sector in the 1980s and 1990s.

There were about 45 SOEs and decentralized agencies in 1983 (see World Bank, 1983). Several of these SOEs needed significant subsidies, but on a consolidated basis the sector achieved a small surplus. To improve this performance, several SOEs were sold or closed. Others enhanced their financial performance, including through price hikes. Another wave of privatizations happened under President Pérez Balladares (1994-1999). These included Panama's ports, the telecommunication company INTEL and the hydroelectric power system.⁸ Strengthening the management of public enterprises and reforming the regulatory framework to allow full or partial privatization of enterprises was part of the reforms undertaken under the 1995-96 IMF Standby Arrangement for Panama.⁹ There have been no privatizations in recent times.

26. There may be limited scope for further privatizations. SOEs that work on a commercial basis and do not fulfill a public policy role could qualify for privatization. However, those that provide key public services that constrain their revenue and profit potential are unlikely to be attractive to potential buyers. Private ownership may not be consistent with their public policy role. Such companies are also hard to value, as their revenues and expenses may be affected by policy changes. By law, any proceeds from the sale of SOEs go to the Sovereign Wealth Fund.

I. Conclusions

⁸ <https://digitalrepository.unm.edu/cgi/viewcontent.cgi?article=9187&context=noticen>

⁹ <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr9560>

27. The ACP is a well-run organization that performs well. It delivers steady and large contributions to the budget, successfully managed a major expansion and other investment projects, is well respected by its customers, and has contributed greatly to the Panamanian economy. Its institutional autonomy and good corporate governance have been key to its success. It may offer lessons to improve the performance of the other SOEs.

28. Panama's other state-owned enterprises (SOEs) would benefit from enhanced governance and oversight mechanisms. Drawing lessons from the success of the ACP, greater independence in governance, finances and operations, coupled with increased transparency and more effective oversight, would likely help improve the SOEs' financial performance as well as the quality of the services they provide.

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Annex I. List of State-Owned Enterprises

Public Enterprises (Empresas Públicas)

1. **Aeropuerto Internacional de Tocúmen, S.A.:** Operates Tocúmen Airport. Revenues of \$266 million in 2023, loss of \$13 million for the year. <https://www.tocumenpanama.aero/>
2. **Agencia Panamá-Pacífico:** Governs the Panamá Pacífico Special Economic Area on the former US Howard Air Force Base. Revenues of \$4.47 million and expenditures of \$5.3 million in 2022. <https://www.panamapacifico.com/>
3. **Autoridad de Aseo Urbano y Domiciliario (AAUD):** Operates waste collection and processing for Panama City. Revenues in 2023 of \$54.5 million and expenditures of \$63.8 million. <https://www.aaud.gob.pa/index.asp>
4. **Autoridad de Aeronáutica Civil (AAC):** Civil aviation authority of Panama. <https://aeronautica.gob.pa/>
5. **Autoridad Marítima de Panamá (AMP)** (Panama Maritime Authority): Maritime services; among other things, it oversees Panama's ports, maintains the register of Panama-flagged ships, and licenses seamen. There is no financial information on its website, except for a mention that it contributes \$112 million annually to the government budget. <https://www.amp.gob.pa/>
6. **Bingos Nacionales:** Provider of bingo games in 3 different locations (gaming halls). No website found, but it is present on social media. 2023 revenues of \$325,000. Loss for the year over \$600,000. <https://www.facebook.com/p/Bingos-Nacionales-100064149638645>
7. **Empresa de Generación Eléctrica, S.A. (EGESA):** Small electricity generation company. Operates a solar power plant in Sarigua, Herrera Province. 2021 revenues of \$116,000, expenditures \$1.6 million. <https://www.egesa.net/>
8. **Empresa de Transmisión Eléctrica, S.A. (ETESA):** Operates the electricity transmission system. 2023 revenues of \$155 million, profit of \$28 million. <https://www.etsa.com.pa/>
9. **Empresa Mercados Nacionales de la Cadena de Frío, S.A.:** Aims to provide a comprehensive cold chain system throughout the country to increase the quality and safety levels of perishable food products. Operates markets near Panama City (Merca Panamá) and in David and Chitré. No financial information found. <https://www.cadenadefrio.com.pa/>

10. Empresa Nacional de Autopistas, S.A. (ENA): Operates three toll roads in the Panama City area. Has a complicated financial structure, with subsidiaries and fideicomisos that collect the tolls for each of the roads. Consolidated revenues of \$154 million in 2023 and net profit of \$26 million.

<https://ena.com.pa/>

11. Instituto de Acueductos y Alcantarillados Nacionales (IDAAN): Provides drinking water and operates wastewater/sewage infrastructure. No financial statements found.

<http://www.idaan.gob.pa/> (Website inaccessible on January 29, March 18, May 11 and July 7, 2025.)

12. Instituto de Mercado Agropecuario (IMA): Implements the marketing policies formulated by the Ministry of Agricultural Development (MIDA) for the agricultural sector. Budget of \$124.7 million for 2024, up from \$68.7 million in the original budget. <https://ima.gob.pa/>

13. Lotería Nacional de Beneficencia: Lottery monopoly and charity organization. 2024 budget of \$216 million. <http://www.lnb.gob.pa/>

14. Metro de Panamá, S.A.: Develops and operates Panama City's metro system. Revenues of \$48 million and expenses of \$52 million during January-October 2024. Loss for the period of \$104 million due to amortization/depreciation charges of \$88 million. The most recent financial statements on the website are for 2021. <https://www.elmetrodepanama.com/>

15. Transporte Masivo, S.A.: Bus transport operator. The most recent financial statements published on its website are for 2021, during which it lost \$60 million on revenues of \$101 million (of which \$71 million were subsidies). <https://www.mibus.com.pa/nosotros/>

16. Zona Libre de Colón: Governs the Colón Free Trade Zone. Revenues of \$25 million in 2024 and profit of \$1.8 million. <https://www.zolicol.gob.pa/>

Financial Intermediaries (Intermediarios Financieros)

1. Banco de Desarrollo Agropecuario: Agricultural development bank. Does not have a banking license. During January-October 2024, it had \$7 million in operational revenues and \$25 million in operational expenditures. <https://www.bda.gob.pa/>

2. Banco Hipotecario Nacional. Mortgage institution. Does not have a banking license. During January-October 2024, it had \$6.5 million in current revenues and \$8 million in current expenditures. During the year 2023, it had current revenues of \$5.8 million. <https://www.bhn.gob.pa/>

3. **Banco Nacional de Panamá (BNP):** Commercial bank and financial agent for the government. It has a banking license and is supervised by the SBP. In 2024, it booked \$484 million in net interest income and a net profit of \$323 million. <https://www.banconal.com.pa/>
4. **Caja de Ahorros:** Savings bank. Has a banking license and is supervised by the SBP. In 2024, it booked a net profit of \$35 million on net interest income of \$132 million. <https://www.cajadeahorros.com.pa/>
5. **Instituto de Seguro Agropecuario (ISA):** Insurance institute for agriculture. The most recent annual report available on the National Assembly's website dates from 2022. During that year, ISA had \$15 million in revenues, paid out \$2.8 million in damages (for the 12 months to October 2022) and covered \$76 million in risks. ISA receives subsidies from the state (\$1.1 million) and funding from the Special Fund for the Compensation of Interest (\$11.2 million). It had \$8.4 million in expenditures during the first 10 months of 2022. <http://isa.gob.pa/>

Annex I. Table 1. Panama: Revenues and Subsidies of SOEs 1/			
Company	Sector	Revenues (in \$ millions)	Subsidies (in \$ millions)
Tocumen Airport	Airport operator	266	
APP	Free Economic Zone	4.5	
AAC	Aviation services		
AAUD	Waste collection	54.5	
AMP	Maritime services		
Bingo Nacionales	Bingo gamehalls	0.3	
EGESA	Electricity generation	0.1	
ETESA	Electricity transmission	155	
Cadena de Frio	Markets, cold chain for food		
ENA	Toll roads	154	
IDAAN	Water		
IMA	Marketing of agricultural products		70.5
Loteria Nacional	Lottery and charity	216	

Annex I. Table 1. Panama: Revenues and Subsidies of SOEs (concluded)			
Company	Sector	Revenues (in \$ millions)	Subsidies (in \$ millions)
Metro de Panama	Metro	48	29.3
Transporte Masivo	Bus transport	30	67.4
Zona Libre de Colón	Free trade zone	25	
Financial Institution	Sector	Revenues ^{2/} (in \$ millions)	Subsidies (in \$ millions)
Banco de Desarrollo Agropecuario	Agricultural Development Bank	7	46.5
Banco Hipotecario Nacional	Mortgage Institution	6	1.6
BNP	Bank	484	
Caja de Ahorros	Savings Bank	132	
ISA	Insurance	3	12
1/ Based on publicly available information. Most recent data available. Cells are left blank when no data could be found in the public domain.			
2/ For BNP and Caja de Ahorros, the revenues number reflects the sum of the interest margin and other revenues.			

Annex II. Findings of 2021 OECD Assessment¹⁰

1. Areas in which Panama scores well:

- It is general practice to separate the roles of chair of the board and CEO.
- It is a widespread practice for SOE boards to include independent members.
- Panama reported that its SOEs disclose the costs related to the implementation of public policy initiatives.

2. With respect to individuals that exercise ownership rights on behalf of the state, Panama is the only country in the study that:

- is not a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (“Anti-Bribery Convention”).
- does not have restrictions on individuals exercising ownership rights on behalf of the state on becoming involved in the corporate governance of private sector enterprises.
- does not have confidential channels for public officials to report suspected instances of corruption or rule-breaking involving SOEs to responsible authorities that have the mandate and capacity to conduct investigations free from undue influence (“whistle-blower channel”). It is also among the countries that do not have protections for whistle-blowers.
- does not require ownership officials to declare their assets.
- does not have measures to mitigate the risks of insider trading.

3. Other weaknesses:

- Panama lacks requirements for SOEs to develop internal codes of ethics, conduct or similar policies.
- Panama is the only country in the study in which laws criminalizing bribery of public officials do not apply to SOEs’ directors, top management and employees.
- Panama does not have systems to assess SOEs’ compliance with applicable corporate governance standards and SOEs’ alignment with rules and guidance with respect to integrity and anti-corruption.

¹⁰ This annex summarizes the findings of OECD (2021).

- Panama does not have a mechanism for officials to find timely advice and freely discuss public integrity concerns (e.g., a special committee or designated Ethics officer).
- Panama is the only country in the study that does not have a legal requirement for board members to act in the best interest of the SOE.
- Panama is among the jurisdictions in the study in which the state can intervene in, or veto, SOEs' management decisions.
- Panama does not empower the board of directors of SOEs with the sole authority to appoint and dismiss senior executives, including the CEO.
- Panama does not have a selection process for board members "on the basis of personal integrity and professional qualifications, using a clear, consistent and predetermined set of criteria for the board as a whole, for individual board positions and for the chair", as recommended by the ACI Guidelines.
- Panama does not prohibit politicians from sitting on the boards of SOEs.
- Panama does not have a requirement for boards to include independent members.
- Panama has no term limits for SOE board members.
- Panama has no requirement for boards to carry out regular evaluations of their performance.
- There is no requirement for board members and executive management to report potential conflicts of interest.

4. There is no requirement to establish a board audit committee, but it is common practice. It is not common practice for SOE boards to have a risk management committee and a committee to review the appointment of top management.

Annex III. IGCP'S TOP Features of Panamanian State-Owned Enterprises¹¹

10 Best Features:

1. Most SOEs are incorporated as corporations. This improves corporate governance by subjecting SOEs to the same laws as private sector entities.

Recommendation: Organize as a corporation whenever practical and ensure that differences in legal treatment between private companies and SOEs are minimized.

2. Financial statements use IFRS and are audited in accordance with the International Standards on Auditing.

Recommendation: Full compliance with IFRS appears to be a challenge for some SOEs, resulting in qualified, corrected or undisclosed financial statements. Such incidents should be minimized. Systems should be in place at the board level to monitor the external auditor and provide assurances that the external auditor remains independent.

3. All SOEs have websites and use them for transparency and disclosure purposes. In some cases, however, disclosure is superficial.

Recommendation: More material and analytical information should be provided, not just unanalyzed data.

4. Board sizes are in line with best practice. Board sizes range from 5 to 7 members. This is considered optimal.

Recommendation: Some flexibility in the size of the board may be useful for some SOEs. Five-member boards may be too small to have capacity, independence, diverse expertise, or effective committees. Consideration could be given to increasing the number of board members to 5 to 10 people.

5. The positions of Board Chair and CEO are separate. This is considered best practice.

Recommendation: No changes are recommended. SOEs should be aware that the ultimate goal of the separation of the Board Chair and the CEO is a balance of power between management and supervision.

6. The legal framework provides clear guidance on many good corporate governance practices. Public procurement law and labor law effectively serve as a guide regarding ethics and responsible business practices that can be applied uniformly across SOEs. SOEs can rely on common

¹¹ Source: Instituto de Gobierno Corporativo—Panama (2019).

documents, such as a code of ethics. Such common policies have legal force.

Recommendation: The law can encourage overall change. At the same time, it should provide flexibility for SOEs to tailor their policies to their needs and circumstances.

7. The Transparency Law establishes disclosure requirements. Law 6 on Transparency clearly sets out disclosure requirements for all SOEs and ANTAL assesses compliance. However, corporate governance disclosure is not required.

Recommendation: Law 6 on Transparency should require the disclosure of essential information on corporate governance.

8. Public procurement rules are clear. SOEs are expected to comply with public sector procurement rules.

Recommendation: SOEs should conduct a review of their control systems to ensure compliance with public procurement rules and review the board's role in overseeing control systems.

9. SOEs have internal audit functions that report directly to the Boards. It was not possible to determine whether boards actively use internal audit to ensure that effective risk management and control systems are in place.

Recommendation: Boards need to actively use the internal audit function to assure themselves and the public that control, compliance, and risk management systems are in place and functioning properly. Internal audit functions must ensure their own compliance with internal audit best practice standards.

10. The obligation to report wrongdoing is enshrined in the law. SOE employees are required under labor codes to report illegal and unethical practices.

Recommendation: All SOEs should develop their own whistleblowing policy that outlines procedures and guarantees of anonymity.

10 Worst Features:

1. Weak implementation of the public procurement law. Corporate governance structures do not appear to be strong enough to ensure that public procurement is conducted in a fair or transparent manner and that abusive transactions and unlawful acts do not occur between related parties.

Recommendation: Control systems should be strong enough to ensure fair and transparent public procurement, despite attempts to overturn the rules. Boards need to have greater independence in overseeing controls.

2. Board composition biased too much towards political appointments and interest groups. Boards of directors are dominated by civil servants and sometimes high-level political figures, as well as representatives of interest groups whose loyalty does not lie first and foremost with the SOE.

Recommendation: The Presidency of the Republic should use its authority to approve board appointments in order to reduce political appointments, introduce independence and improve competition. This would assist the Presidency in developing an appointment policy that specifies that such appointments should be based on merit and the need for independence. Non-Panamanians should also be allowed to serve as directors and board members.

3. Boards have little authority or autonomy and no independence. Boards are established to provide political oversight and serve high-level politically driven imperatives. They function as compliance mechanisms and have limited capacity for independent decision-making.

Recommendation: Boards of Directors should assume more responsibility for the performance of SOEs. Their roles and responsibilities must be updated in accordance with good governance practices. They must also have a minimum number of independent members. It might be useful to develop an official definition of independence and use it in the search for directors. The status of an independent board member, as well as the definition of independence used to determine status, should be disclosed.

4. Board appointment processes are politically oriented, opaque, and not explicitly merit-based. Board appointment processes are not transparent. Given the dominance of political profiles and appointment, it is clear that the main criterion favors personal contacts and political loyalties. The identities of the board members were not disclosed on the websites of 3 of the 5 SOEs.¹²

Recommendation: There should be a central policy that defines selection criteria and requires that selection be based on merit. Some board positions should be publicly announced. In addition, consideration should be given to the use of independent search consultants.

5. Weak monitoring by the board of directors of corporate governance systems, control, and reporting. Boards of directors do not assume responsibility for the crucial corporate governance processes that ensure that systems for compliance, control, safeguarding the independence of external audit, risk management, control of related party transactions, and preventing conflicts of interest exist and function properly.

Recommendation: The legal roles and responsibilities of boards should be evaluated and updated. A revision of laws or the development of bylaws for companies could be required. All current and prospective members of the board of directors must be trained in corporate governance.

¹² A check on May 11, 2025 showed that the composition of the board was published on the websites of ETESA and Metro de Panama. It could not be found on the websites of ENA and Tocumen Airport. IDAAN's website was not accessible.

6. Absence of audit committees established according to best practice. Only one of the SOEs formally discloses an audit committee. Three more report that they are in the process of establishing one.¹³

Recommendation: Boards of directors should ensure that audit committees comply with best practice and staff them, to the extent possible, with independent members with financial expertise. Committee members need to understand and comply with audit committee best practice. SOEs, in turn, must disclose information about the audit committee, including its charter and composition.

7. A near-total lack of transparency regarding corporate governance. There is an almost complete lack of disclosure about corporate governance. Even basic information, such as the identity of board members, is often missing. In addition, the information required to evaluate control joints and systems is even less frequent.

Recommendation: Disclosure of corporate governance needs to be significantly improved. Law 6 on Transparency would have to be revised to require disclosure of corporate governance. UNCTAD's Guide to Good Practices in Corporate Governance Disclosure can serve as a model for this purpose.

8. Limited systems for monitoring and disclosing conflicts of interest. Prohibitions on conflicts of interest appear in the law establishing SOEs, the law on ethics for public officials, and public procurement laws. However, legal documents frequently lack details.

Recommendation: More detailed policies, rules, supporting documentation, and better disclosure are required to discourage abuse. The reform should also ensure effective implementation.

9. Culture of public administration. SOEs often operate under the rules and practices of public administration. This leads to an administrative culture that can sometimes be bureaucratic and even inflexible.

Recommendation: SOEs should not be extensions of public administration. Wherever possible, the private sector should serve as a model in terms of its rules and practices, especially in the areas of human resource management, incentive compensation, and management by objectives (MBO).

10. Lack of knowledge of good corporate governance practices. Many of the existing deficiencies in the corporate governance of SOEs are due to a lack of knowledge of good practices.

Recommendation: SOE executives, board members, and public officials should all be trained in good corporate governance practices. SOEs should conduct annual assessments of their corporate governance and disclose them against best practices, and then develop corrective action plans.

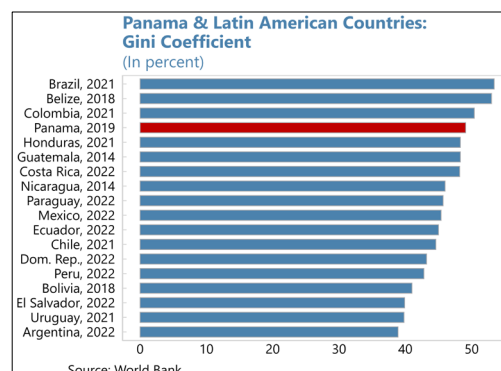
¹³ A check on May 11, 2025 showed that ENA, ETESA and Tocumen Airport publish organigrams on their websites that show an internal audit function that reports to the board. Metro de Panama does not have a recent organigram on its website and does not list oversight of internal audit among the functions of the board, although it has a Director of Internal Audit on its Executive Board. IDAAN's website was not accessible.

REGIONAL INCOME DISPARITIES IN PANAMA

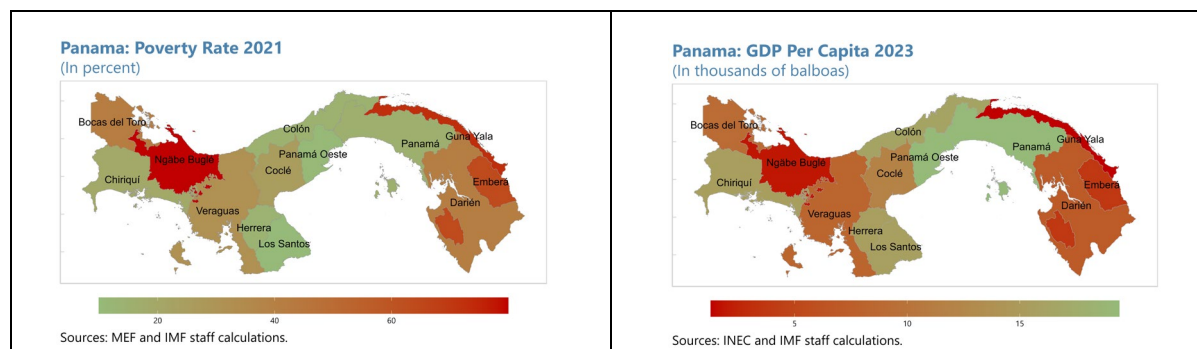
A. Introduction and Background

1. **Income inequality in Panama is high by both global and regional standards.** In 2019 the country's Gini coefficient was 49.1—well above the world average of 39.7 and the Latin America & Caribbean average of 47.9.

2. **To a large extent, high income inequality is the result of income inequality between regions, rather than income inequality within regions.**

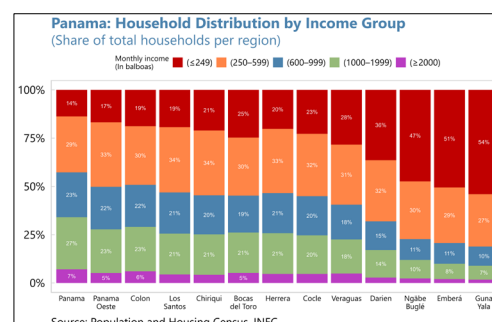


- The Panama Canal corridor—including Panama City and Colón—enjoys relatively high per-capita incomes thanks to concentrated economic activity in shipping, logistics, trade and tourism.
- By contrast, rural and indigenous provinces face structural constraints—poor infrastructure, limited access to health and education services, and weak market linkages—that keep output and employment rates low.



3. **These regional divides show up clearly in household incomes: in urban provinces like Panamá and Panamá Oeste, a large share of families earn more than B/.1,000 per month, whereas in comarcas such as Guna Yala the majority earn under B/.250 per month.**

4. **This analysis explores the underlying drivers of regional income disparities.** We show that from an accounting decomposition perspective, regional differences in per capita GDP are largely the result of differences in labor productivity, though variations in employment rates also play a role. Differences in labor productivity in turn are related to differences in population density, the share of population working in agriculture, informal employment, infrastructure gaps and educational attainment.



B. Regional Overview

5. Urban Provinces. Panama City, Colón and Chiriquí have the highest per-capita incomes and the lowest poverty rates in Panama. Panama City functions as the country's principal financial and commercial hub, hosting the Panama Canal Authority, a large banking sector, and numerous multinational firms. The concentration of high-value financial services, global enterprises and premium real estate underpins elevated productivity and wages. Colón, at the northern entrance to the Canal, serves as a vital trade and maritime center: the Colón Free Trade Zone—one of the world's largest—generates substantial customs revenue and supports logistics-related employment. Chiriquí, though predominantly rural, has a strong export-oriented agricultural base—particularly in coffee and livestock—with the city of David emerging as a regional trade node and Boquete developing into a premier tourism destination.

6. Rural Provinces. Bocas del Toro, Veraguas and Darién have noticeably lower per-capita incomes and higher poverty rates than the urban provinces. Bocas del Toro relies on tourism, banana cultivation and artisanal fishing, but inadequate infrastructure and limited formal employment opportunities constrain income growth. Veraguas benefits from a diversified economy—including agriculture, fisheries and nascent ecotourism—yet the absence of significant industrial investment and underdeveloped value-addition capacity restricts productivity gains. Darién remains the least developed province, dependent on subsistence agriculture, forestry and informal cross-border trade; its geographic isolation and weak transport networks severely limit market access. Although regions such as Cerro Colorado (in Ngäbe-Buglé) hold copper reserves and Darién possesses extensive timber resources, these endowments remain largely unexploited.

7. Indigenous Comarcas. Ngäbe-Buglé, Emberá-Wounaan and Guna Yala record the lowest per-capita incomes and the highest poverty incidence nationwide. In Ngäbe-Buglé, households subsist on small-scale agriculture and seasonal, low-wage coffee harvesting; minimal infrastructure and service delivery impede economic diversification. Emberá-Wounaan communities depend on small-scale farming, fishing and traditional crafts, but remote locations and weak market linkages limit income-earning opportunities. Guna Yala's economy centers on coastal fishing, coconut production and niche tourism, yet restrictive land-tenure arrangements and scarce public investment constrain expansion. These structural barriers to market integration and service access perpetuate low output and entrenched poverty.

C. Differences in Per Capita GDP: A Bookkeeping Perspective

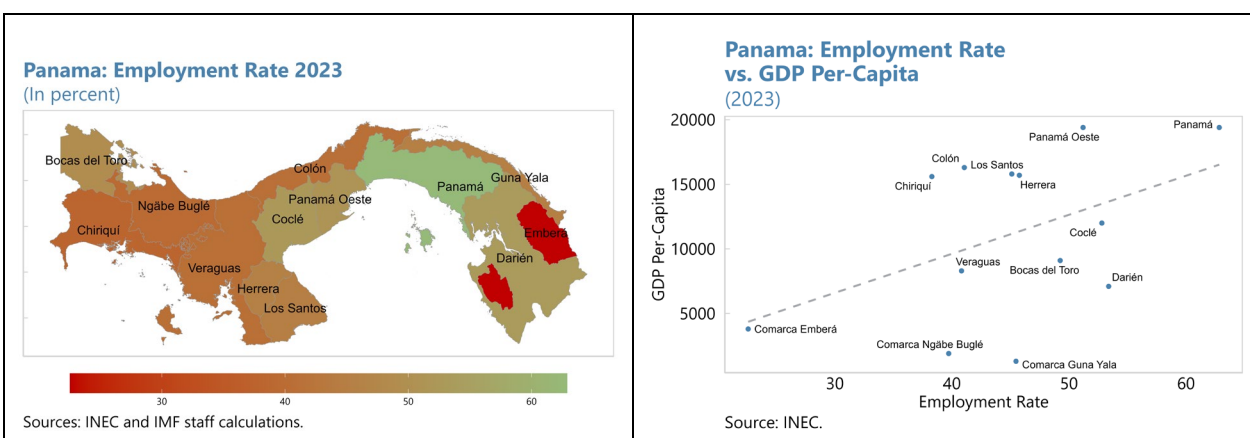
8. From an accounting decomposition perspective, regional differences in per capita GDP are largely driven by disparities in labor productivity, though variations in employment rates also play a contributing role.

Differences in Employment Rates

9. Significant differences in employment-to-population ratios exist across regions. Panama Province records the highest employment rate at 63 percent. In contrast, rural areas such as

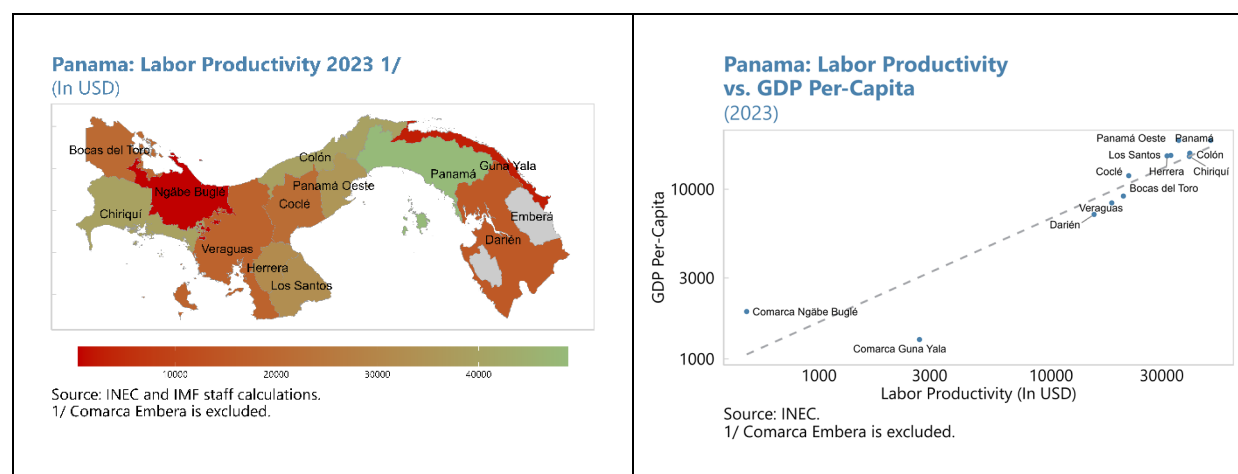
Chiriquí (38 percent), Ngäbe-Buglé Comarca (40 percent), and Veraguas (41 percent) exhibit substantially lower rates.

10. However, employment gaps do not seem a key factor in explaining income differences. For example, even if Ngäbe-Buglé Comarca matched Panama Province's employment rate, its per capita GDP would increase from approximately USD 2,000 to only about USD 3,000.



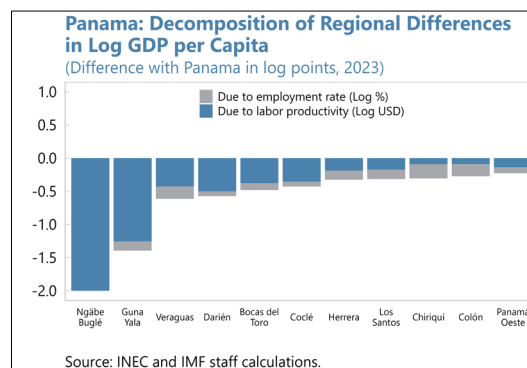
Differences in Labor Productivity

11. Labor productivity and GDP per capita vary markedly across provinces. Urban regions such as Panama City and Colón have the highest level of labor productivity. Rural provinces, including Herrera, Los Santos, and Chiriquí, have more modest productivity levels, while Darién and Veraguas lag behind. The indigenous comarcas, including Ngäbe-Buglé and Guna Yala, have the lowest levels of labor productivity and GDP per capita, reflecting barriers such as limited access to markets, education, and investment.¹⁴ GDP per capita is strongly correlated with labor productivity.



¹⁴ However, Comarca Emberá appears as an outlier, likely due to specific localized economic activities or data anomalies.

12. Differences in GDP per capita relative to Panamá are mostly the result of differences in labor productivity, with much smaller contributions from employment rates. In Ngäbe-Buglé, for example, roughly -2.0 log-points of the per-capita shortfall stem from lower productivity, while reduced employment accounts for less than -0.3 points. Guna Yala shows a similar pattern (≈ -1.5 vs. -0.5), and mid-tier provinces such as Veraguas, Darién, Bocas del Toro each exhibit productivity deficits of around -0.5 to -0.6 log-points but only minor employment gaps. By contrast, Colón, Chiriquí and Panamá Oeste sit almost at zero in both dimensions. Across all regions with low GDP per capita, the blue bars tower over the grey ones—underscoring that productivity heterogeneity, far more than employment differences, drives Panamá’s regional income disparities.

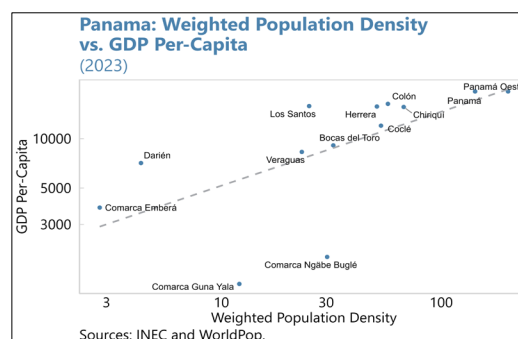


D. Factors Explaining the Differences

Population Density

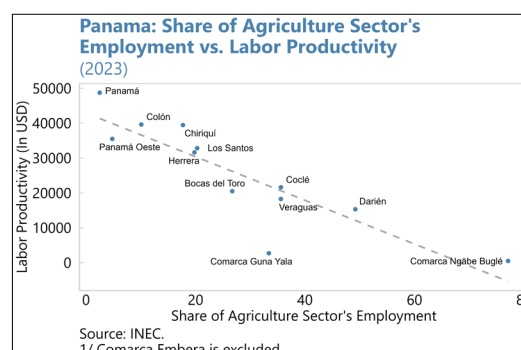
13. The economic literature has long established that higher population density is associated with higher labor productivity, driven by agglomeration economies, knowledge spillovers, and labor market efficiencies. Marshall (1890) first identified these mechanisms, highlighting shared inputs, deeper labor markets, and faster idea diffusion. Empirical studies confirm this link—Ciccone and Hall (1996) find that higher employment density boosts labor productivity, while Combes et al. (2012) estimate a 5 percent productivity gain from doubling density. Knowledge spillovers (Glaeser et al., 1992; Moretti, 2004) and labor market advantages (Glaeser & Maré, 2001; Wheeler, 2001) further enhance productivity, while infrastructure efficiencies (Henderson, 2003) and increased innovation (Carlino & Kerr, 2015) reinforce these effects. Together, these factors explain why densely populated areas consistently exhibit higher per capita GDP.

14. Population density and per-capita income in Panama go hand-in-hand. The two wealthiest regions—Panamá and Panamá Oeste—also rank highest in weighted population density. By contrast, sparsely inhabited comarcas such as Ngäbe-Buglé and Emberá-Wounaan combine low densities with the country’s lowest GDP per capita.



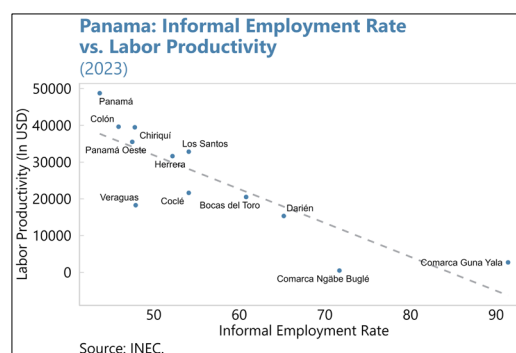
Share Of Agriculture

15. Heavy reliance on agriculture in low-density areas helps explain their weak productivity. Value-added per worker in farming is far below that in industry and services, and in comarcas such as Ngäbe-Buglé agriculture still employs the lion's share of the labor force. By contrast, in Panama and Colón—where fewer than one in ten workers are in agriculture—average productivity is much higher. Moreover, recurrent droughts and low rainfall in provinces like Herrera and Los Santos have further depressed crop yields and kept agricultural output—and overall regional productivity—artificially low.



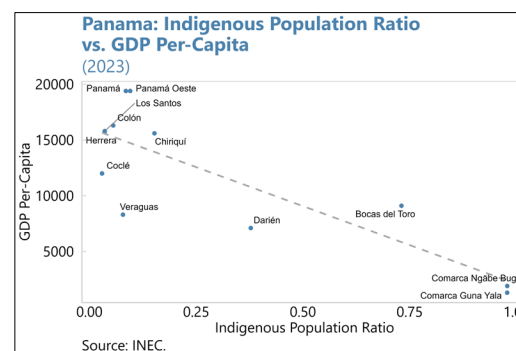
Informal Employment

16. High rates of informal employment further depress productivity in low-density areas. In Ngäbe-Buglé and Guna Yala, informal work makes up roughly 72 percent and 91 percent of all jobs, respectively, compared with just 44 percent in Panamá Province and 46 percent in Colón. Without formal contracts or access to credit, informal workers face barriers to skills training and capital investment, keeping output per worker well below that in the formal sector.



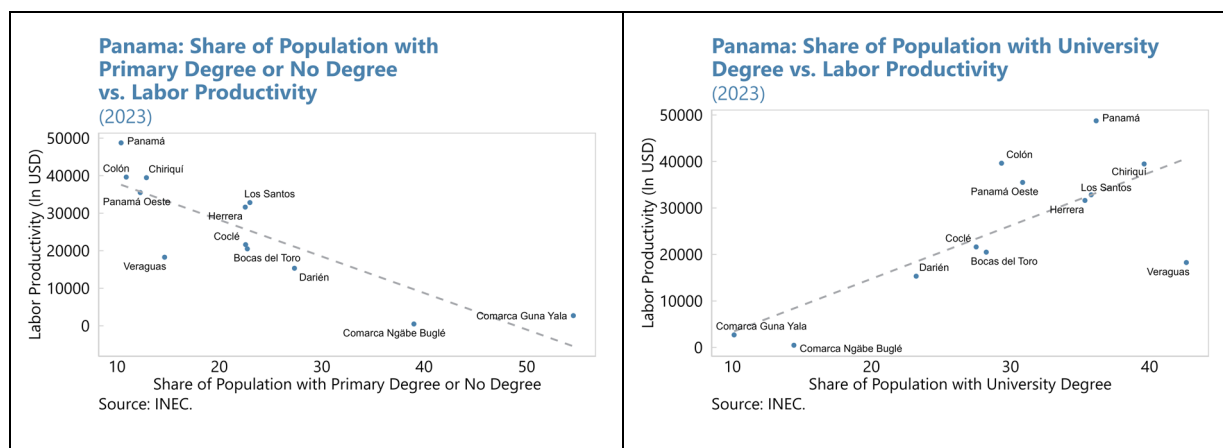
Indigenous Population

17. Areas with larger indigenous populations generally have lower incomes. In Panama City and Colón—where indigenous peoples account for less than 10 percent of residents—per-capita incomes rank among the nation's highest. By contrast, in some rural provinces and comarcas where indigenous shares reach as high as 76 percent, GDP per capita falls to the lowest levels in the country. This gap reflects long-standing challenges—underinvestment in infrastructure, schooling and services—that disproportionately affect indigenous communities in remote areas.



Educational Attainment

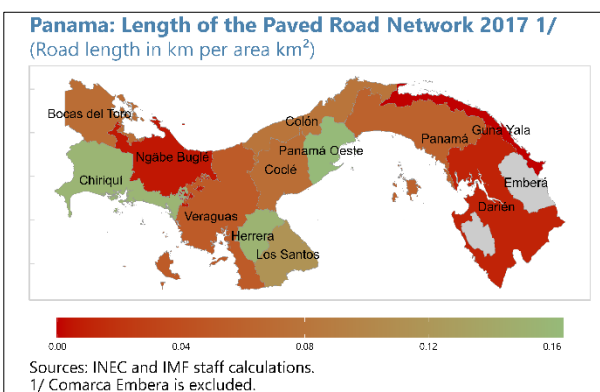
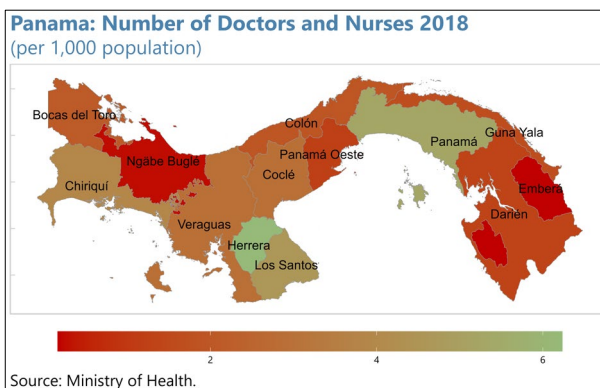
18. Educational attainment is a powerful predictor of regional productivity. In urban provinces—Panamá and Colón—about one in three adults have a university degree, fueling a more skilled workforce and higher value added per worker.



19. By contrast, many rural and indigenous regions remain trapped by low levels of schooling. In Ngäbe-Buglé, for example, 7 percent of residents never complete a formal degree, and only 14 percent go on to university. In Darién Province almost 30 percent of adults have no degree or only a primary degree. With limited qualifications, workers in these areas struggle to access higher-paying jobs or training opportunities, perpetuating poverty cycles and widening the productivity gap.

Healthcare

20. Access to health-care professionals in Panama is highly uneven. Urban provinces—particularly Panamá and Herrera—lead the country with the highest ratios of doctors and nurses per capita, and other cities like Chiriquí and Los Santos also maintain above-average medical staffing levels. By contrast, rural provinces such as Darién and Panamá Oeste suffer notable shortages. The most severe gaps appear in the comarcas: Ngäbe-Buglé has just 0.25 health professionals per 1,000 residents, Emberá-Wounaan only 0.17 per 1,000, and Guna Yala a mere 1.66 per 1,000. These stark disparities hinder human-capital development, reduce worker productivity, and exacerbate the economic divide between well-served urban centers and underserved rural communities.



Transportation Infrastructure

21. The density of Panama's road network plays a pivotal role in shaping economic access and opportunity. In provinces like Panamá, Coclé and Colón—each with more than 1,000 km of roads—residents enjoy relatively easy travel to jobs, markets and services, reinforcing urban economic dynamism. By

contrast, Comarca Guna Yala's mere ~30 km of roads severely limits mobility, leaving many communities physically cut off from higher-value labor markets and basic services. At the same time, provinces such as Chiriquí and Veraguas, with over 3,000 km of roadways apiece, act as vital conduits that link agricultural heartlands to processing centers and export points, strengthening both rural livelihoods and national trade flows.

E. Conclusion

22. In this paper, we document that Panama's pronounced income inequality in part reflects stark disparities in per-capita output across its regions rather than within them. Using an accounting decomposition, we show that differences in labor productivity account for the bulk of the gap in regional GDP per capita, while variations in employment-to-population ratios play only a secondary role. Urban provinces clustered around the Canal corridor—especially Panamá, Panamá Oeste and Colón—have high productivity, buoyed by dense economic activity in services, logistics and trade. In contrast, rural provinces and indigenous comarcas face persistently low productivity owing to low population density, heavy reliance on low-value agriculture, high informality, limited educational attainment, uneven health-care access and sparse infrastructure. Across almost every region outside the Canal corridor, labor productivity shortfalls of 0.5 to over 2 log-points drive the divergence in incomes, dwarfing the modest effects of employment-rate differences. In sum, Panama's regional income divides are rooted in heterogeneous productivity levels, themselves shaped by demographic, sectoral and institutional factor

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