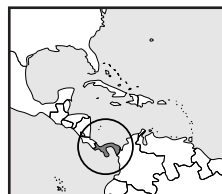


## ■ PANAMA

# Social expenditure does not serve its purpose



A significant increase in public social expenditure has failed to meet the poverty reduction and equality goals in Panama, where the gap between the rich and the poor continues to grow. Without mechanisms aimed at ensuring transparency and accountability and controlling corruption it will not be possible to make progress in social expenditure management.

Fundación para el Desarrollo de la Libertad Ciudadana,  
Capítulo Panameño de Transparencia Internacional

Patricio Mosquera De La Guardia<sup>1</sup>

Panama is one of the few countries in the region that according to the Economic Commission for Latin America and the Caribbean (ECLAC) has met between 60% and 70% of the eight goals set in 2000<sup>2</sup> at the UN Millennium Assembly, held by world leaders to promote global development and halve poverty by 2015.<sup>3</sup>

Many of these advances are reflected in the United Nations Development Programme (UNDP) *Human Development Report 2004*, which points out that in recent decades health care, access to knowledge and living standards in Panama have, on the whole, improved steadily.

### Figures that make the difference

Although Panama is considered a medium human development country (ranked 61 among 177<sup>4</sup>), a closer look will reveal a scenario which is not very different from other Latin American countries. Panama ranks second in inequality of income distribution in the region. This, added to the huge pockets of poverty found in its territory pose an obstacle to reaching higher levels of social and human development. Inequity and poverty are crucial problems still pending on Panama's modernization and social development agenda.

According to estimates from the 2000 Census<sup>5</sup> and based on the national poverty line,<sup>6</sup> 40.5%, over 1.1 million of the almost three million Panamanians are poor. Of these, 26.5% live in extreme poverty.

The average income of the richest 20% of the population is more than 41.5 times that of the poorest 20%. The Social Policy Department of the Ministry of Economy and Finance (MEF)<sup>7</sup> has estimated that in the last decade for which statistics are available, the poorest 20% have a share of barely 1.5% of the total income, while the richest 20% receive 62.7% of total income.<sup>8</sup> This leaves little doubt that social inequity has become one of the country's main problems in recent years.

The fight against poverty and inequality is no longer just an ethical imperative. More broadly, these realities can be regarded as the cause of the social instability which, apart from affecting the country's possibilities for economic and social development, could also be placing the stability of a relatively recent democracy at risk.

### Worst conditions in rural and indigenous areas

Although Panama shows relatively good indicators, they tend to hide large differences between urban and rural areas. In the same way as in most developing countries, the dichotomy between the city and the country has profound dimensions, which are often not reflected in figures related to income distribution and poverty.

Thus, while people living in cities enjoy a medium to high level of human development, most rural and indigenous people subsist in insecure conditions. In 2000, the province of Panama, where the capital city is located, showed a medium to high level of human development (0.764), while the Ngobe Bugle area registered a very low level (0.363).<sup>9</sup>

Economic disparities are even more evident when the different geographical areas of the country are compared. The case of indigenous people is alarming, since they have a 95% probability of poverty. In the Ngobe Bugle area, the extreme poverty rate is 93.4% and in the Kuna Yala area the rate is 82.4%. The situation faced by provinces is also worrying: in Veraguas, extreme poverty reaches 48.3%, closely followed by Bocas del Toro and Coclé with levels above 43%.<sup>10</sup>

### Inefficient expenditure

Between 1990 and 1999, the per capita social public expenditure rose from USD 373 to USD 648.<sup>11</sup> Although resources for social purposes were almost doubled (at present 40% of the Government's budget is allocated to the social area), results fall short of expectations. As former first Vice-President of Panama Arturo Vallarino (1999-2004) pointed out, "the mean levels of well-being reached by families reflect large disparities between different human groups within the country".<sup>12</sup>

A cold analysis of the figures can turn out to be devastating. According to estimates carried out by the MEF<sup>13</sup> for 1997, the annual minimum amount required to eliminate poverty was around USD 406 million, while social public expenditure amounted to approximately USD 1.82 billion. This figure exceeds the former figure by far, so it was only to be expected that the country's social situation would deteriorate. While the poverty level in 1997 was estimated at 37.5% of the population, in 2000 it reached 40.5%.<sup>14</sup>

1 Economist and consultant

2 "Panamá cumple metas contra pobreza", *La Prensa*, 12 June 2004.

3 The main goal is to halve the percentage of people earning less than USD 1 a day, an amount that is inferior to income according to Panama's extreme poverty line. See footnote 6.

4 United Nations Development Programme (UNDP). *Human Development Report 2004*, 2004. In recent years, Panama's position on this index has systematically fallen. This does not imply it has gone backwards but that other countries have improved.

5 10th National Census of Population and 6th Census of Housing, 2000. [www.contraloria.gob.pa/dec](http://www.contraloria.gob.pa/dec)  
The lack of data figures after 2000 prevents this analysis from being updated. In spite of the fact that the General Comptrollership of the Republic carries out an annual Household Survey and in 2003 the Ministry of Economy and Finance carried out a Living Standards Survey, the results are not made available to the public or have not yet been processed, which has prevented non-governmental organizations from handling this information.

6 Panama's national poverty line is set at USD 2.48 a day, that is to say that people who earn below that income are considered poor. The extreme poverty line is set at USD 1.42 a day.

7 Ministry of Economy and Finance (MEF). *Perfil y características de los pobres en Panamá*. 1997.

8 *Ibid*, Chart 3, p. 19.

9 UNDP. *Informe Nacional de Desarrollo Humano Panamá 2002*. Panamá, 2002. [www.undp.org.pa/pnudpanama/](http://www.undp.org.pa/pnudpanama/)

10 *Ibid*.

11 *Ibid*. "Anexo: Gasto Público e Inversión Social".

12 Chery, Jean Marcel. "Gobierno no udo con la pobreza". *La Prensa*. Panamá, 22 June 2004.

13 MEF, *op cit*.

14 Social Watch Report 2004. *Fear and Want. Obstacles to human security*. Montevideo, 2004. [www.socialwatch.org.uy/es/informesnacionales/360.html](http://www.socialwatch.org.uy/es/informesnacionales/360.html)

The *National Human Development Report 2002* pointed out that “in spite of a high level of total social expenditure and relatively acceptable basic social services, Panama has not reached indicators similar to those achieved by other countries that are in the same situation (...) Panama does not deserve to be poor and it does not need to be poor.”<sup>15</sup>

According to Paulina Franceschi, coordinator of this report, the poor outcome results from the fact that the “execution of this expenditure under the public sector’s responsibility reflects problems regarding coverage and quality, which reduce its effectiveness and impact”.<sup>16</sup> This opinion is supported by the World Bank,<sup>17</sup> which holds that the Government’s strategies are too centralized, and its policies are not focused enough and are inefficient in achieving any reduction in poverty or inequality.

### Need for transparency and follow-up

There are other points of view. Enrique de Obarrio, President of the Panamanian Business Executives Association, believes that “inefficiency in public spending, corruption and the government’s squandering are the real cause of poverty and social inequality”.<sup>18</sup> The inadequate distribution of funds (more than half are spent on salaries and operational expenses) and the lack of continuity of existing programmes, have given rise to patch-up measures that are becoming permanent. The lack of seriousness in putting programmes into practice is evidence of the political interests of those in charge of their implementation.

Public perception is of the same opinion. According to 71.4% of the population,<sup>19</sup> corruption has played a crucial role in the negative results in the management of public expenditure. The embezzlement of public funds, just to mention one form of corruption, discloses legal deficiencies when it comes to taking action against corrupt practices, and shows to what extent impunity is rampant.<sup>20</sup>

The major challenge to overcoming poverty and improving income distribution does not lie in increasing expenditure and social investment but in ensuring that the resources allocated to the poorest sectors meet their target. This will not be achieved unless control mechanisms are introduced to ensure

transparency and accountability by authorities, thus allowing citizens to monitor the decisions and conduct of their representatives in an effective way.

### Other challenges: education, health and unemployment

In 2004, the Government allocated USD 552.7 million to education.<sup>21</sup> This amount, one of the largest in the region, represents 20.9% of public expenditure.<sup>22</sup> There is a large disparity however between private and public education.<sup>23</sup> Fifty-two percent of state primary schools have “multigrade” instruction, in which up to 20 students from first through sixth grade have their lessons in the same classroom, taught by one teacher.

Not all differences are related to the quality of education. According to the Programme to Promote Educational Reform in Latin America and the Caribbean, while the average level of education for people aged 25 is four years of schooling among the poor, people of the same age within the highest income sector get 14 years of schooling. As pointed out by the World Bank,<sup>24</sup> the state subsidy to education allocates 95% of its resources to higher education, of which only 5% of the poor are its beneficiaries.

According to figures from the 2000 Census,<sup>25</sup> 7.6% of the population are illiterate (7.1% of men and 8.2% of women). This might be considered on the whole an acceptable rate, but it contrasts with the high illiteracy rates affecting the population, women in particular, in indigenous areas. In the Ngobe Bugle area, for example, the illiteracy rate is 45.9% (35.9% of men and 55.3% of women) and in the Yuna Yala area it reaches 38.5% (26.1% of men and 48.5% of women).

Nevertheless, an objective look at education cannot fail to acknowledge advances. Among these is the launch of an equal opportunities programme that would benefit approximately 3,000 disabled students.

The health sector faces severe problems in terms of the qualitative gap separating urban from rural areas. Poor rural people live in communities that have poor access to healthcare centres and lack

quality healthcare services. In this sector there are various challenges: increased coverage for the poorest, control of infant mortality and care and prevention of diseases such as HIV/AIDS.

Yet the major challenge is the reform of the social security system. According to President Martín Torrijos, who took office in May 2004, “this is a difficult and painful situation which causes a feeling of frustration among many Panamanians”.<sup>26</sup> The Government has committed itself to take the necessary steps to maintain the health and pensions system and guarantee its feasibility. The alternatives include increasing the retirement age, while reducing the number of beneficiaries; increasing the time for contributing to retirement plans as well as increasing the sums contributed by workers and employers; and revising the way health and pensions funds are collected.

The uncertainty of obtaining and maintaining employment is still one of the main concerns of many Panamanians. According to official figures, the unemployment rate, which in the metropolitan area is 13.3%, nationwide reaches 15.2%. The female unemployment rate is as high as 18%.<sup>27</sup>

### Conclusion

Panama needs to adopt a strategy that, on the one hand, will help the country achieve an adequate balance between poverty reduction and social equality, and on the other hand, preserve the long-term stability of the economy. Inequality and poverty are crucial problems still pending on the country’s modernization and social development agenda. In order to address them, it is essential to improve both the efficiency and effectiveness of public expenditure for social purposes and to implement mechanisms aimed at ensuring transparency, thus incorporating the organized participation of civil society that demands the fulfilment of its rights and the monitoring of tax contributions. ■

15 UNDP (2002), *op cit*.

16 Castillo Duarte, Edith. “Panamá, uno de los países de América Latina con mayor gasto social”. *La Prensa*. Panama, 22 February 2002.

17 World Bank. *Panama Poverty Assessment: Priorities and Strategies for Poverty Reduction*. Washington DC, 2000.

18 “La postura de algunos representantes de los grupos empresariales del país”. *El Panamá América*. Panama, 26 January 2005.

19 Pulso de la Nación. “La ‘Patria Nueva’ y sus promesas de campaña”. *La Prensa*. Panama, 19 October 2004.

20 Some of these cases are presented in: Vega, Lina. “Los cuarenta días de la Procuradora”. *La Prensa*. Panama, 12 February 2005.

21 General State Budget, 2004. Details about the 2005 budget can be seen in: [www.mef.gob.pa/comunicados/2004-Comunicado-presentaci%C3%B3n%20vigencia%20fiscal%202005-22-10-04.asp](http://www.mef.gob.pa/comunicados/2004-Comunicado-presentaci%C3%B3n%20vigencia%20fiscal%202005-22-10-04.asp)

22 According to the World Bank, the State allocates 4% of its GDP to education. Source: *Social Watch Report 2004. Fear and Want. Obstacles to human security*. Montevideo, 2004.

23 On average, annually, the public sector spends USD 644 on each primary school student, while it spends USD 1,800 on a secondary school student.

24 World Bank, *op cit*.

25 10th National Census of Population, *op cit*.

26 State Communication Secretariat. “Social security reforms will ensure a country with future, stated President Torrijos”. Panama, 9 June 2005.

27 MEF Social Policy Department. “Main Social Indicators: Years 1990, 1995 and 1997-2000”. 14 June 2005. [www.mef.gob.pa/indicadores](http://www.mef.gob.pa/indicadores)