

## PANAMA

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: PANAMANIAN BALBOA (PAB)

## POPULATION AND GEOGRAPHY

**Area:** 275 420 km<sup>2</sup>  
**Population:** 4.099 million inhabitants (2017), an increase of 1.7% per year (2010-2015)  
**Density:** 54 inhabitants / km<sup>2</sup>  
**Urban population:** 67.4% of national population  
**Urban population growth:** 2.1% (2017 vs 2016)  
**Capital city:** Panama City (43.5% of national population)

## ECONOMIC DATA

**GDP:** 100.3 billion (current PPP international dollars), i.e. 24 469 dollars per inhabitant (2017)  
**Real GDP growth:** 5.3% (2017 vs 2016)  
**Unemployment rate:** 4.5% (2017)  
**Foreign direct investment, net inflows (FDI):** 4 826.4 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 39.7% of GDP (2017)  
**HDI:** 0.789 (high), rank 66 (2017)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Panama is a Presidential Republic. According to the 1972 Constitution (last amended in 2004), executive power is vested in the president and two vice presidents, elected by direct popular vote for five-year mandates. The first vice president acts as chief executive in the absence of the president, and both have votes in the Cabinet Council. Legislative power is vested in a unicameral legislative National Assembly (*Asamblea Nacional*), composed of 67 members, each of whom has an alternate. Members and their alternates are elected concurrently with the presidential elections, for five-year mandates.

Panama is a unitary country with a single-tier of subnational government, composed of municipalities. Article 232 of the 1972 Constitution acknowledges the autonomy of municipal governments, and the 1973 Law No. 9-106 on the Municipal Regime (*Ley No. 9-106 Sobre Regimen Municipal*) establishes municipal categories, autonomy and structure. The first local elections were held in 1984. There are also 10 provinces acting as deconcentrated entities.

The first decentralisation law was introduced in 2009 (*Ley No. 37 Que Descentraliza la Administracion Publica*), to define the main principles of decentralisation and local governance, establish categories of municipalities and list their responsibilities. However, it was suspended by the following government before it was fully implemented. Decentralisation was reintroduced in 2015, with the passing of Law No. 66, which updated and amended the original law. The 2015 Decentralisation Law sought to build municipal capacity, by increasing municipal revenue with the expectation that SNGs would gain new competences. It also established a National Secretariat for Decentralisation (SND).

In 2013-2014, an integrated development plan for indigenous communities was drafted (*Plan Nacional de Desarrollo Integral de Pueblos Indígenas de Panamá*), based on a dialogue between Panama's indigenous communities, the government, the United Nations and the Catholic Church, and which calls for establishing a National Council for the Development of Indigenous Communities in Panama. As of 2018, this Plan was being revisited and should be implemented quickly.

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	78 Municipalities ( <i>distritos</i> )			
	Average municipal size: 52 546 inhabitants			
	78			78

**OVERALL DESCRIPTION.** Panama is divided into a single tier of subnational government, composed of 78 autonomous municipalities (*distritos*). The country also comprises three semi-autonomous indigenous regions (*comarcas*): Embera, Kuna Yala and Ngäbe-Buglé. These three regional comarcas are divided into indigenous settlements. Overall, indigenous territories are organised by ethnic groups and host the majority of the indigenous population of Panama (around 12% of the country's population). The comarca of San Blas has a distinct form of local government headed by tribal leaders.

**MUNICIPAL LEVEL AND INTERMUNICIPAL COOPERATION.** The 78 municipalities include two indigenous local comarcas embedded within provinces that are considered equivalent to municipalities (Kuna de Madungandi, in the Panama Province, and Kuna de Vargandi, in the Darien Province). Each municipality is governed by a mayor (*Alcaldia*), who enforces ordinances enacted by a municipal council of community representatives, all directly elected for five-year terms. However, the National Assembly may pass laws requiring the appointment of municipal officials by the President under certain circumstances.

Municipalities are further sub-divided into *corregimientos*, of which there were a total of 670 in 2018. Each *corregimiento* has its own local government, headed by a corregidor, and local council (*junta comunala*) composed of the *corregidor*, the *corregimiento* representative to the municipal council, and five selected other residents of the district. *Corregimientos* are represented on the municipal council as well as on the provincial council. The capital city of Panama is composed of 26 *corregimientos*.

Municipalities in Panama are large by international comparison: almost 53 000 inhabitants vs 9 700 inhabitants in the OECD on average in 2017-2018. However, population size varies from 1 200 inhabitants in Taboga to almost one million in Panama City. Only 10% of Panamanian municipalities have fewer than 5 000 inhabitants vs 44% in the OECD while 43% have more than 20 000 inhabitants (vs 30% in the OECD on average).

Municipalities in Panama are classified into four categories based on population and density. The bulk of municipalities are categorised as semi-urban (51 municipalities, accounting for approximately 65% of the population), 15 as urban (19% of the population), 10 as rural (13%) and 2 metropolitan areas (representing 3% of the population). The threshold between rural and semi-rural municipalities is 6 000 inhabitants.

According to the 1973 Law on Municipal Regime, municipalities can gather in associations that include a council, an administrative structure and their own treasury (*hacienda intermunicipal*). However, such associations are rare and their application is limited by the lack of fiscal autonomy of municipalities. In parallel, comarcas often cooperate with each other in sectors such as education and healthcare. Cooperation across indigenous and non-indigenous communities is more limited.

**STATE TERRITORIAL ADMINISTRATION.** The 10 provinces are deconcentrated entities of the central government. Each province is led by a governor, appointed by the President, and administered by a *Junta Territorial* composed of representatives from each line ministry (Art. 249 of the Constitution). As of January 2014, the five former districts west of the Panama Canal split, to form the Panama Oeste Province. In addition, each province has its own Provincial Council, indirectly elected, composed of a representative from each *corregimiento* in the province, which acts as an advisory body to the governor. Provinces do not have the capacity to generate their own revenue, and are responsible for implementing the plans and programmes developed by the national government. Their expenditures are funded directly from the central budget, through line ministries, and set annually.

In Panama, there are wide disparities between urban and rural provinces (particularly Bocas del Toro and Los Santos) in terms of service delivery and living conditions, and even wider regarding comarcas, which are the most disadvantaged areas. Projections indicate that provincial population growth between 2010 and 2020 will range from 1.6% in Los Santos to 20% in Panama City and 33.5% in Bocas del Toro, raising future challenges in terms of infrastructure, amenities and service delivery capacity.

The current Strategic Government Plan (*Plan Estratégico de Gobierno*, PEG) for 2015-2019 provides guidance for regional development in the medium term. A national policy for land use with a horizon to 2030 is under preparation by the Ministry for Housing and Land. At the municipal level, municipalities and comarcas have been required since the 2015 Law to develop district and *corregimiento* strategic plans (*Planes Estratégicos Distritales* – PED, and *Planes Estratégicos de Corregimiento*), which aim to combine both aforementioned national strategies.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Panama does not have a specific administrative decentralisation law that defines and regulates the competencies of municipalities vis-à-vis the central government. However the country has been gradually introducing a system of asymmetric decentralisation. The transfer of competences from the central government to Panamanian municipalities started through law no. 37 of 2009 on the Decentralisation of the Public Administration. The law took a gradualist approach and permitted the transfer of responsibilities to local authorities, following an accreditation process. However, the transfer was completed once their competence was authorised and their application process to the Secretariat for Decentralisation finalised. This approach was maintained with law no. 66 in 2015 (which amended the 2009 legislation). In addition, the new law improved local investment capacity and enacted a list of responsibilities that could be devolved to municipalities receiving transfers from the property and real estate tax collection, ranging from maintenance and improvement of education, healthcare, and delivery of basic services. Overall, municipalities are responsible for a range of public services divided into specific tasks: urban public services, public transport services, security and protection, public education and culture services, health services and public provisions. However, despite their autonomous status, their responsibilities are concentrated on general urban amenities and education, and there are significant disparities in their ability to deliver public services.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPALITIES	
1. General public services	Cemeteries
2. Public order and safety	Citizen security; Fire prevention
3. Economic affairs/transport	Public roads; Parking and transport terminals; Public slaughterhouses and public markets; Support for the agricultural sector; Touristic infrastructure
4. Environmental protection	Parks and gardens; Environmental protection; Solid waste collection and management; Recycling services
5. Housing and community amenities	Zoning; Building permits; Authorisation for public lighting; Telecommunication services; Supply of potable water
6. Health	Health centres
7. Recreation, culture & religion	Sport fields and recreation areas; Library services
8. Education	Pre-primary schools; School canteens; Construction of classrooms (support)
9. Social protection	Social assistance; Elderly care; Orphanage

## SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and <i>corregimientos</i>	SNA 1993	Availability of fiscal data: <b>Medium</b>	Quality/reliability of fiscal data : <b>Medium</b>
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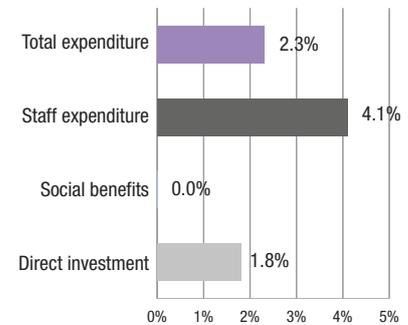
**GENERAL INTRODUCTION.** Subnational fiscal and financial frameworks in Panama define a high degree of centralisation. The Constitution and 1973 Law on Municipal Regime provides municipalities with the right to receive revenues from taxes, fines and fees, yet they have few resources and their fiscal autonomy is limited. The 2015 Decentralisation Law marked an increase in municipal funding, with the objective of providing them with greater development and service responsibilities, through the establishment of two municipal funds for investment and current expenditures, including an equalisation mechanism for inter-municipal solidarity, as well as of Fiscal Offices in each municipality. However, local authorities have minimal autonomy regarding spending. To enhance the accountability of municipalities and *corregimientos* to the central government and to the citizens, new technological tools are being implemented (GRP - *Recursos de Planificación Gubernamental*, for the *corregimientos*, and SIDEM - *Sistema Integral de Descentralización*, for the municipalities and *corregimientos*).

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## SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>109</b>	<b>0.5%</b>	<b>100%</b>	
<b>Inc. current expenditure</b>	<b>81</b>	<b>0.4%</b>	<b>74.7%</b>	
Staff expenditure	43	0.2%	39.7%	
Intermediate consumption	19	0.1%	17.0%	
Social expenditure	0	0.0%	0.0%	
Subsidies and current transfers	17	0.1%	15.5%	
Financial charges	3	0.0%	2.4%	
Others	0	0.0%	0.0%	
<b>Incl. capital expenditure</b>	<b>28</b>	<b>0.1%</b>	<b>25.3%</b>	
Capital transfers	16	0.1%	14.7%	
Direct investment (or GFCF)	12	0.0%	10.6%	

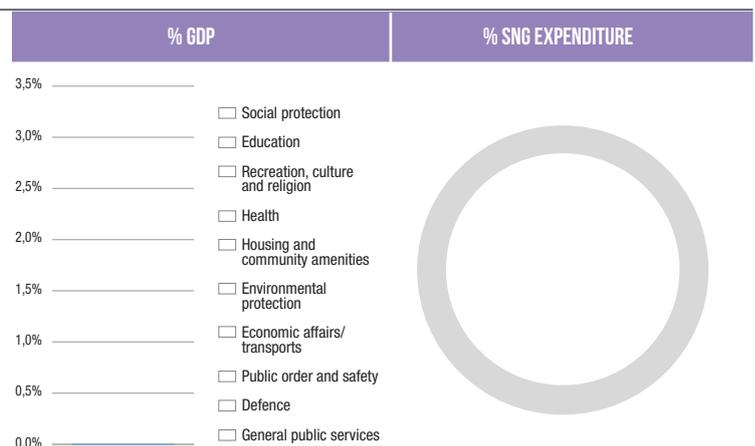


**EXPENDITURE.** Municipalities in Panama account for a limited share in total public expenditure, well below the OECD average for unitary countries (28.7% of public expenditure and 9.2% of GDP in 2016), and also far from many other Latin American countries (for instance, in Chile, one of the OECD's most centralised countries, SNG revenue represented 3.6% of GDP and 15.5% of total public expenditure in 2016). Local expenditures are uneven across municipalities, as municipalities in the province of Panama were responsible for 62% of all municipal expenditure in 2016. In terms of expenditure per capita, they ranged from an average of PAB 14 in the communities of Ngable Buglé to an average of PAB 112 for those in the province of Panama.

**DIRECT INVESTMENT.** Overall, municipal investment in Panama is very low, well below the OECD average for unitary countries of 50.7%. Local investment is concentrated in Panama City. In 2016, municipalities dedicated 10.6% of their direct investment to infrastructure, a level close to the OECD average (11.2% in 2016). This represents a sharp increase since 2015, when it accounted for only 6% of their expenditure. However, this share represents barely 1.8% of total public investment, and differs widely across municipalities. In fact, it amounted to less than 1% of municipal expenditure in the provinces of Herrera, Bocas del Toro, Darien, and in the comarca of Embera. On the flip side, it rose to 15% for the municipalities in Panama province (local direct investment in this province accounted for 88% of total local direct investment). Municipalities derive funding for investment from the funds transferred from the central government, and must submit their investment plan first to citizens for consultation, and then to the National Secretariat for Decentralisation for approval. Priority investment sectors at the national level in 2016 were transport and citizen safety.

## SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Subnational governments in Panama contribute primarily to public expenditures in the fields of general urban amenities and education, with some responsibilities in public health, recreation and culture and transport. They have a limited number of services and responsibilities compared to other countries, in particular in the field of education. Likewise, the amount of their contribution varies across municipalities, and is determined at the national level based on their population and level of socio-economic development.



## SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
<b>Total revenue</b>	<b>135</b>	<b>0.6%</b>	<b>2.9%</b>	
Tax revenue	58	0.3%	2.5%	43.1%
Grants and subsidies	38	0.2%		28.4%
Tariffs and fees	10	0.0%		7.7%
Property income	3	0.0%		1.9%
Other revenues	26	0.1%		19.0%

**OVERALL DESCRIPTION.** Municipal revenue in Panama is low, and its share in GDP and total public revenue is well below the OECD average for unitary countries (respectively 12.3% of GDP and 30.1% of public revenue in 2016). Nevertheless, SNG revenue has been rising since 2014, and particularly 2015 with the reintroduction of the Law on Decentralisation. Most municipal revenues derive from tax revenue (43.1%), which is high by international comparison (in the OECD unitary countries, tax revenue accounted for 38.7% of SNG revenue) while grants and subsidies accounted for a limited share (28.4% in 2016 vs 48.8% in the OECD unitary countries). However, the share of tax in municipal revenue has been decreasing since 2015 thanks to the introduction of grants, and particularly current grants, in municipal budgets, often earmarked for specific uses. In 2015, before the Decentralisation Law, grants and subsidies accounted for only 6% of SNG revenue. Tariffs, fees and property income accounted for almost 10% of municipal revenue, and other revenue for the remaining 19%. However, there are strong disparities in terms of municipal revenue across provinces, as municipalities located in the province of Panama concentrated 65% of total municipal revenue in 2016, and received 77% of all transfers from the central government.

**TAX REVENUE.** Tax revenues are the main source of municipal revenue in Panama, but they represent a low share of national tax revenue. In 2016, they represented 2.5% of total public tax revenue and 0.3% of GDP (vs 19.8% of public tax revenues and 4.7% of GDP in OECD unitary countries on average). According to articles 242-243 of the Constitution, municipal tax revenue is composed exclusively of own-source taxes (there is no tax sharing system). Further development on municipal taxes can also be found in law no. 106 from 1973, amended in 1984, and law no. 38 from 2000 for the City of Panama. Each municipality has its own Tax Code (Regimen Impositivo).

Taxes on commercial activities represented more than half of municipal tax revenue, followed by other local taxes including taxes on construction and industrial activities, tax on alcoholic beverages, and on livestock (slaughterhouses), paid to the municipality of the animal's origin. There are strong disparities across municipalities: as an example, tax revenues represent only 7% of municipal revenue in Ngabe Buglé, against 69% for municipalities in Bocas del Toro.

**GRANTS AND SUBSIDIES.** There is no particular legal framework regulating transfers from the central government to municipal governments in Panama. In fact, the issue is often left to the discretion of the president. Most of these transfers are earmarked to specific uses. Making matter worse, transfers are unpredictable. In 2016, 94.5% of grants transferred to municipalities and corregimientos were current grants, and 5.5% were capital grants. Therefore, municipalities and corregimientos are accountable to the central government for the use of the funds transferred to them. In addition, grant revenues vary significantly across jurisdictions, as they represented only 2% of the revenues for municipalities in Panama Oeste, against 67% for the communities of Ngabe Buglé.

The 2015 Decentralisation Law established two new municipal funds, replacing the former National Programme of Local Development (Pronadel). The first new fund derives from the property and real estate taxes collected at the central government level by the Ministry of Economy and Finance (*Fondo del Impuesto de Inmuebles* - IBI). Funds are allocated to municipalities based on estimations from the previous year, including fines and surcharges, with a minimum threshold revised upward annually (set initially at PAB 500 000 in 2016). Urban municipalities are entitled to use 90% of this fund for investment in hard infrastructure, earmarked to municipal services and to specific sectors defined by law (roads, lighting, water, electricity), whereas the remaining 10% can be used for current administrative expenditure. For the other categories of municipalities, the ratio is 75% of the funds for investment in hard infrastructure, and 25% for administrative capacity. Finally, 1% of the funds transferred to each municipality goes to the Association of Municipalities of Panama. There also exists an equalisation mechanism (*Fondo Solidario*), composed of resources from municipalities that receive higher income from the property and real estate tax, and reallocated to municipalities below the threshold of PAB 500 000. In addition, the 2015 Decentralisation Law stated that municipalities would collect the property and real estate taxes. The changed is scheduled to be implemented over the course of 2018-2019. Authorities expect the amount of the IBI collected to increase going forward.

In addition, *corregimientos* receive transfers through the Public Works and Municipal Services programme (*Programa de Obras Públicas y de Servicios Municipales*), corresponding to a transfer of USD 110 000 to each *junta communal*. 70% of these transfers can be used, after citizen consultation, for investment projects, and the remaining amount for administrative and operational functions.

**OTHER REVENUES.** Municipalities can generate revenue from tariffs and fees for the delivery of public services, fines, income from public lands, properties or municipal assets, the extraction of natural resources (wood, sand, stone, clay, coral, etc.) and duties on public performances. Altogether, tariffs, fees, and property income represented slightly less than 10% of municipal revenue in 2016.

## ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
<b>Total outstanding debt</b>				
Financial debt*				

\* Currency and deposits, loans and bonds

**FISCAL RULES.** Panama introduced a fiscal responsibility law for the non-financial public sector as a whole in 2002, although it was amended between 2008 and 2014. It sets a limit to the level of public debt and restricts the expansion of the public sector deficit. Local governments are subject to fiscal review by the Comptroller General of the Republic. Efforts are currently being made to establish a fiscal council in order to promote accountability and public debate on fiscal policy.

**DEBT.** Municipalities in Panama have no access to borrowing on their own. At the general government level, Panama's public debt accounted for 37% of GDP in 2017, a significant decrease from its peak in 1994 (82% of GDP). However, the public debt-to-GDP ratio has increased in recent years, and is nearing the limit established by the current fiscal rule (40% of GDP).



Lead responsible: OECD  
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**Socio-economic indicators:** World Bank // UNDP // UN DESA // ILO // National Institute of Statistics and Census of Panama

**Fiscal data:** Contraloría General de la República INEC // Dirección General de Fiscalización, Municipalidades de la República y Ministerio de Economía y Finanzas Dirección de Presupuesto de la Nación (DIPRENA)

**Other sources of information:** OECD (2018) Multi-dimensional Review of Panama: Volume 2. In-depth Analysis and Recommendations // OECD (2017) Making Decentralisation Work in Chile: Towards Stronger Municipalities // Ministerio de Economía y Finanzas (2017) Experiencia de la Inversión Pública en Gobiernos Sub-Nacionales, Tratamiento de Inequidades Territoriales y el Desarrollo Urbano // Tribunal Administrativo Tributario (2016) Propuesta de Código de Procedimiento Tributario // Contraloría General de la República (2016) Guía para el uso del fondo del impuesto de inmuebles asignado a los municipios (funcionamiento y inversión) // World Bank (2013) Republic of Panama – Panama Public Expenditure and Financial Accountability.