



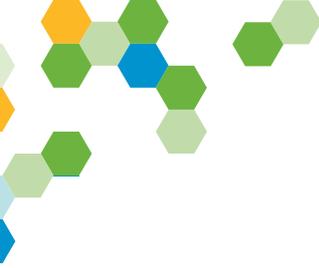
SPECIAL REPORT

Panama: President Juan Carlos Varela. Two years in office

Panama City, August 2016

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I. INTRODUCTION

This July marked 24 months since President Juan Carlos Varela took office in a changing geopolitical environment that affects the whole continent and in a country still facing significant challenges regarding domestic policy, transparency, human development, economy, infrastructure and even reputation and international positioning. Some sectors describe the government's management style as 'slow' or deficient, with a weak vision of public policy. Others, however, positively value the focus on infrastructure projects that are relevant to the country's future as well as an orderly fiscal management.

The challenges the government faces are characterized by their magnitude and diversity, as well as by the enormous expectation that surrounds them. Besides, the President faces an assembly divided in opinion and political colors, and is not a stranger to the regional uncertainty generated by the fluctuations in southern democracies, such as Argentina; Brazil's institutional crisis; the complex situation in Venezuela and its impact on immigration; Colombia and even the upcoming US elections, among other issues.

Likewise, Panama's President has been gradually losing political credit, as shows the latest poll published by Dichter & Neira. During this period, the President went from a solid 80 percent approval rate during his first 100 days in government to a 37 percent-with a downward trend- after his second year in power. These numbers should force the government to rethink a good part of their strategy with a high sense of urgency. They should also make the President undertake a restructuring of priorities given the enormous challenges he faces, the campaign's high expectations and the specific fund requirements the country will face for the remaining three years of his administration.

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2. SAYING, EXECUTING AND PRETENDING

During the presidential campaign and at the beginning of his term, Varela made clear that his goal was to build a social legacy and be remembered by his advances in this field. In the speech he gave before the National Assembly marking the end of the second year of his administration, the President made a recount of his most relevant and tangible achievements, as expected. He emphasized successful projects such as Colon’s urban renovation, to which he dedicated several minutes highlighting the construction of 7,000 homes and the activation of social integration initiatives. He also made reference to “My School First” program and the Universal Scholarship, as well as other programs such as Ceiling for Hope, Safe Neighborhoods and the program 100% Drinking Water and Basic Health, among others.

The two-year speech also made reference to the focus on public works and investment in infrastructure, as well as economic growth, a point we will address later on. If we take into consideration what the government described as a compilation of tangible, measurable and legitimate achievements, where does the popular discontent come from? Why have approval ratings plummeted? Despite

the achievements mentioned by the President and the messages issued by the government, there is a growing discontent, as indicated by the aforementioned poll, from which we could highlight three key aspects beyond the overall approval rate: the government’s execution and problem-solving capacity, transparency management and security.

Does the government execute or not? The diligence or resolution capacity of the government is perceived as bad or very bad by 56 percent of respondents, while 35 percent rated it as good and 5 percent as excellent. Are its accomplishments consistent with the priorities of the majority? Does the government do what is supposed to do but communicates it badly? On the other hand, 76 percent of public opinion disagrees with the exercise in transparency. Is there a growing demand for accountability following recent cases of corruption and the repeated inclusion of Panama in the list of ‘marked’ countries? Besides, another critical issue would be security, which stands as another pending concern, with 75 percent of the population believing that the situation will not improve. In short, we could say that the government states it accomplishes a lot while public opinion believes it doesn’t. To the contrary, apparently

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the political territories where the government has managed to set foot in would be responsible for the achievements in investment and construction of strategic, high-impact infrastructure, as noted by Guillermo Chapman, among other analysts.

Does the government achieve more than it actually discloses? During his speech, the President made a comment that did not receive much media coverage, but that may be understood as a sign of what is coming. The President appealed to strengthen the communication strategies of the different ministries with a clear goal. Through a brief but powerful reference, Valera made clear the need to improve the communication apparatus, publicly urging his ministers to “better communicate their management achievements and strengthen efforts to advance the implementation of the government’s work.» Could it be inferred that the President thinks the opinions expressed by the polls are not being fair with the government’s achievements? The implicit message that emerges reads something like this: “We need to fight the battle of perception as much as that of execution”.

In some circles of communication of advisers and professionals, two topics are being discussed. First, the

polarization Martinelli versus Varela. Second, the lack of conversation of the current government. In regards to the first issue, the idea of polarization refers to the marked difference between two communication styles. A histrionic, high-profile style focused on visibility, partly achieved thanks to high levels of advertising investment; versus a more austere, moderate style, without the political voicing, confident that the government’s achievements will speak for themselves so it will not require large investments or a functioning communication structure. There is no need to clarify who is who, which also serves to illustrate the example. The second issue is conversation. Conversing refers to establishing a dialogue, which can be done through a chat between two people but also through actions. Like the captain of a ship understands the needs of his crew (by listening) and responds with actions: better food, more precise instructions or more rest. In this example, a ‘dialogue’, implicit in words but explicit in actions, between a person and a group is clear. To successfully manage this dynamic the key is always the same: listening, making sense of what is being said and understanding the expectations of the other party in order to respond through actions. I hear you, I

“Despite economic growth in recent years, 26.2 percent of the population is still below the poverty line, and 15.6 percent of the population lives in extreme poverty”

answer you, and that is why we talk. Part of this seems to be criticized in Varela’s administration.

In this regard, and faced with a new chapter in his government, Varela inaugurates a new communication campaign with the slogan “No one can stop us. We continue moving forward!” This accounts for the need to begin to capitalize on the apparent accomplishments through innovation in discourse mechanisms and storytelling. Following his speech, the President’s Twitter account displayed the launch of the spot claiming his achievements and favoring the continuity of the current model: “With optimism and determination, the Panamanians prove no one can stop us. We keep moving forward! #2YearsForPanama”. Could this mark the beginning of a new government style, more oriented towards communication and public conversation with a renewed narrative? Will digital channels be enhanced and conversation with new audiences renewed? Will this be enough to raise approval rates on time?

3. ECONOMIC GROWTH AND SOCIAL DEVELOPMENT

For more than 10 years we have been hearing about the sustained growth of the

Panamanian economy, with some variation depending on the period and positive perspectives for the next five years. According to the World Bank, the average annual growth was 7.2 percent between 2001 and 2013, more than double the average for Central America. Likewise, the Panamanian economy grew 6.2 percent in 2014, 5.8 percent in 2015, and is projected to grow 5.9 percent in 2016. The World Bank, based on the momentum generated by the construction of the second metro line plus the additional traffic generated by the expansion of the Canal, keeps public and private investments at high levels, particularly in sectors such as logistics and transportation, mining, financial services and tourism.

Despite economic growth in recent years, 26.2 percent of the population is still below the poverty line, and 15.6 percent of the population lives in extreme poverty¹. In rural areas, poverty is over 70 percent and extreme poverty is above 40 percent, with a sector of the population not having access to basic services. This ‘paradox’ of growth versus development generates all kinds of thoughts. Do household economies grow along with the economy of the country? Why does a country with such an impressive economic growth rate still hold such poverty indicators

¹ World Bank <http://www.worldbank.org/en/country/panama/overview>

and social gaps? First, because, as we all know, growth and development are two different aspects and Panama could make an interesting case study with a clear reference: the focus has been on growth rather than development. Is the development model ideal? Does Panama have an up-to-date development model? Moreover, is there an established development model?

Although this is not specifically mentioned in opinion polls, one of the fundamental pillars of this and any Panamanian government will be to address the aspects of development through innovative and well-structured public policies. Several analysts, including former independent presidential candidate and economist Juan Jované, agree that one of Varela's most pressing 'debts' has to do with promoting public and state policies, with a focus on education, health and justice as the three basic aspects that should help define a course with a long-term vision. In other words, a sustainable development model.

The lack of investment in science, innovation and culture is another aspect that has been identified as frightening in regard to the management –or lack thereof-, of a development model. In this regard, it is well

known that the most developed countries spend between 2 and 3.5 percent of their GDP on research and innovation, while Panama does not reach 0.2 percent. According to experts, countries should spend approximately 1 percent of their GDP in encouraging the productive sector to invest in the search and application of knowledge, which directly impacts competitiveness. "Science does not yield results in five years, which is the horizon of national politics. If you invest in it, you have to believe in the future. And we have not been able to convince them that investing in human capital pays more than investing in infrastructure and subsidies," declared Jorge Motta when he was Secretary General of SENACYT.

4. CHALLENGES AND OPPORTUNITIES IN THE SHORT AND MID TERM

Varela's government Strategic Development Plan 2015-2019 introduces two key pillars: inclusion and competitiveness, leveraged on five issues such as improving productivity and promoting growth diversification, quality of life, strengthening human capital, infrastructure and environmental sustainability. In several of these aspects the government is asked to be more effective, while the overall picture is not

easy. The low approval rate transforms the stage into a complex arena because, as we all know, here and elsewhere, the government's room to maneuver is directly proportional to the political capital it counts on. Varela and his team should handle the helm with assertiveness and good timing in order to avoid losing credibility and political capital through immediate, accurate and tangible decisions.

As mentioned above, addressing public policies with a development approach, taking advantage of the economic boom, seems one of the most pressing challenges the President has referred to. The government must figure out how to tackle poverty and reduce the social gap that

separates the capital from the rest of the country, and perhaps that way being able to build on Varela's long-desired legacy as a referent in social programming. On the other hand, it is to be seen how the public administration decentralization process, which, according to Law 66 from 2015, will imply the transfer of more than 200 million dollars from the central government to the 78 municipalities, is implemented, and whether it will manage to generate a positive impact on local development in the different regions. In addition, as noted above, issues such as decentralization will not only be a matter of execution but also of narrative, as the President has already mentioned it to the members of his administration.

In this regard, he will have the opportunity to capitalize on one of the government's strengths in recent years, which is the delivery of infrastructure projects. While they do not necessarily play an immediate impact on human development, they do contain a narrative background and can tell the story "we are doing," or "no one can stop us. We continue to move forward!" as reads the new slogan. In regards to infrastructure, the opportunity is as large as the projects themselves. For example, as indicated



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by the survey conducted by Dichter & Neira, 78 percent of the population believes the expansion of the Canal’s third set of locks will be beneficial to the local economy, while 65 percent believe it will benefit Panama’s household economies. In this sense, there is optimism, and both politics and the economy usually feed on the ‘energy’. It remains to be seen whether the government will be able to seize the opportunity, listen to understand the beliefs and priorities of the population and manage expectations by delivering actions. In other words, to converse.

According to international rating agency Fitch Ratings, it is expected that the expansion of the Canal will support the continued profitability of the economy and thus the gradual increase of Panama’s per capita income. It also notes that the impact of this mega project represents an opportunity to continue reducing the fiscal deficit and accelerate the reduction of public debt, which represents one more relevant challenge for the government.

Finally, another matter of concern is Panama’s reputation, which in recent years has been impacted by a variety of issues such as the country’s inclusion in the Financial Action Task

Force’s (FATF) gray list, the famous Clinton List and the infamous Panama Papers. In any case, it is still unclear whether any of these issues have had -or will have- any impact on the economy. After the outbreak of the Panama Papers, Indesa changed its growth forecast for 2016 from 5.9 percent to 4.4 percent. It is to be seen how investments will behave, waiting for the issue to stabilize and not causing any stir. This entity indicates that the confidence of entrepreneurs and consumers will partly depend on the measures and reforms adopted by Panama and that this variable will directly affect the results. In this regard, the President said his government “will stand firm against countries seeking to include Panama in lists that affect the country’s image,” and acknowledged that correcting some of the irregularities of the past is taking longer than expected.

5. CONCLUSION

Juan Carlos Varela’s government has suffered a massive decline in approval ratings without even reaching half of its mandate. With less political capital, Varela must take a series of decisions that, hopefully, will have a positive impact on the life of Panamanians. Closing the

profound social gap, activating a sustainable development model that takes advantage of economic growth, education, health, justice, poverty reduction, fiscal deficit, transparency and expenses control are just some of the 'territories' where he must fight.

On the other hand, it is clear there is a need to abandon this 'austerity' bubble that does not seem to be working, in favor of a more comprehensive communication strategy that publicizes the government's achievements. Varela mentioned it in his speech. The construction of

a homogeneous story that occupies the spaces that need to be occupied, meeting expectations and priorities, will be key. To achieve this, it will be important to listen to the mechanisms that, when activated, will provide signals that allow to establish the dynamic of a tangible and active conversation. In other words, meet the demands with the actions that are required and explain them.

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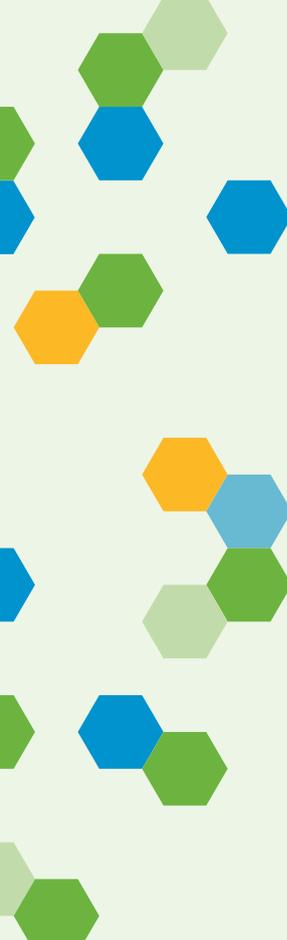
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