



Country Risk Report

Assessing Panama and Costa Rica for NGO Expansion

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PURPOSE

This analysis has been conducted on behalf of the Peruvian education charity *Supporting Kids in Peru* (SKIP) which plans to expand operations by opening a second branch in Central America. For this, our company has been hired to create a country comparison between Costa Rica and Panama. This risk report is intended to provide critical information that will assist them in making a final decision.

SKIP believes that economically disadvantaged families have the capacity to be the principal agents of change in their own lives and communities. Their approach encompasses:

- Providing **education**
- **Economic** support for parents from business creation to obtaining a regular income to mitigate the need for child labour
- **Emotional and social development** for families including annual health campaigns

In Peru, this has been achieved through donations and partnerships with families, local universities, associations, and additional support through volunteering. SKIP currently has an annual operating budget of \$200,000 for their work within Peru. Based on anticipated donations and grants, SKIP will have at least \$100,000 to begin work on their newest branch within the secondary country that they select.

For SKIP, it is important to select a location that will enable them to make a significant impact while shouldering the smallest potential risk. They wish to ensure they will be able to make their small initial expansion budget stretch the farthest. As they will be heavily relying on volunteer employment to provide their services, the selected country needs to fulfil adequate framework conditions to attract foreign volunteers. To do this, certain parameters are used to compare the two countries:

- An overview of the country demographics and educational systems
- An economic evaluation, which should give an insight into the economic stability of the countries and the need and potential opportunities for support for families

- The political situation, which has a great influence on the framework conditions for the expansion and the families on the ground

Finally, the report will be rounded off by a recommendation to SKIP based on the findings of the analysis.

PEOPLE AND SOCIETY

In order to provide a clear overview of both countries under consideration for SKIP's expansion, demography, key statistics, and the educational systems of Panama and Costa Rica must be taken into consideration.

Panamanian Demographics



Image 1: Map of Panama. Source: CDC 2021,
<https://wwwnc.cdc.gov/travel/destinations/traveler/none/panama>

Panama is a tropical maritime country located in the southernmost part of Central America. With 75,420 km² of territory, it is bordered by Costa Rica to the northwest, Colombia to the southeast, and the remaining border is comprised of coastline. Panama has a

population of roughly 3.9 million people and is growing at a rate of 1.2% as of 2020. Ethnically, the majority of the population is comprised of people that are partially (mestizo) or fully Native American (77.3%). Panamanians are 85% Roman Catholic and 15% Protestant. 68.4% of people live in an urban

setting and the annual rate of urbanization is 2.06% on average. They have a poverty ratio of 22.1%, a fertility rate of 2.5, an infant mortality rate of 12.6, and a literacy rate of 95.4%.¹

Costa Rican Demographics



Image 2: Map of Costa Rica. Source: CDC 2021, <https://wwwnc.cdc.gov/travel/destinations/traveler/none/costa-rica>

Costa Rica is a tropical and subtropical country in Central America. It has 51,100 km² of territory and is bordered by Nicaragua to the north, the Caribbean Sea to the east, Panama to the south, and the Pacific Ocean to the west. As of 2020, Costa Rica had a population of 5.1 million people and was growing at a rate of

1.08%. 83.6% of the population is white or

mestizo while indigenous peoples only make up 2.4% of the total population. While Christianity is the primary form of practised religion in Costa Rica, there are a wider variety of Christian denominations present. 71.8% Roman Catholic, 12.3% Evangelical or Pentecostal, 2.6% Protestant, 0.5% Jehovah's Witness, 2.4% other, and 10.4% have no religious affiliation at all. 80.8% of all Costa Ricans live in an urban area and annually that is increasing at a rate of 1.5% on average. Costa Rica has a poverty ratio of 21.1%, a fertility rate of 1.8, an infant mortality rate of 6.3, and a literacy rate of 97.9% as of 2018.²

¹ CIA World Factbook, 2020. *Panama Summary*. [Online] Available at: <https://www.cia.gov/the-world-factbook/static/146ab2dfb4361f350b729bd505067bfb/PM-summary.pdf> [Accessed 19 May 2021].

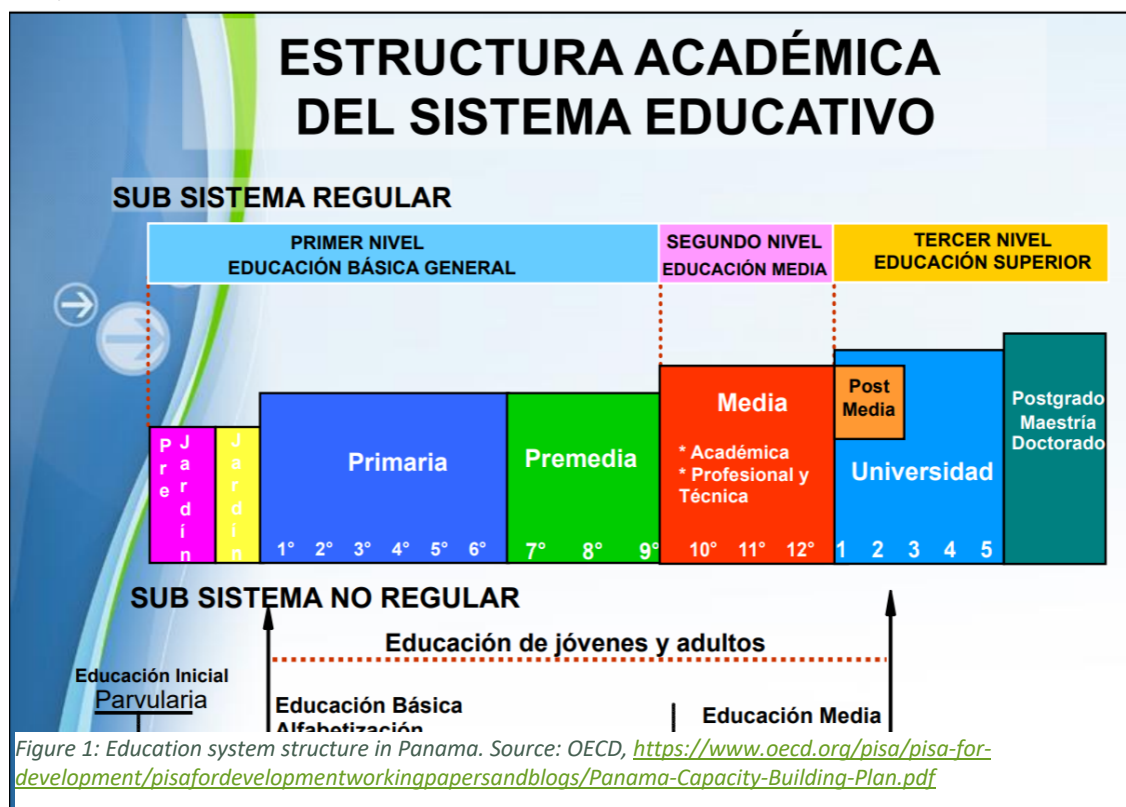
² CIA World Factbook, 2020. *Costa Rica Summary*. [Online] Available at: <https://www.cia.gov/the-world-factbook/static/0be946ab39cb581977c06e39160f0844/CS-summary.pdf> [Accessed 19 May 2021].

Education

As SKIP is a non-profit organization whose work focuses on education, it is important to evaluate the state of the education systems in both Panama and Costa Rica. Below the structure of each country's education system is explained as well as the implications and effectiveness of the systems.

Panama

Panama's education system is managed by the Ministerio de Educación (MEDUCA) which was established in 1941. As shown in *Figure 1*, the education system is separated into levels: primary, secondary, and tertiary. The primary level includes pre-kindergarten, kindergarten, primary school (grades 1-6), and pre-middle school (grades 7-9). The secondary level just includes middle school (grades 10-12) and the tertiary includes the various levels of university. The Panamanian constitution mandates that primary education be compulsory to attend and that public primary, normal, vocational, and secondary education be free to all Panamanians. The curriculum is taught in Spanish, the national language, and core subjects taught in primary school are social sciences, mathematics, Spanish, and natural sciences.



Education levels have increased significantly over the last 20 years and the mean education rate for men currently stands at 10 years while women average 11.2 years of education³. Panama also scores roughly 45 points on the Freedom of Education Index⁴ and 95 on the Global Competitiveness Index for Primary Education⁵. To improve the overall quality of education in Panama, the government has been steadily increasing their investment in MEDUCA with an annual budget of 2.55 billion Panamanian balboas in 2019 (32% of total public spending), roughly 1 billion balboas more than in 2012⁶. Despite the increased expenditure, students are still showing low levels of achievement. This has been attributed to the lack of uniformity in education infrastructure provided across Panama, the quality and education levels of teachers, disparities among socio-economic groups, and a reporting gap. Latter emerged due to an inconsistent reporting between public and private institutions and a lack of standardization in assessment methods. Lastly, while still high, youth unemployment in Panama is significantly lower than in Costa Rica at 12.8% which can likely be attributed to overall education participation rates and average duration in school.⁷

Costa Rica

Costa Rica's education system is managed by Ministerio de Educación Pública de la República de Costa Rica (MEP). Public education has a long history of being ahead of its time has been completely free since 1869 and compulsory between the ages of 6 and 15. The education system is divided into three

³ See footnote 1.

⁴ OIDEI, 2018. *Freedom of Education Index (FEI)*, Geneva: Novae Terrae Foundation. [Online] Available at: https://www.oidel.org/wp-content/uploads/2018/07/Version-anglaise_cute_3.pdf [Accessed 21 May 2021].

⁵ World Economic Forum, 2017-2018. *Global Competitiveness Index*. [Online] Available at: <http://reports.weforum.org/global-competitiveness-index-2017-2018/competitiveness-rankings/#series=GCI.A.04.02> [Accessed 20 May 2021].

⁶ Statista, 2020. *Government Budget for Education in Panama from 2012 to 2019*. [Online] Available at: <https://www.statista.com/statistics/708605/budget-education-panama/> [Accessed 20 May 2021].

⁷ See footnote 1.

levels: primary, secondary, and tertiary. There are roughly 9,100 public institutions and 200 private schools⁸.

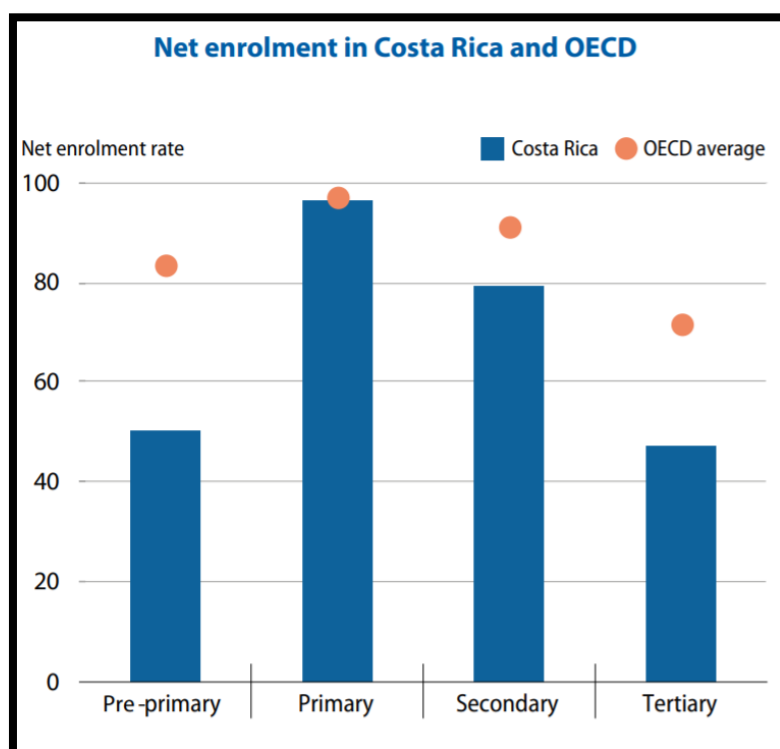


Figure 2: School enrolment in Costa Rica. Source: OECD 2017
<https://www.oecd.org/education/school/Education-in-Costa-Rica-Highlights.pdf>

The core subjects taught in primary school consist of many areas of study including science, mathematics, Spanish, musical, physical education and social sciences. Costa Rica currently spends 32% of its total government expenditures on education⁹ and ranks 39 on the Global Competitiveness Index for Primary Education¹⁰.

Compared with Panama, Costa Ricans have a relatively low mean rate of education. Women in Costa Rica attend school for an average of 8.9 years while men attend for 8.6 years on average. As shown in *Figure 2*, while enrolment in primary education is very high, enrolment in secondary and tertiary school is well below average. Additionally, children in the lowest socio-economic groups are significantly less likely to have access to or participate in primary education. These gaps in overall participation and duration of participation reflect clearly in the youth unemployment which currently stands at a rate of 31.5%.¹¹

⁸ OECD, 2018. *Costa Rica: Education at a Glance 2018*. [Online] Available at: <https://www.oecd-ilibrary.org/docserver/eag-2018-76-en.pdf?expires=1621810375&id=id&accname=guest&checksum=791A33D0E8898CA8FEF3A0FC669C02D8> [Accessed 20 May 2021].

⁹ See footnote 8.

¹⁰ See footnote 5.

¹¹ See footnote 1.

ECONOMY

Panama

The country is known for its low market entry barriers: Businesses can be registered by any nationality while living in another country and visa processing is relatively simple. One of the reasons for these advantages is Panama's effort to fill its skills gap and drive innovation through local entrepreneurship.¹² Panama's currency, the Panama Balboa, is backed by the US Dollar and set by a ratio of 1:1 making 1PNB equal to 1USD.¹³

The backbone of Panama's economy is the service sector that accounts for more than 75% of the country's GDP. These services include primarily:

- Banking and offshore banking
- The Colon Free Trade Zone
- Tourism
- Transportation and logistics, including Panama Canal operations and container ports

Particularly the latter and a significant improvement of the country's infrastructure enabled considerable economic growth on the one hand. On the other hand, to enable infrastructural improvements, large investments have been required. This has been the reason for increasing public debt, although with 46.2% of the GDP it is still lower than Costa Rica's that ranges around 58.3%.¹⁴

The United States are a very important trade partner, and this relationship has been fostered by the US-Panama Trade Promotion Agreement 9 years ago.

¹² Brambilla, G. (2019, January 29). *5 Reasons to Start a Business in Panama*. Retrieved May 15 2021 from BizLatinHub: <https://www.bizlatinhub.com/start-business-panama-2019/>

¹³ IMF. (2020). *Country Report No.20/124*. Washington, D.C.: International Monetary Fund.

¹⁴ IMF. (2019). *Country Report No.19/101*. Washington, D.C.: International Monetary Fund.

Very crucial to mention is the expansion of the Panama Canal which has been finished in 2016. The 9-year project has cost about \$5.5 billion, representing 10-15% of the country's GDP. This investment has been an accelerator for its logistics - because the expansion led to a doubling of the capacity, which means that more tankers and other high-capacity vessels are now able to use this route.¹⁵

This also explains its major use by the US and China, as its central location now represents a bigger corridor in Central America and allows shorter routes instead of the long route around the southern tip of Cape Horn. To underline the importance of trade integration, the expansion of the canal significantly increased Panama's competitiveness in the global realm.¹⁶

However, the newly acquired prosperity remained very centralised, which is also reflected in the distribution of wealth: After Brazil and Honduras, Panama has one of the worst income distributions in the Latin American area with a Gini coefficient of 49.9.¹⁷ Although poverty decreased over the past decades, it increased by 2% due to the pandemic. Currently, about ¼ of the population lives in poverty.

The pandemic had further consequences: It was the country with the highest number of COVID cases in Latin America last year and its economy is based on industries that have been severely affected by it – especially tourism and air transportation.¹⁸

Panama's efforts to combat child labour in the country have so far been moderate. Despite some laws and prevention programmes, about 4.7% of children aged 5 to 14 are affected by the worst forms of child labour, and another 4.9% between 7 and 14 combine school and work. Most of them must do

¹⁵ Le Houérou, P. (2016, July 5). *Panama Canal expansion: A smart route for boosting infrastructure in Latin America*. Retrieved May 15 2021, from World Bank: <https://blogs.worldbank.org/voices/el-canal-de-panama-una-nueva-ruta-para-impulsar-infraestructura>

¹⁶ Youkee, M. (2019, May 7). *The Panama Canal Could Become the Center of the U.S.-China Trade War*. Retrieved May 15 2021, from Foreign Policy: <https://foreignpolicy.com/2019/05/07/the-panama-canal-could-become-the-center-of-the-u-s-china-trade-war/>

¹⁷ UNDP. (2019). *Human Development Report 2019*. New York: United Nations Development Programme. Retrieved May 15 2021 from UNDP: <http://hdr.undp.org/sites/default/files/hdr2019.pdf>

¹⁸ World Bank. (2021, April 6). *The World Bank COVID-19 response in LAC*. Retrieved May 15 2021, from World Bank: <https://www.worldbank.org/en/country/panama/overview>

dangerous work in agriculture, but commercial sex exploitation, partly related to human trafficking, is also a major danger for them.¹⁹

Costa Rica

Contrasting to Panama, its Costa-Rica-Colón is not backed by the US Dollar and currently stands at 0.0016USD.²⁰

Costa Rica's economy has shown a relatively stable annual economic growth of about 2.1%. It is a big exporter of bananas, coffee, sugar, and beef and especially its exports of agricultural products increased over the last years.

There has also been an increase in exports of medical devices, because of the country's strong manufacturing sector for the healthcare industry.²¹ This has been an advantage for the country, as the state could respond quickly to the pandemic by creating emergency ventilators and artificial respirators for COVID-19 patients and increase their supply.

A very important pillar of Costa Rica's economy is the tourism sector, as its unique environment and nature makes it a hotspot for ecotourists.²² However, the pandemic had a big negative impact on the global tourism sector. It remains to be seen how countries will continue to deal with the pandemic situation. In Costa Rica and Panama, measures have been taken to protect MSMEs along the tourism value chain, from partial wage payments to payment postponement for electricity and water bills.

¹⁹ ILAB. (2019). *2019 Findings on the worst forms of child labor*. Retrieved May 15 2021, from U.S. Department of Labor: https://www.dol.gov/sites/dolgov/files/ILAB/child_labor_reports/tda2019/Panama.pdf

²⁰ World Bank. (2020, June 12). *First Fiscal and Decarbonization Management DPL (P171912)*. Retrieved May 15 2021, from World Bank: <http://documents1.worldbank.org/curated/en/953711593482696437/pdf/Costa-Rica-First-Fiscal-and-Decarbonization-Management-Development-Policy-Loan.pdf>

²¹ FAO. (2018). *The successes and shortcoming of Costa Rica exports diversification policies*. Retrieved May 15 2021, from FAO: <http://www.fao.org/3/I8308EN/i8308en.pdf>

²² OECD. (2019). *Costa Rica - Tourism in the economy*. Retrieved May 15 2021, from OECD Library: <https://www.oecd-ilibrary.org/sites/37bb0cf5-en/index.html?itemId=/content/component/37bb0cf5-en>

How worker protection will turn out in the future, how cooperation will be promoted and how sustainability and resilience will be built up in the medium term cannot yet be assessed.²³

It also offers a free-trade zone, which makes it very attractive for foreign investors. In fact, it has one of the highest levels of FDI's per capita in Latin America which has been a strong factor for the local development.²⁴ Since 2009, the country is also a member of the Dominican Republic – Central American Free Trade Agreement, which again increased FDI.

Starting a new business in Costa Rica requires local support, although many registration processes can be done online. Nevertheless, registering a company requires a local company and tax address, which will be verified by governmental agents, and further permits.²⁵

Some factors that should be kept in mind when thinking about an investment in this country: It is still imprinted by a “poor infrastructure, high energy costs, a complex bureaucracy, weak investor protection and uncertainty of contract enforcement”.²⁶ Even before the pandemic, the local economy faced a rising fiscal deficit and public debt, and low levels of domestic revenue. Over the last decades, poverty remained around 20-25%²⁷ and like Panama, the wealth distribution is rather unbalanced as its Gini coefficient of 48 reveals.²⁸

²³ N. Mulder (coord.). (2020). *The impact of the COVID-19 pandemic on the tourism sector in Latin America and the Caribbean, and options for a sustainable and resilient recovery*. Retrieved May 15 2021, from CEPAL: https://www.cepal.org/sites/default/files/publication/files/46502/S2000751_en.pdf

²⁴ OECD. (2012). *Attracting knowledge-intensive FDI to Costa Rica: challenges and policy options*. Retrieved May 15 2021, from OECD: <https://www.oecd.org/countries/costarica/E-book%20FDI%20to%20Costa%20Rica.pdf>

²⁵ Román, J. (2018, October 11). *Key Requirements To Start a Business in Costa Rica*. Retrieved May 15 2021, from Biz Latin Hub: <https://www.bizlatinhub.com/requirements-start-business-costa-rica/>

²⁶ IBP USA. (2018). *Costa Rica Business Law Handbook*. Washington DC: International Business Publications.

²⁷ OECD. (2020, July). *OECD Economic Surveys Costa Rica*. Retrieved May 15 2021, from OECD: <https://www.oecd.org/economy/surveys/costa-rica-2020-OECD-economic-survey-overview.pdf>

²⁸ World Bank. (2020, August 18). *Income distribution inequality based on Gini coefficient in Costa Rica from 2007 to 2018 [Graph]*. Retrieved May 15 2021, from Statista: <https://www.statista.com/statistics/982982/income-distribution-gini-coefficient-costa-rica/>

When looking into the history of the country's credit ratings, which differed in their final evaluation, since 2015 there has been unanimity about a negative outlook for the country. In 2018 it has been evaluated at BB and in June 2020 at B.²⁹ This pressure on lending rates can harm small enterprises, infrastructure development, the ROI and can have a softening effect on Foreign Direct Investment. In contrast to that, Panama has a BBB rating which has been relatively stable since 2010.³⁰

Costa Rica has shown significant success in eliminating child labour in recent years. However, 1.1% of children between 5 and 14 are still affected, and the worst forms are also represented.³¹

What does that mean for SKIP?

The tourism sector is an important factor for SKIP, as it relies on the labour of volunteers, partnerships with hotels and hostels as well as airlines to offer discounts to volunteers, which makes their stay more attractive. Despite the pandemic's impact on the industry in both countries, a positive development will depend on the states' actions in the upcoming months.

Compared to Costa Rica, Panama has higher rates of child labour and thus fewer school graduates. Also, its governmental efforts to improve the situation are rather moderate, which underlines the need for Panama as a location. However, the worst forms of child labour occur in both countries, which makes implementation irrelevant in either country.

Low entry barriers without excessive bureaucratic processes make Panama even more attractive. Moreover, the governmental approach to promoting local entrepreneurship provides a good basis for SKIP to support parents to start their own business. The legal framework in Costa Rica is not completely unattractive but requires more effort to register, to start a business and gives less flexibility

²⁹ Trading Economics. (2020, June 9). *Costa Rica Credit Rating*. Retrieved May 15 2021, from Trading Economics: <https://tradingeconomics.com/costa-rica/rating>

³⁰ Trading Economics. (2021, March 17). *Panama - Credit Rating*. Retrieved May 15 2021, from Trading Economics: <https://tradingeconomics.com/panama/rating>

³¹ ILAB. (2019). *2019 Findings on the Worst Forms of Child Labour - Costa Rica*. Retrieved May 15 2021, from US Department of Labor: https://www.dol.gov/sites/dolgov/files/ILAB/child_labor_reports/tda2019/Costa-Rica.pdf

to act at the beginning. The BBB rating of Panama and the positive outlook fosters the image of a more secure investment compared to Costa Rica.

GOVERNANCE

Government and Politics

Panamanian politics take place within the context of a presidential representative democratic republic. The President of Panama serves as both head of state and head of government in a multiparty system. The government wields executive power and both the executive and the National Assembly have legislative authority. The judiciary is separate from both the executive and the legislative. National elections are open to all nationals aged 18 and up and are held every five years for the executive as well as for the legislative branches. The president of the state appoints members of the judicial branch. Panama's National Assembly is elected using proportional representation in set electoral districts, which allows for the presence of several minor parties. Only ex-president Ricardo Martinelli, who was elected with more than 50% of the popular vote, has been able to win a presidential election with a simple majority.

The country is divided into ten *provincias* and three *comarcas*, which are indigenous sectors: Kuna Yala (San Blas), Emberá (Emberá-Wounaan), and Ngöbe Buglé (Guaymí). The *provincias* are divided into *distritos municipales* (municipal districts), which are further subdivided into *corregimientos* (magistracies). The president selects the governor of each province. The *comarcas* are semiautonomous reserves managed by indigenous chiefs, although their legal status is unclear. The Supreme Court has judicial power, and the president selects its nine members for 10-year terms with the agreement of the National Assembly. The Supreme Court is divided into three divisions: civil, criminal, and administrative. There are also other sorts of smaller courts in the legal system.

In contrast to that, Costa Rica is a unitary presidential constitutional republic with a multiparty system.

The president, who is both the head of state and the head of government, and his cabinet exercise executive authority. The Legislative Assembly has legislative authority. Like the president, its 57 members are elected for four-year terms. The judiciary is separate from the executive and legislative branches of government, nevertheless it is active in the political process.

The republic has a robust system of checks and balances in place. Its citizens are required to vote, although it is not enforced. The country is well-known for its long-standing and stable democracy and its well-educated workforce, whose majority speaks English.

Costa Rica is split into seven provinces, divided further into 82 cantons, each led by a mayor. Every four years, each canton elects a mayor through a democratic process. Provincial legislatures do not exist. Within the cantons there are 488 districts.

When comparing both countries directly, Panama has been classified from the democracy index as a Flawed Democracy, while Costa Rica is a Full Democracy.³² Flawed democracies are countries where elections are fair and accessible and fundamental civil freedoms are respected. Yet, they indicate some problems, e.g., media freedom infringement and minor suppression of political opposition. Other democratic flaws in these countries include an underdeveloped political culture, low levels of political involvement, and problems with the functioning of government. Full democracies are states in which civil liberties and fundamental political freedoms are maintained and reinforced by a political culture favourable to the flourishing of democratic ideals. These countries have a simple governmental checks and balances system, an independent judiciary whose judgments are enforced, functioning governments, and diversified and independent media. Only 'controlled troubles' appear in their democratic functioning.

³² The Economist Intelligence Unit (2019). Democracy Index 2019. Economist Intelligence Unit.

Table 1 shows the progression of each nation's democratic index rating over an eleven-year period.



Country	Type of Democracy	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Costa Rica 	Full Democracy	8.04	8.04	8.1	8.1	8.03	8.03	7.96	7.88	7.88	8.07	8.13	8.16
Panama 	Flawed Democracy	7.35	7.15	7.08	7.08	7.08	7.08	7.19	7.13	7.08	7.05	7.05	7.18

Table 1: Democracy Index Ratings 2009-2020, Source: The Economist Democracy Index 2020.

The table indicates, that the score of Costa Rica is much more positive than that of Panama. For this reason, the rank of Panama in the Democracy Index is 40, while that of Costa Rica is 18³³.

The following table shows the five parameters that made up the score of each nation in 2020 and the changes that had occurred since 2019.



Country	Type of Democracy	Electoral Process & Pluralism	Functioning of Government	Political Participation	Political Culture	Civil Liberties	Overall Score	Change in Score from 2019
Costa Rica 	Full Democracy	9.58	6.79	7.22	7.5	9.71	8.16	+0.03
Panama 	Flawed Democracy	9.58	6.43	7.22	5	7.65	7.18	+0.13

Table 2: 2020 country ratings for various aspects of democracy, Source: World Bank (2020). Government Effectiveness Index

Corruption

Costa Rica has accepted international treaties, passed laws, and sponsored anti-corruption monitoring organizations. It has a decent overall ranking in worldwide corruption studies. Citizen knowledge and activity against office abuse are at an all-time high, thanks in part to a watchful media that has been quick to condemn it.

The evidence shows that corruption claims, including those involving previous presidents, ministers, judges, and mayors, will be pursued. Even when prosecution occurs, it takes a long time and frequently fails to prosecute the accused persons. This might explain why people are sceptical about prosecuting office abusers.

³³ See footnote 32.

In a 2017 Latinobarómetro poll, 59% of respondents believed there had been little progress in reducing governmental corruption in Costa Rica in the previous two years.³⁴ In May 2019, Laurentino Cortizo of the centre-left Democratic Revolutionary Party was elected to a five-year term. He has underlined his commitment to following the action plan's recommendations negotiated with the Financial Action Task Force on Money Laundering (FATF) and to improve the country's position as a vital financial centre in the region.

Externally, the country will retain strong ties with the United States while strengthening ties with China.

When President Cortizo took office in July 2019, He proposed constitutional reform that is primarily seen as vital to repair institutions that have been tarnished in recent years by corruption scandals. Following two corruption scandals involving constructing a prefabricated hospital and the cancelled purchase of respirators and sanitizing gel, the health minister and two cabinet members were fired. After being blacklisted multiple times, the government embraced OECD reporting requirements in 2018 and eventually criminalized tax evasion in early 2019. However, after a four-year hiatus, the FATF reinstated the nation's grey list in June 2019.

The Panamanian judiciary took a stand against corruption in 2020, indicting two former presidents, Ricardo Martinelli (2009-2014) and Juan Carlos Varela (2014-2019), for money laundering. Martinelli was charged with exploiting public funds to acquire a publishing organization, while Varela was accused of corruption involving the Odebrecht construction corporation.

The release of the "Panama Papers" exposed the depth of corruption and cooperation in Panama's financial and commercial institutions. These records showed how the Panamanian legal firm Mossack Fonseca built up over 200,000 shell firms, many of which were used by corrupt politicians, criminals, and tax evaders worldwide.

³⁴ Latinobarometro 2017. *Questionnaire 2017* [Online]. Available at: <https://www.latinobarometro.org/latContents.jsp>

Ramón Fonseca Mora, the firm's primary partner, was a formal adviser to Juan Carlos Varela until the controversy broke. Several government officials were partners in the critical legal firms that established shell businesses. Despite the devastating corruption allegations, the Panamanian government has yet to commit to government openness, implying that the financial industry directly influences the government.

Table 3 indicates that Costa Rica has a better ranking than Panama, even in corruption. Therefore, Costa Rica's order is 42, while Panama's ranking is 111.



Country	2020	2019	2018	2017	2016	2015	2014	2013
Costa Rica 42 	57	56	56	59	58	55	54	53
Panama 111 	35	36	37	37	38	39	37	35

Table 3: Corruption Ratings 2013-2020, Source: CPI Corruption Perception Index (2020).

Voice and Accountability

Costa Rica, the Latin American country with the most exemplary record on human rights and freedom of speech, is a notable exception in a region marked by corruption, violent crime, and continual violence against the media. Journalists are free to work, and progressive law governs the right to know. Attacks, threats, or other types of intimidation against journalists are uncommon, as is governmental intervention in the media's work, even if access to state-held material might be challenging at times. Despite this, ownership of Costa Rica's media is concentrated in a few hands, restricting media plurality to a substantial extent.

Journalists in Panama are frequently the subjects of legal action when they criticize government policies or cover corruption-related issues, particularly those having worldwide consequences. Defamation lawsuits against journalists are widespread and often result in monetary penalties. The government maintains tight control over information access. One means of exerting pressure on the media is the selective distribution of governmental advertising.

From the following graphic, it can be derived that Panama has a significantly lower ranking in Voice and Accountability than Costa Rica.

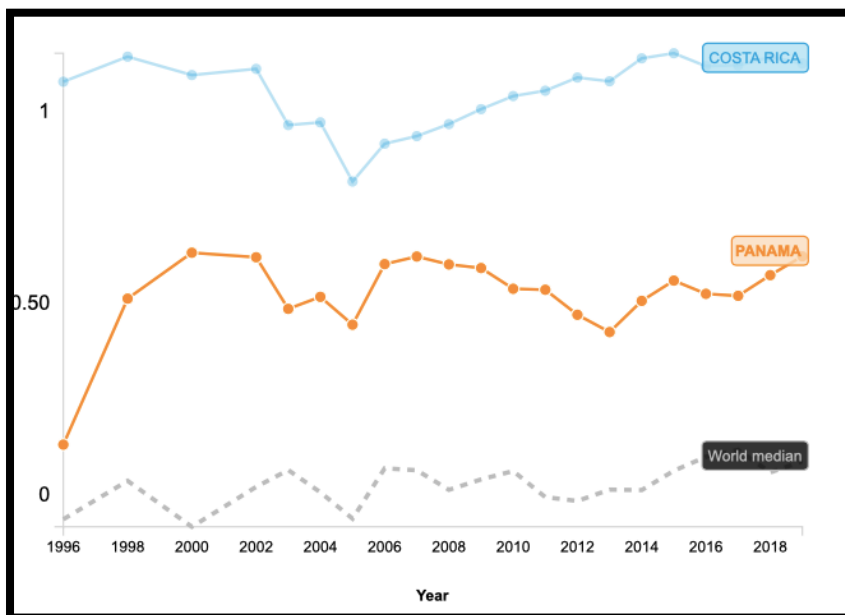


Figure 3: Voice and Accountability Index, Source: OECD (2020). Measuring Change and Results in Voice and Accountability Index.

Rule of Law Index

The *World Justice Project (WJP) Rule of Law Index 2020* presents a portrait of the rule of law in 128 countries and jurisdictions by providing scores and rankings based on eight factors: Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order and Security, Regulatory Enforcement, Civil Justice, and Criminal Justice. In this year's Index, Panama's absolute rule of law score rose by less than 1%. Panama increased two spots in global rank to 63rd place out of 128 nations and jurisdictions. Panama's score put it 15th out of 30 Latin American and Caribbean countries and 37th out of 37 high-income countries. Uruguay (22nd out of 128 nations globally) is the highest in Latin America and the Caribbean in the Index, followed by Costa Rica and Chile. Nicaragua, Bolivia, and Venezuela have the lowest ratings in the area, according to RB (128th out of 128 countries globally). Costa Rica's overall rule of law score fell by less than 1% in this year's Index. Costa Rica dropped one spot to 25th out of 128 nations and jurisdictions globally. As previously

shown, Costa Rica ranks 2nd out of 30 Latin American and Caribbean nations and 1st out of 42 higher middle-income countries.³⁵

When comparing all of the eight factors, it can be observed that Costa Rica's results are higher than Panama's.

The following figures show the two-country comparison:

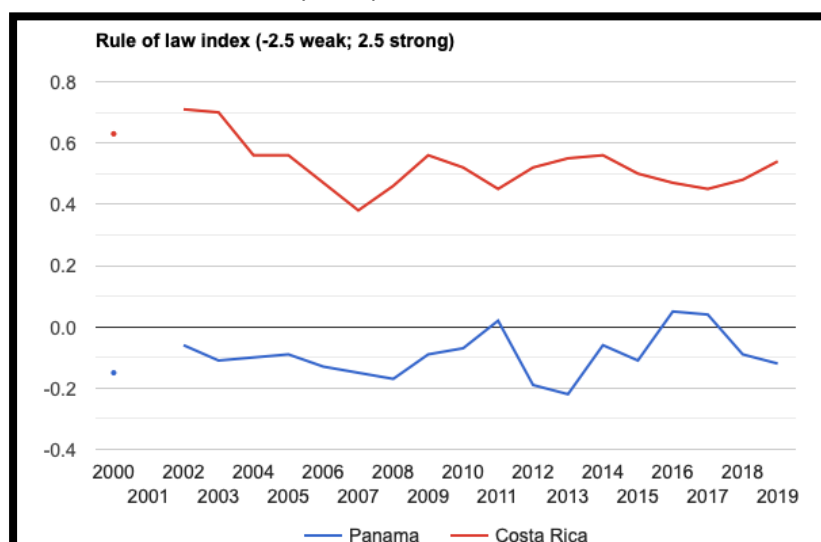


Figure 6: Rule of Law Index trend over 19 years, Costa Rica and Panama, Source: WJP 2020, Rule of Law Index

	Factor Score	Score Change	Regional Rank	Income Rank	Global Rank
Constraints on Government Powers	0.76	-0.02	1/30	1/42	15/128
Absence of Corruption	0.66	-0.02	5/30	3/42	30/128
Open Government	0.70	0.00	3/30	1/42	21/128
Fundamental Rights	0.79	0.01	1/30	1/42	15/128
Order and Security	0.68	-0.01	12/30	27/42	81/128
Regulatory Enforcement	0.67	-0.01	2/30	1/42	24/128
Civil Justice	0.62	0.00	8/30	7/42	38/128
Criminal Justice	0.57	0.02	5/30	3/42	31/128

Figure 5: Costa Rica Rule of Law Index Factors, Source: WJP 2020 Rule of Law Index

	Factor Score	Score Change	Regional Rank	Income Rank	Global Rank
Constraints on Government Powers	0.54	0.00	16/30	36/37	62/128
Absence of Corruption	0.42	0.00	19/30	37/37	82/128
Open Government	0.59	0.00	8/30	30/37	38/128
Fundamental Rights	0.64	0.02	12/30	34/37	42/128
Order and Security	0.66	-0.02	15/30	37/37	90/128
Regulatory Enforcement	0.51	0.00	17/30	35/37	61/128
Civil Justice	0.48	-0.01	22/30	36/37	83/128
Criminal Justice	0.33	0.02	21/30	36/37	106/128

Figure 4: Panama Rule of Law Index Factors, Source: WJP 2020 Rule of Law Index

³⁵ WJP (2020). Rule of Law Index.

RECOMMENDATION

Based on the overall risk assessments of Panama and Costa Rica, it is our belief that Costa Rica would be the best choice for establishing a second location for SKIP. Despite Panama's low entry barriers, Costa Rica appears to be a safer bet to invest SKIP's \$100,000 start-up capital due to the stability of the economy, the low levels of corruption, and the overall rule of law assessment. Additionally, while the education system has more government funding and is largely consistent across the country, there are significant gaps in secondary and tertiary education knowledge and participation. SKIP has the unique opportunity to take on low levels of risk while expanding its efforts by creating a targeted approach to assist teen-aged children in Costa Rica. However, the demand for the work of SKIP also exists in Panama, as many families depend on the additional income of their children, which prevents them to graduate from school. It depends on SKIP whether it would rather expand to a second country of higher stability and support an already improved education system by diminishing youth unemployment and child labour, or whether it would take the risk of a flawed democracy and try to help more people in need, which of course has to be put into perspective with the starting capital.

Table 4: Summary of key risk assessment details

Panama	Costa Rica
Youth Unemployment	
12.80%	31.50%
Gini Coefficient	
49.9	48
Education Ranking	
95	39
GDP Per Capita PPP	
\$25,400	\$16,900
Population	
3.9 million	5.1 million
Poverty Ratio	
22.10%	21.10%
Mean Male Education	
10 years	8.6 years
Credit Rating	
BBB	B
Corruption Ranking	
111	42