
Panama's Corredor Sur: Turning the Bay of Panama into a “Fecal Swamp”

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Introduction

The Corredor Sur toll road project illustrates a variety of problems that plague IFC projects. In particular, this project was marred by an inadequate consultation process and a problematic environmental assessment (EA) process. The EA was carried out in a piecemeal fashion, with important components of the EA process completed only after project approval. Thus, these components became after-the-fact rationalizations for a predetermined project design rather than tools for deciding whether, and in what form, the project should go forward.

The project also points out how little information is made available about projects prior to their approval. Panamanian NGOs concerned about this project have been vocal and effective critics of this project. Nonetheless, because so little information was available prior to approval, they have essentially been fighting a rear-guard action – trying to improve, change or derail a project that was essentially a *fait accompli*. Some of the problems associated with the project, including those with project design and the consultation process, are attributable in large part to the fact that this is to be a

privately built and operated highway. This case study is particularly timely and instructive because the IFC has identified infrastructure projects as one of the strategic areas in which it plans to focus its lending.

Project Overview

The project is a Build-Operate-Transfer (BOT) toll highway being built by Ingenieros Civiles Asociados (ICA) Panama. The road is a 19.5 km toll highway in Panama City linking the downtown financial district to the eastern section of the city and the international airport. The road was completed in February 2000, but other elements of the project remain to be built.

According to the IFC's Summary of Project Information, the purpose of the project is to “relieve traffic congestion and create a high quality link along the east-west axis of the city. Economic benefits will arise through reduced travel time and lower vehicle costs. IFC's participation in this project will: (i) assist the government to increase efficiency in the transportation infrastructure, (ii) help the sponsors to implement an important project by mobilizing long-term financing

Making the Case for Change

from foreign sources, and (iii) assist the government and the sponsor in addressing environmental issues associated with the project.”

Part of the road will be constructed over land and part over Panama Bay near the coastline. The marine section of Corredor Sur highway cuts across the Bay of Panama. It is built partly on a rock embankment approximately 40 to 80 meters off the coast that runs parallel to the coast. Under a 30-year concession, ICA will operate and maintain the highway once built. The Panamanian Ministry of Public Works also granted ICA the property rights to develop 35 hectares of lucrative landfill plus 29.5 hectares on the mainland near the project site, a development known as Punta Pacifica.

Only the highway is being financed by the IFC, but the highway and Punta Pacifica project are really one project. The entire project is only economically feasible for ICA with the development of Punta Pacifica. The contract between ICA and the Government also provides that if ICA has to pay more than US\$17 million in compensation to affected landowners, then it may fill additional land between former Paitilla airport and ATLAPA Convention Center. This area is precisely where the highway is supported by a rock embankment off the coast, which is also the area where fecal sedimentation is likely to occur.

Overview of Key Problems

Project Design: Making a bad problem worse. The highway's rock causeway and the landfills associated with the Punta Pacifica real estate component will obstruct an important littoral (parallel) coastal current that now serves as a vital cleanser for Panama Bay, which receives 40 million metric tons of raw sewage per year as well as other wastes. While the Bay is already badly polluted, the road will greatly exacerbate this fecal sedimentation and pose

serious health risks to the neighborhoods along the coast. Local NGOs, supported by the findings of hydrological experts, fear that blocking the current will turn the Bay of Panama in the Panama City area into a “fecal mud swamp.”

Questionable Mitigation Plan. The mitigation plan for reducing fecal sedimentation in the area between the coast and the road was to build pipes from the coast to the other side of the rock causeway to carry the sewage to the bay side of the road. It is not clear how successful this mitigation measure will be as the piping system relies on gravity and has no pumping station. Increased siltation can already be observed between the embankment and the coast. Local communities are also concerned that, in the event of a very high tide, the sewage could “reflux” – actually flow through the pipes and into homes. If the system is unsuccessful in mitigating fecal sedimentation, ICA will be allowed to fill the area between the coast and the road. The contract between the government and ICA provides that ICA will have property rights to this valuable land, if ICA must pay compensation over a US\$17 million ceiling provided in the contract. The design of the mitigation measures thus present a “moral hazard”: if ICA is unsuccessful in mitigating the environmental harm, they stand to receive a substantial benefit.

A piecemeal environmental assessment process. Although the IFC has treated this project as simply a road project, it is really a real estate development project of which the road is but a small component. IFC's approach has led to a failure to address the project impacts in an integrated way at the beginning of the project. Moreover, IFC came into the project after the first part of the highway had already been completed. The original environmental impact assessment for the project, completed prior to IFC approval, looked only at the impact of the Corredor Sur highway. It did not take into account the impact of blocking the

littoral current. The original EA also did not take into account the cumulative impact of the rock embankment and the landfills.

Strong criticism from NGOs in Panama followed the IFC's approval of the project on June 25, 1998. Subsequently, the IFC required the sponsor to do a supplemental impact assessment of the Punta Pacifica component of the project and hydrological studies to analyze the effect of blocking the littoral current. However, these supplemental studies were carried out *after* approval of the project by IFC. Although the IFC did delay disbursement of the funds until the completion of the Punta Pacifica EA, the study was essentially an after-the-fact justification for the project. The Punta Pacifica EA process and the hydrological study did not inform the decision as to whether the landfills and the road should go forward, although it did result in minor changes to the design of the rock causeway (see below).

At IFC's request, ICA commissioned a hydrology study to append to the May 1999 Punta Pacifica EA, although the proper procedure would have been to base the EA on the findings of the hydrology study. Independent experts have pointed out that the EA misrepresented some important findings of the hydrology consultants regarding negative impacts of landfills. Secondary environmental and health impacts (such as the disturbance of homes, roads, natural resources, and construction noise) were systematically ignored, despite multiple pleas from the public to seriously consider them. Additionally, the work for Phase I of Corredor Sur (part of the land section) had been completed long before the EA for Phase II (the marine section and the rest of the land section) was opened to public comment and later approved by Panamanian authorities and the IFC board.

Resettlement and Inadequate Compensation. There also has been

resettlement associated with the project, and compensation was in many cases inadequate. Communities were not allowed to collectively negotiate with ICA, and there are allegations of intimidation (such as late-night visits warning inhabitants to leave because "the tractors were coming"). At least in some cases people were only paid for the value of their home, and not for the value of their land. At least 30 families refused to leave the area until recently, alleging that ICA had not compensated them appropriately. Poor communities have lost access to traditional means of income as they were forced to move to locations far outside the city. Fishermen have lost their shore access, and the impacts on fisheries from increasing fecal pollution will affect their livelihoods.

Flawed Consultation. During the process of road construction, affected communities were consistently faced with a lack of transparency about the project. Often, when concerned citizens voiced their opinions, they received explanations that were contradictory. Other times, such as when they complained about noise levels exceeding the maximum limit and the accumulation of feces, no action was taken. Citizens were also systematically denied the right to view certain "public" documents. Citizen requests for rejection of or changes to documents were never granted. Despite requests by NGOs in January and February to set up meetings between the IFC and communities, the IFC mission only contacted groups once they arrived in Panama on March 2, leaving no time to properly arrange for a meeting. Furthermore, several of the few "public forums" which were held were not in fact public as there was inadequate announcements of meetings.

Biodiversity Impacts. Full impacts on wetlands and biodiversity on the land section of the road are unknown. Mangroves and other trees were cut to build the

Making the Case for Change

highway, which is next to an area of international importance to migratory waterfowl, according to the Panamanian Audubon Society. Corredor Sur goes through Costa del Este, a huge, high level real estate development, while several companies have begun filling on both sides of the Corredor Sur land section for new developments. Cumulative impacts of the highway plus these projects have not been analyzed.

Adequacy of monitoring the environmental mitigation measures. In order to monitor the effectiveness of the mitigation measures, the Corredor Sur EA suggested the creation of an “independent” monitoring body, known as Unidad de Monitoreo Ambiental Independiente (UMAI). UMAI, however, is financed by and reports to the company. While the reports also go to Panamanian government agencies and to the IFC, they are not made available to the local communities, despite requests from local NGOs. Panamanian NGOs have questioned both the independence and the efficacy of UMAI, as they feel it has not been responsive to their concerns.

Project not financially viable. There is a question as to whether the project is financially viable. The poor performance of another toll road in Panama City (Corredor Norte) as well as experiences in Hungary and Mexico suggest that people will not use the roads enough to make them profitable. Local economists believe that only about 20% of the Panamanian population will be able to afford the \$1.80 toll on a regular basis. In addition to affecting project viability, it also could undermine the efficacy of the IFC’s development rationale to decrease traffic congestion. Another financial concern is that any money raised will be funneled out of Panama or into the hands of the few Panamanians associated with the project.

Local/National/International resistance to the project.

Panamanian NGOs and project-affected communities have protested the project on a number of fronts. Intense pressure from NGOs has led to some changes in the design of the road. For example a number of bridges and culverts were added to the rock causeway in order to allow for more exchange of water between the area enclosed by the road and the rest of the Bay of Panama, although this will only have limited impact on the fecal siltation problem. NGOs and citizens groups have also taken the following actions:

- A civil suit for \$30 million in damages is being brought on behalf of 55 affected persons who suffered property and other damages during road construction or after its operation began.
- A petition to investigate the existence of hidden assets has been presented to the Ministry of Economy and Finance (MEF). This petition asks MEF to investigate the existence of an estimated \$44.6 million from the sale of Punta Pacifica real estate, which should properly belong to the government of Panama. The Attorney General is expected to issue his opinion shortly. If MEF grants the petition, the next step would be a civil law suit aimed to recover these hidden assets for the state.
- A petition has been filed with the Central American Water Tribunal. The tribunal is a non-governmental tribunal focusing on water issues. In August the Tribunal ruled that the Government of Panama, the IFC, and ICA were culpable for adverse impacts on the health and the environment resulting from the construction of Corredor Sur and for violating the Panamanian Constitution and laws. Although it has no enforcement powers, it can make recommendations and its findings have moral suasion.

Profiling Problem Projects

- ICA is also being sued for \$12 million by the Panamanian Social Security Administration because it was not compensated for reduction in value of lands it owned that were affected by the project.

Since the road has been completed, the current focus of the campaign in Panama is to stop the Punta Pacifica landfills. Independent experts working with Panamanian NGOs met President Mireya Moscoso and her cabinet, and also held a public forum in late June, warning about the problems of fecal sedimentation of Panama Bay. They warned that clean-up of Panama Bay, the cost of which has been estimated in \$200-300 million by a study financed by the Inter-American Development Bank, would simply be impossible if the landfills are finally built.

IFC Response

IFC's response has been to stand by the project, its EA and the consultation process. While the IFC has conceded in meetings and correspondence that in hindsight the consultation process could have possibly been done better, they still do not see any fundamental problems with this project or the process of implementing and approving it. In a September 27, 1999, letter to Panamanian NGOs, an IFC spokesman stated that "we believe that much has been achieved towards ensuring that the construction of the Corredor Sur and the development of Punta Pacifica does not lead to additional serious long-term deterioration of water quality in the Bay of Panama."¹ In particular the IFC has repeatedly stated that the EA process was adequate. They have also never publicly commented on the question of the project's financial viability,

or responded to questions about its dubious development impact.

IFC has also stated that any failure on the part of ICA to comply with the environmental mitigation plan is a problem for the Panamanian environment agency,² not for the IFC; IFC officials have said they do not see it as their role to play "policeman."

Current project status

The Corredor Sur highway has been completed. \$40 million of the \$70 million IFC loan was disbursed after the Punta Pacifica EA was approved. The final \$30 million were disbursed in March, 2000, after the IFC monitoring mission. ICA has now received government approval for the Punta Pacifica EA and for the disposal site for the dredged spoils. It is now possible for ICA to begin the construction of the landfill.

Nevertheless, there is a strong ongoing debate in Panama regarding the hydrological impacts of the landfill and its impacts on sanitation in Panama Bay. Public demonstrations against the Punta Pacifica islands began in late June. Hundreds of letters, e-mails, faxes and petitions signed by Panama City residents are being collected by Panamanian NGOs asking President Moscoso to cancel the project, which will require a modification of the concession contract.

¹ Letter from Mark Constantine, Manager, Corporate Relations, International Finance Corporation to I. Roberto Eisenmann Jr., President Fundacion para el Desarrollo de la Libertad Ciudadana, September 27, 1999, pg 2.

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