



Public-Private Partnership Impact Stories

Panama: Panama Pacifico SEZ



The Panama Pacifico project is transforming the former Howard U.S. Air Force base outside Panama City into a hub for international trade, logistics, services, commerce, and industry. As principal advisor to the government, IFC recommended that a private investor develop the 2,500 hectare site through the establishment of a special economic zone (SEZ) with a modern regulatory framework and administration conducive to business and direct foreign investment. The land received SEZ status in 2005 and within two years a private master developer was selected and a master development agreement signed.

One of the largest development projects in the world, Panama Pacifico capitalizes on its strategic location at the entrance to the Panama Canal and its close proximity to Panama City, the capital. London & Regional Properties (L&R), a global private real estate development firm, won the bid for the 40-year concession. L&R committed to invest a minimum of \$405 million over the first eight years of the project, of which \$20 million was paid up front, and a minimum of \$100 million for each eight-year period afterward. Panama Pacifico is expected to attract \$3 billion in direct foreign investment and create an estimated 20,000 new jobs.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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BACKGROUND

In accordance with the 1977 Torrijos-Carter Treaty, the Howard U.S. Air Force base and its infrastructure reverted to the government of Panama in 1999. The government sought to use the assets, especially the runway, to bring economic activity to the country and create jobs. After a number of unsuccessful attempts to achieve these objectives, the government retained IFC in June 2001 to advise on structuring the project as a public-private partnership aimed at generating sustainable employment opportunities, strengthening and diversifying Panama's economic base, increasing the country's competitiveness, and improving the investment climate.

IFC'S ROLE

When IFC signed the mandate for the Panama Pacifico public-private partnership, the government was intent on turning the former military base into an airport and port. IFC brought a more expansive vision to the project and helped the government recognize the site's full development potential.

IFC's mandate included developing the project concept; designing a coherent development strategy; drafting laws creating a special economic zone based on international best practices and associated regulations; developing a land use master plan, baseline environmental and demand studies, and a financial model to define the land price; designing an innovative master development agreement; and managing an international selection process. During the six years of the mandate's tenure, IFC worked with the government authorities, class associations, opinion makers, and political leaders to prepare the project and help ensure congressional approval.

A major national public relations campaign helped build consensus among the diverse stakeholders and gave the project credibility. This in turn helped ensure approval of the law creating the Agency for the Panama Pacifico Special Economic Zone, a dedicated agency structured to facilitate one-stop shopping. IFC played a lead role in promoting the project to potential international bidders, ensuring a transparent and competitive process, selecting the master developer, and advising on the contract structure.

TRANSACTION STRUCTURE

The Panama Pacifico project is intended to transform a former U.S. Air Force base into a special economic zone for international trade, commerce, and industry and to develop the site as a commercial, residential, logistics and business hub. Plans call for the construction of more than one million square meters of commercial space as well as an urban center with 20,000 houses and apartments, hotels, shopping centers, and restaurants surrounded by gardens, green belts, parks, and water resources. The former military airstrip is being used as an alternate airport to Tocumen International Airport (and therefore financed by Tocumen Airport users). Today the former military airstrip primarily serves the Singapore Technologies (ST) Maintenance-Repair-Overhauling facilities.

IFC proposed a highly innovative and complex transaction structure for the 40-year concession. The master development agreement allocated the parties' obligations and risks. The agreement also defined the pricing of land (fixed base price and contingent price, determined by a transaction value or deemed sale), the minimum land takedowns by category of use, the rules for land development to prevent land speculation, the penalties for non-compliance, and the government's onsite infrastructure development obligations, among others. Under the terms of the agreement, the master developer has exclusive development rights for 15 years and limited rights for the rest of the concession.

BIDDING

L&R won the bid for the 40-year concession. The winning proposal included commitments to invest a minimum of \$405 million over the first eight years of the project.

EXPECTED POST-TENDER RESULTS

- From 2008 until March 2011, \$73.7 million in private investment was mobilized.
- When completed, the first phase of development (2008-2016) will have resulted in a \$405 million investment for a town center, an international business park, an industrial park, a residential neighborhood, a golf course, and resort and business hotels.
- Additional investment of \$300 million is expected between 2017 and 2048.
- The special economic zone, based on international best practices, has attracted global corporations such as Caterpillar, 3M, Dell, and Singapore Airlines.
- The U.S. Green Building Council and the Clinton Climate Initiative named Panama Pacifico as one of 16 founding projects that demonstrate "climate-positive" urban growth strategies.

** Unless otherwise stated, monetary values are presented in 2007 US dollars. Results are from a post-completion evaluation completed June 2011.*