



# Panama's health city horror story

by Andrew Thompson

**Canning House** Associate Fellow

## What happened?

Enrique Lau Cortés, head of Panama's Caja del Seguro Social (CSS – the country's public health and pensions agency) on 9 September rejected a US\$125mn compensation demand from Fomento de Construcciones y Contratas (FCC), the Spain-based civil engineering company.

## The details

CSS and FCC (the latter now controlled by Mexican billionaire Carlos Slim) are involved in what could be described as an epic battle over corruption and mismanagement. In 2011, during the presidency of Ricardo Martinelli (2009–2014), the CSS signed a US\$554mn contract for FCC to build a mega-hospital – the largest in Central America – to be known as "Health City". It would consist of 17 buildings, 50 operating rooms, and have capacity for 1,700 beds. It was to be completed by March 2015. But during the subsequent presidency of Juan Carlos Varela (2014–2019) work was delayed amid claims that under the previous administration there had been multiple contractual irregularities and kickbacks. Indeed a Spanish court has subsequently found FCC guilty of paying US\$82mn worth of bribes in Panama, to secure not only the Health City deal, but also to win contracts to build roads and Lines 1 and 2 of the Panama Metro system (the latter built in partnership with Odebrecht of Brazil). A Panamanian court is also investigating the bribe-takers.

The net result is deeply embarrassing for CSS and for the Panamanian government. Amid the COVID-19 pandemic, the country's worst health crisis in a generation, when demand for hospital beds is at a premium, it has a 65%-complete, 5-years behind schedule, and currently totally paralysed hospital project, subject to multiple legal disputes. It is not entirely clear how best the CSS can extricate itself from this situation. The health agency says it has so far paid US\$343mn to FCC, but to take over the part-built project and complete it could require an additional US\$800mn. In August it asked FCC to complete three emergency wards to deal with COVID-19 patients but has not had a formal answer.

This is most probably because FCC also wants to exit the project. Its lawyers maintain that the company is a victim of individual executives who paid bribes, and of Panamanian officials who took them. They say the company itself was not responsible for any delays, which include a force majeure event, the coronavirus pandemic. FCC has suggested CSS should formally terminate the contract or accept international arbitration. Both parties say they have legitimate claim to be compensated by the other, with financial guarantees and insurance policies worth US\$93mn also at issue.

## What does it mean?

In this case corruption in public sector procurement is casting an extremely long shadow. Almost ten years after the contract was signed, “Health City” has done nothing for the country’s health and tainted Panama’s reputation at a time when it is seeking new foreign investment to help emerge from a severe coronavirus-induced recession.

### About the Author

## Andrew Thompson

La Rambla Research Ltd.

As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC’s Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.



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