Colombia prepares for lift-off

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Tumbling commodity prices have provided their share of fiscal difficulties, but there is a newfound resilience to Colombia's corporate fabric

No one ever said it would be easy, but national authorities and business leaders believe that the Colombian economy is ready to launch the country into a new era.

Whilst tumbling commodity prices have provided their share of fiscal difficulties over the past few years, there is a newfound resilience to Colombia's corporate fabric, greater diversity in the economy, and a burgeoning entrepreneurial confidence and swagger. And there are plans to build on this with ICT, agriculture and tourism among the areas being prepared for major expansion.

Although the government has convinced the FARC guerrilla group to lay down its arms, the full benefits of peace will have to wait a little longer after the deal was rejected in October's referendum. But Colombia's leaders are not prepared to delay the delivery of a new and more dynamic business environment, underpinned by vastly improved infrastructure.

"We have a path and we know what we need to do," says Simón Gaviria, Director of the National Planning Department (DNP), who cites the world's fourth-largest infrastructure development plan, improved communications connectivity, and a significant boost to education among the cornerstones of the new Colombia. Greater levels of inward investment will also help Colombia's vibrant business community, led by *multilatina* companies which already punch above their weight on the regional scene and are now eager to help develop the economy even further back at home.

Already, Colombia's financial chiefs scent that the fiscal wind is changing. Finance Minister Mauricio Cárdenas sees GDP growth at 2.5 per cent for this year and 3.5 per cent in 2017, close to the rates achieved at the height of the commodities boom, and perfectly acceptable in the context of a regional recession.

"During the past 10 to 15 years, we benefited tremendously from high commodity prices and this was a fantastic source of stimulus to our economy. We lost those strong tailwinds as the prices of most of our commodity exports, particularly coal and oil, fell dramatically. So, we need to stimulate new sectors and to build a new economy which is more diversified, where other sectors take a leading role," Mr Cárdenas explains.

"Given the current context, the economy is as good as it is reasonable to expect," agrees Felipe Jaramillo, the youthful President of ProColombia, the agency entrusted with boosting inward investment, non-mining exports, tourism and the global image of the country.

To grow beyond its current status as a commodity specialist, Colombia has to attract the international business community's attention as an attractive destination. Mr Jaramillo is clear about the importance of his remit. First on his list is the objective of more than doubling the current amount of non-mining exports to an annual tally of US$30 billion, a feat which requires diversification of the economy and significant capital inflows.

"Since 2010 more than 600 companies have moved to Colombia from abroad. Foreign direct investment (FDI) excluding extractive industries reached a little over US$4 billion in 2010; last year it was $8.3 billion and a further 1,050 business have expressed a genuine interest in coming," Mr Jaramillo points out.

Photo: ProColombia

Reach for the sky: Medellín's inspiring Parque de las Luces is emblematic of the city's can-do spirit

In the current environment, Colombia's hopes of remaining self-sufficient in oil lie in offshore exploration

By no means complacent about what has already been achieved, the ProColombia head accepts that difficulties remain due to the commodity crash, which impinges on government spending power, and the troubled situations in some neighbouring countries, notably Venezuela and Brazil, traditionally important markets for Colombian goods.

Mr Jaramillo is at the forefront of Colombia's very particular challenge, which is to connect new markets in parts of the world where the country has little commercial traction with the developing areas of the country, where instability has led to insufficient investment in the past.

"In terms of trade we are strong in the United States and Latin America. Nowadays we are focused on Europe, that's why this State Visit is strategic. And we are working on getting closer to Africa and Asia." As a start, Mr Jaramillo points to Colombia's first free-trade deal with an Asian nation, an agreement with South Korea on which the ink has barely dried, the second is in negotiation, with Japan.

Carlos Ignacio Gallego, CEO of Grupo Nutresa, a multilatina food group and member of the so-called Grupo Empresarial Antioqueño (GEA), takes up the ProColombia gauntlet. "We will keep working with the public sector to build the country we all deserve. We need to work together in an alliance."

The GEA is something of a one-off in the Latin American business world, an informal grouping of the three main groups of companies from Antioquia Department [state] which hold stakes in each other's companies to provide common stability and ward off would-be hostile takeovers. The system is more akin to the Japanese corporate mindset than what one might expect to find in northern Colombia, but Medellín businessmen have learned to be flexible in both the good times and the bad.

Grupo Nutresa, which is one of the GEA along with Grupo Argos and Grupo Sura, is a classic example of Colombian multilatina spirit. Not only has local experience been a clear advantage for these intrepid firms, but also their ability to capture value and new markets across the Americas. Today the food-processing giant has a direct presence in 14 countries in the Americas, as well as in Southeast Asia. Forty per cent of Nutresa's sales are made in 70 countries outside Colombia, and Mr Gallego says his road map is to double the size of the business – and its profitability – between 2013 and 2020, the company's centenary year.

But this expansion must not endanger Nutresa's sense of being very much a Colombian concern. "We have been working hard since the very beginning to open the company up to changes in society. We have to work harder for the victims of the conflict, and those displaced by it, so we can build a future together," explains Mr Gallego, who points out that Grupo Nutresa has been listed for the past six years in the Dow Jones Sustainability Index.

"Going international used to be considered a sign of courage, now it has become a necessity," says Bernardo Vargas, the CEO of the infrastructure group ISA, which operates electricity grids in several Latin American countries, as well as having moved into telecoms and even road building. "To be strong, you have to be diversified and profitable," Mr Vargas continues, adding that people are constantly surprised that this, a company more than 50-per cent State-owned, is a dynamic and profit-making multilatina. ISA operates electricity grids in Colombia, Peru, Bolivia, Brazil and Chile, as well as the international interconnections between Venezuela and Colombia, Colombia and Ecuador, and Ecuador and Peru.

Mr Vargas's vision is connecting the entire American continent, from Argentina to the United States, but he admits this ambition is still some way from being possible. He feels strongly, however, that the Pacific Alliance between Colombia, Peru, Mexico and Chile is showing the way forward to a future of free trade relations between pragmatic states – countries that he says are "democratically consolidated", with a low risk of destabilising populism and which realise that alone they are not big enough to be world beaters.

Mining

While the mining sector will have to remain patient to see the full benefits of Colombia's peace process extend throughout the nation, there are signs that better industry organisation is on the way to ensure that more legal extraction takes place in a smoother business environment. This will, in turn, encourage more inward investment in a sector with a great deal of promise.

Flower power: Colombia's flourishing flower sector is the second-largest in the world

Photo: ProColombia/Julio Cesar Herrera

Colombia has the largest reserves of coal in Latin America, with half of the mineral being of the low-sulphur, high-energy variety. Colombia is currently only the 20th largest gold-mining country in the world, but the National Mining Agency (ANM) sees production increasing by 30 per cent over the next five years. The major challenge is to bring all extraction under the same roof of legality, with estimates of illegal mining of gold comprising up to 80 per cent.

In October, Environment Minister Luis Murillo told an audience in Bogotá, including sector chiefs and more than a dozen directors of regional corporations, that "their biggest enemy is illegality", adding that the fact that they were all sitting in the same room addressing shared problems "would have been considered a Utopia in the past."

"We are building a new country and also a new chapter in mining that is responsible, efficient and committed to the regions," says the ANM's President, Silvana Habib Daza.

This is a message that Gemfields, a London-based company which produces 30 per cent of the world's emeralds and is proud of its responsible approach to mining, has taken to heart. Last year Gemfields acquired a 70 per cent controlling stake in the Coscuez emerald mine in Boyacá and is actively seeking more opportunities in the country. "Colombia is exciting. There is a new focus on ethics in the country's mining sector, which should be a national symbol of hope and pride. We are proud to be playing a part in that," says Gemfields CEO Ian Harebottle.

Energy

Colombia's oil sector was another which inevitably took a hit during the global dip in commodity prices, but industry chiefs believe they have weathered the storm well. Orlando Velandía, the President of the National Hydrocarbons Agency (ANH), argues that no oil company left the country during the 2014-15 slump.

"The government continues to make efforts to keep production in the range of one million barrels per day," but the greatest challenge, Mr Velandía admits, is maintaining activity in exploration as lower prices make many options unviable. At the end of 2015, Colombia's proven oil reserves were down by 13.2 per cent to around two billion barrels, but the ANH points out that Brazil and Mexico's reserves were hit harder, falling by 22 and 21 per cent, respectively.

In the current environment, Colombia's hopes of remaining self-sufficient in oil lie in offshore exploration, with the government having designated certain free zones to encourage drilling companies to pursue tax-free exploitation. Shell, ExxonMobil, Repsol and Petrobras are among those already pursuing Colombia's undersea treasure.

Eduardo Rodriguez Tamayo, Shell's country chairman for Colombia, is happy with the terms of its involvement in the Guajira offshore oilfield. "We found a government that has been willing to listen and work together with the industry to achieve a win-win for both the state and for the private sector."

Another area where the glass could be seen as half empty or half full, quite literally, is electricity production, where severe droughts caused by the El Niño weather phenomenon earlier this year pushed Colombia's supply system to the limit in a country where 70 per cent of energy is hydroelectric.

Bernardo Vargas is a glass half-full person. "It was a perfect storm," says the CEO of ISA, which controls

Greater levels of FDI will also help Colombia's vibrant business community, led by 'multilatina' companies which already punch above their weight on the regional scene

Photo: Pro Colombia

Castles in the sky: The construction of Nariño's Santuario de las Lajas was inspired by an apparent miracle in 1754

We have to connect capital, ICT and opportunities to give Colombia a future beyond commodities and infrastructure projects

80 per cent of Colombia's high-voltage power lines. Mr Vargas adds that apart from the worst El Niño drought in memory, there was an explosion at a power plant that caused a further cut in capacity, meaning the back-up thermal generators were under even greater pressure to meet demand.

"Colombia was prepared and we got through the storm unscathed, although that doesn't mean that there are not lessons to be learned and changes to be made as climate change becomes an ever greater reality."

Manufacturing

Behind hydrocarbons and mining, Colombia's manufacturing sector is growing in importance and offers a way forward to a trading future less dependent on volatile commodity prices. In total, manufacturing accounts for 12.2 per cent of Colombia's GDP, but greater export opportunities seem certain to help that figure climb higher due to the devaluation of the peso against the dollar by some 40 per cent over the past two years.

Preferential access to markets comprising 1.5 billion consumers is also a key to future expansion, thanks to Colombia's success in signing free-trade agreements around the world, with the UK very much on Bogotá's radar in the near post-Brexit future. Even as things stand, in 2015 Colombian manufacturing exports increased to a total of US$7.03 billion, making it the country's second-largest exporting sector with a total of 19.7 per cent of foreign sales.

But ProColombia's Felipe Jaramillo knows that more can be done to encourage new manufacturing ventures to make their base in Colombia. "We have the potential to become more competitive in terms of tax and tariff matters." Mr Jaramillo says that President Juan Manuel Santos has announced a new approach to taxation on companies in a reform being prepared for the end of this year, which aims to lighten the burden on industry. "We are one of the most competitive countries in the region, and the government is working hard to improve further and consolidate a great business ecosystem."

Start me up: Medellín's Ruta*N* has assisted more than 500 start-up companies to date

Photo: Alastair Harris

Financial Services

Colombia's banking system is solid and can currently boast double-digit percentage growth in its loan portfolio. The financial sector has proved resilient in difficult economic times, with bank profitability holding up well, as has capital adequacy and return on equity.

According to the Central Bank of Colombia, loan portfolio growth reached 15.5 per cent in 2015 across the financial sector. Capital adequacy fell by a similar amount, but remains safely above the legal minimum requirement of nine per cent.

Additional good news is the continuing development of Colombia's insurance sector into a regional hub, confirmed by the recent arrival of global big-hitters such as Zurich, Swiss Re and, from 2016, Lloyds of London. "We felt we would be missing out if we didn't move to the country," said Juan Carlos Realphe, Lloyds' country manager for Colombia in explaining the move. The strong performance of local players, which has seen the insurance sector expand consistently at about 10 per cent a year, is attracting positive international attention.

"We have now got 15 of the world's most important insurers and reinsurers here in Colombia," notes Carlos Quiñones, president of the Colombian arm of the UK-based insurance broker Howden. Capacity growth is such that the local market is dealing with the insurance needs of Colombia's massive infrastructure programme, set to reach US$70 billion in investments over the next two decades.

"When they launched the 4G infrastructure projects, everyone though that the local market would not be able to handle much of that risk, but thanks to the combination of specialist newcomers and local capacity, we have ended up taking most of it," explains Mr Quiñones.

But financial services are also required to help build the economy from the bottom up, a remit of the public development bank Bancoldex. "We are driving towards sustainable economic development based on growth of companies," says the bank's President, Luis Fernando Castro.

Growth is the key word, hence Bancoldex's curious mix of clients, ranging from the kind of SMEs and recipients of microcredits you would expect a development bank to be attending to, to large-scale enterprises, as long as they can demonstrate double-digit growth.

"These bigger companies understand the domestic market and they are sometimes in a situation where they are returning from abroad and will be able to create growth. Even firms which are based abroad can leverage the local economy by stimulating exports from the Colombian market," explains Mr Castro. "We have to connect capital, information technology and opportunities, accelerating that process to give Colombia a future beyond commodities and infrastructure projects. We are looking for those multipliers that can bring in venture capital."

Bancoldex's best tech weapon is called the Atlas of Economic Complexity, a tool developed along with Harvard University, thanks to additional help from the Santo Domingo Foundation.

"The database provides incredibly detailed collective know-how from a region or an area of production, and we use it to see how we can move a company or a place towards more sophisticated production," says Mr Castro. "So we find out, for example, that Bogotá has better know-how and economic complexity than France when it comes to setting up a cosmetics company. We go and tell people. In Medellín we found a company that we realised should make electrical insulators and we informed the owner. We offer management consultancy to show people what it is they can do."

ICT

It may have taken a little while to reach Colombia, but the digital explosion is starting to have a significant impact on the country's cities and towns, with a growing scene of tech start-ups that is attracting attention from North America and Europe. In the past five years, Internet connectivity has gone from 200 cities and 2.2 million connections to 1,078 and 10 million, respectively, meaning that half of Colombia's homes are now online.

Peter Van Dijck is General Manager at HUGE, a US firm which helps companies and brands reimagine how they interact with their customers and manage their business in the digital economy. In the past few years as head of the company's Medellín office, he has seen the tech community swell to the point where the city can now be considered a digital hub.

"Starting a tech company is not hard here, it's perfectly doable and you can find 200 employees who know what they are doing fairly quickly." Mr Van Dijck explains that the amount of local know-how is due to the amount of outsourcing work coming in from US clients, building up the talent pool.

"That means it's easy to hire, and in so doing you widen the pool, so it's a virtuous circle which leads to a real ICT ecosystem. The Colombian tech sector is solid. I think it's going to keep growing like crazy. I see a new competitor every six months and they quickly have 50 employees. I think the Medellín scene has made it; it's vibrant here."

Part of Medellín's reinvention as a tech capital is down to Ruta*N*, a technology hub that currently hosts around 135 companies in its building, but which is developing a "district of innovation" over 170 hectares in the north of the city which will provide space for 800 companies from all over the world.

CEO Alejandro Franco Restrepo explains that Ruta*N* has assisted more than 500 companies as start-ups. "They have to show innovation and a good business plan. We can support them with R&D, provide help through our associations with universities and offer financing."

Ruta*N* has separate business development centres for the ICT, biotechnology and digital design sectors, offering mentoring and consulting services. "And finally, we have developed a financing mechanism called Ruta*N* Capital; it's new and meant to close a gap that exists as the financial sector is too traditional. They don't take risks with this kind of company."

But Alan Colmenares, a digital transformation executive for the bank BBVA, based in Colombia, is proof that at least some members of the financial sector are aware of the need to open a window for new technology. As a scout for new financial technology (FinTech) ventures, Mr Colmenares' job is to "neutralise potential threats posed by disruptive start-ups by acquiring them," and then pair-up newfound innovative nous with financial muscle and business know-how. Mr Colmenares got involved very early on with Tappsi, a taxi app which is Colombia's local answer to Uber, which already has 40,000 registered drivers after just four years in operation.

Preferential access to markets comprising 1.5 billion consumers is also a key to future expansion, thanks to Colombia's success in signing FTAs

Angel dust: Zipaquirá's Catedral de Sal, a relic of Colombia's salt mining industry

Photo: Alastair Harris

Hospitality has become the third-largest sector for foreign investment, after hydrocarbons and manufacturing

Agriculture

One sector everyone agrees has to grow exponentially in Colombia is agriculture, long held back by conflict and criminal activities affecting the countryside, but which can finally see light at the end of the tunnel. Years of neglect of rural Colombia have created great social need, but also mean there is massive potential for an expansion which could lead to the development of a major export-oriented agribusiness sector.

The fact that of 20 million hectares available across Colombia for agricultural use, only a quarter is being tilled shows the extent of that potential.

"The government, business community and civil society have a responsibility to work as a team to drive forward development of historically hampered regions, which have both great potential and great needs," states ProColombia's Felipe Jaramillo. The Valle del Cauca department, for example, which nowadays is is ripe for a bonanza; with its Pacific Ocean outlets, magnificent climate and the backing of Cali's business community, the department's farmers could be on the verge of an export-led boom through crops such as pineapples, mangoes and avocados. One major new venture is Bengala Agricola, which started growing pineapples on land previously dedicated to sugarcane just four years ago, but which has already started to export its high-quality fruit from a 500-hectare estate which is set to grow further.

"This project and its strong results are giving local farmers renewed confidence," says Belisario Caicedo, Chairman of the Board at the Riopaila Castilla Group, a major sugar and food producer which is behind Bengala. "By going for quality fruit, our region could become even more competitive and generate significant revenue streams to boost the whole production chain."

Colombina, a Valle del Cauca giant in sugar and processed food production, already has a major export business up and running. Colombina is present in 14 countries, has six plants in Colombia, one in Guatemala and, signalling a move into Europe, a new base in Spain having bought the confectioner Fiesta de España.

Grupo Nutresa's CEO, Carlos Ignacio Gallego is convinced that a green revolution is just around the corner for Colombia, citing cocoa as another crop ripe for expansion. "There will be a lot of new agricultural projects due to the sheer size of the country and our resources. We need to work on the technical aspects of this industry, but also on the social side. First of all we need to identify competitive projects with crops we can sell globally, and take it from there."

I should cocoa: Agriculture is expected to boom in post-conflict Colombia

Photo: Grupo Nutresa

Tourism

From being considered a dangerous destination only for the brave or foolhardy, Colombia is now squarely on the tourism map, with international arrivals by plane breaking through the two million mark for the first time in 2015.

With the good news of the peace deal between the government and the FARC gaining international attention, people with a healthy sense of wanderlust are beginning to seek out Colombia's charms, from the elegant colonial port city of Cartagena to the country's jungle and desert destinations, as well as vibrant land-locked cities such as Medellín and Bogotá.

The government's plan is for tourism to bring in US$6 billion in precious foreign currency by 2018, with the same four-year plan also budgeting for the creation of 300,000 new jobs in the sector, particularly in key destinations such as Cartagena, the Caribbean island of San Andrés, Santa Marta and the Coffee Zone. This would almost double the current level of employment in the industry.

The tourism sector's direct economic contribution according to the World Travel and Tourism Council's figures for 2014 was equivalent to 1.9 per cent of Colombia's GDP, with the total impact reaching 5.9 per cent.

Hospitality has become the third-largest sector for foreign investment, after hydrocarbons and manufacturing, and the rollout of the State's major infrastructure project to improve roads, airports and other transport facilities will open up the country to these new explorers. Fifty-eight airports across Colombia are due to be modernised under the plan.

"Colombia offers all kinds of tourist attractions. We have culture, beaches and adventure experiences, but I'm sure that in the future Colombia will be recognised as a 'green destination', thanks to our mega-diversity," declares ProColombia's chief, Felipe Jaramillo, adding that the current advertising campaign is based on the concept of 'magical realism'. The country that gave the world the extraordinary literature of Gabriel García Márquez is now inviting us to pay it a visit, whether we are looking for adventure of a personal or a commercial kind. F