Paving the way to prosperity

Interview with LUIS FERNANDO ANDRADE MORENO

President, National Infrastructure Agency (ANI), Colombia

LUIS FERNANDO ANDRADE MORENO holds a degree in in industrial engineering from the University of Florida and an MBA from the Wharton School of the University of Pennsylvania. Prior to joining ANI, he was a Director at McKinsey & Company in Colombia, and has also worked for the firm a Partner in Brazil and as a consultant in the United States. While at McKinsey, he advised on the reorganisation of some of the most important companies in Colombia and Latin America. Mr Andrade has served as President of Colombia's National Infrastructure Agency (ANI) since August 2011.

Over the last four years, the government of President Juan Manuel Santos has begun bringing Colombia's transportation infrastructure into line with its economic goals, providing the country with the routes required to connect its main production and consumption centres with its ports on the Atlantic and Pacific coasts, its airports and its land borders.

"This is about transforming the economy, and the only way to do that is by creating an entirely new infrastructure network. Colombia has one of the worst logistics performance ratings in Latin America, and that is what has held us back," is the blunt assessment of Luis Fernando Andrade, President of the National Infrastructure Agency (ANI).

In part, Colombia's vast size (that of Spain and France combined) and its mountainous geography, is to blame, but as Mr Andrade points out, for decades the country has been pouring money into the fight against leftist guerrillas and drug traffickers: "Then we invested a lot into health and education, and now finally, we're trying to bring our infrastructure up to the standards of Chile and Mexico."

Improvements to roads, bridges and tunnels are the top priority, as Colombia depends on its road network for more than 80 per cent of internal transport.

To get an idea of the scale of the problem, two of the country's main cities, Bogotá, in the centre of the country, and Cali, in the fertile southwestern Cauca Valley, are just 300 kilometres apart as the crow (or condor) flies, but the road distance is 460 kilometres, and the journey time up to nine hours. The plan, says Mr Andrade, is to reduce journey times by up to half.

An extensive road-building programme is already underway as part of Colombia's Fourth-Generation Concession Plan, dubbed 4G, the largest of its kind in Latin America today. The plan to 2035 includes more than 100 basic road projects covering more than 12,500 km, some 1,600 km of new railway, 5,000 km of maritime projects on eight rivers, 31 airport expansions, and port development.

Over the next seven years 4G is expected to deliver some 7,000 km of roads in three waves, via public-private partnerships, requiring investment of US$17 billion. "We've already contracted 5,200 km of that," says Mr Andrade.

The government's plans have already begun to take shape, thanks to the passing of regulations that facilitate the development of large-scale projects to attract national and international private investments, establishing infrastructure priorities and budgets.

Similarly, laws covering public-private partnerships (PPP) have created the framework to structure and develop major infrastructure projects and associated services, and to attract and retain private investment in this sector.

Many rivers to cross: Colombia's extraordinary topography is both a blessing and a curse

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"Our main objective is to increase the investment level per year from about US$1.5 billion to US$6 billion through programmes that will improve roads, railways, ports, and airports. The current government aims to increase the rate of investment in transportation infrastructure to three per cent of GDP, of which two per cent would be through PPPs," says Mr Andrade.

"Initially, we had forecast that the road projects would have a high percentage of government investment and a lower percentage of tolling. But as it became clear that with the fall in oil prices and other commodities there would be less government resources available, we have shifted focus and there are now more projects that rely entirely on private capital," he explains.

Colombia has been successful in attracting foreign institutions, says Mr Andrade: "The mix in the first set of projects that have achieved financial closing is about 30 per cent foreign financing and 70 per cent local. We've been able to attract some big international names, such as Goldman Sachs and Sumitomo, and Ashmore from the UK, which has given local banks greater confidence to get involved."

This has required local financial institutions to enter a steep learning curve. "There has been a huge amount of innovation. They were not used to doing project finance on a large scale. They did balance sheet stuff with the developer," explains Mr Andrade.

"Local banks have learned how to take cash flows from projects and turn them into securities that can be sold to institutional investors," he explains. A new asset category has been created that pension funds can invest in. "These are not about project finance: they participate in the syndicates with the banks to finance the projects. It's a way of channelling money from institutional investors to projects without securitisation," he adds.

British companies have also shown a lot of interest in Colombia's infrastructure plans: "Not so much on the construction side, but more in financial services, particularly insurance companies and brokers. All these big projects need a lot of insurance coverage. Ashmore is managing one of our debt funds," explains Mr Andrade.

The ANI was set up in 2011 to coordinate the government's ambitious infrastructure plans and avoid the problems that hobbled previous attempts to overhaul road infrastructure a decade ago, particularly corruption and financing shortfalls. Failure to deal with red tape over land acquisition, the allocation of environmental permits and consultation with communities also caused bottlenecks.

Mr Andrade argues it has addressed these and other issues through the new laws aimed at streamlining processes and reassuring investors that projects will keep to schedule. The question now is whether the financing momentum can be maintained, as well as if the projects are well structured and adhere to a solid legal framework. "This is important because under the 4G programme, in order to share the risk of projects and to ensure their completion, concessions are not granted until the project is operational and payment further depends on meeting service and quality requirements," Mr Andrade points out.

Planes, trains and container ships

Though the largest investments in 4G are destined for roads, maritime transportation is also an important part of the national master plan. Colombia intends to become a top destination for cruise ship tourism and to double exports; goals that require port updates. The government plans to invest up to US$2.1 billion in ports up to 2018.

"Cartagena is already the most efficient sea port in the southern Caribbean, and it's right next to the Panama Canal, which has made it an important trans-shipment hub," says Mr Andrade, adding that the plan now is to do the same with Buenaventura on the country's Pacific Coast.

The government has also allocated US$1.3 billion from

Going for Gold: Bogotá's El Dorado International is already the number one cargo airport in the region and expects pasenger numbers to reach 40 million within the next five years the national budget to recover the navigability of the Magdalena River, which crosses the country from the centre to the north for almost 1,000 miles before flowing into the Caribbean.

Mr Andrade says assuring the navigability of the Magdalena from the centre of the country, where up to 85 per cent of GDP is produced, to the coast would allow the river to be used as a major transportation waterway 24 hours a day and at half the current cost.

The government is also interested in developing rail infrastructure, particularly in the Magdalena valley, and Mr Andade says the government is looking into the feasibility of two unsolicited PPP railway projects that have been structured by the private sector and would be mostly funded by private companies. One of these is from Britain's Holdtrade, which is interested in developing a freight route from Bogota to the Caribbean. "The Colombian government may propose and design a PPP railway programme in the future similar to the 4G Concessions programme for roads," adds Mr Andrade.

Air transport in the country has grown at around 10 per cent on average over the last decade, driven in part by the expansion of a blossoming fresh flower and fruit export sector. Tourism is expected to benefit from the peace deals, and Colombia expects air passengers in Bogotá alone to increase from a current 27 million passengers annually to 40 million within the next five years. By then the government aims to have carried out ten projects in existing airports – representing an investment of US$1.8 billion – and to have built two new airports at a cost of US$2.3 billion.

British and European companies have also shown an interest in working on Bogotá's new airport, designed to transfer private aviation, low-cost airlines and other activities from the main airport.

"By 2018 we expect to have one of the most competitive airport networks in Latin America: Bogotá is already Latin America's third-largest hub, after São Paolo and Mexico City, and in terms of cargo, the number one airport in the region," says Mr Andrade.

The pace of change in developing Colombia's infrastructure over the last couple of years would not have been possible without the ongoing peace process that has opened up areas previously controlled by the FARC or that were vulnerable to attacks by other guerrilla movements and drug traffickers.

In many of these areas, a further benefit of the infrastructure programme will be to create new jobs and economic opportunities: overall, an estimated 200,000 new jobs are expected to be created directly and indirectly, reducing the country's unemployment level to around 1 per cent, according to Mr Andrade. Furthermore, as a result of 4G, current annual economic growth levels of around 4.5 per cent will increase to around 5.2 per cent over the coming years, he adds.

The structural changes implemented by the Colombian government provide a framework that is better adapted to tendering projects and attracting private investors. Colombia's significant potential and robust economy open for business have come to the fore; as a result, some of the world's leading players in their field have seized the opportunity to invest and participate in 4G infrastructure projects – a good indication that 4G will be a success.

"The fact that international companies are showing interest is a good sign," says Mr Andrade, "If the projects were not solid enough, they would not be here." F

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Ship to shore: Cartagena is the most efficient sea port in the Southern Caribbean and benefits from close proximity to the Panama Canal