February 2 & 3, 2012
Infrastructure Opportunities and Challenges: Colombia
Summary Document

On February 2 and 3, 2012 Stanford University hosted a Roundtable in Cartagena, Colombia on the challenges and opportunities for infrastructure investment within Colombia. The Roundtable gathered prominent academics, attorneys, bankers, contractors, pension managers, and public officials from within the country and the region, and was sponsored by Meketa Investment Group.

On day one, participants discussed the general challenges facing the Colombian infrastructure sector. Several public and private pension funds presented their expectations and requirements for the infrastructure asset class. The ANI and DNP agencies announced their vision for the future development of port, road, and rail sectors. The plan calls for a 4-8x in capital investment in these sectors over the next 8 years. Options for structuring fiscal subsidies and case studies of successful infrastructure projects in other Latin American countries were also reviewed.

On day two, Roundtable participants engaged in a lively discussion of the execution challenges involved in achieving the vision. The following is a list of the key observations and recommendations:

1. ***Strong Leadership***. Roundtable participants recognized the strong capabilities of the new leadership in the implementation of the PPP law in the country. There was agreement that the strategic planning work completed by ANI and DNP sets out an effective framing of the problems and a strong solution. And there was general support for more standardization of contracts and instruments. But, it was also cautioned that as the program gets underway it remains critical that the public sector maintain a strong leadership role.

2. ***Need for Speed***. The fact that Colombia is coming out of a long war on terrorism adds urgency to the country's infrastructure program. Indeed, expanding the road network will bring both security and business into remote areas that have been under illegal interest's control for years. As important to cementing stability is, there is also the need to swiftly capture key international trade niches that Colombia faces in the current economic scenario. Under these unique historic conditions, he opportunity cost of not moving quickly is large enough that 'ideal procedures' normally advised by multilaterals can probably be relaxed in favor of speed.

3. ***Public Sector Capacity***. To deliver a large PPP program in the transport sector, it is critical that the government put in place sufficient administrative capacity to undertake the vetting, scoping, defining, economic modeling, and due diligence of proposed projects, as well as to coordinate legal, technical, financial, and other experts needed to perform studies, run value for money assessments, obtain permits, assemble land, administer procurement processes, negotiate legal terms, manage strategic communications, and monitor contracts once awarded. For each set of three large transportation projects, it was estimated

by Roundtable participants that a “specialist task-force” team of approximately three experienced program management and credit review experts with appropriate junior-level support be established within the public sector to oversee these various tasks. Further research would be required to substantiate the exact staffing ratios, but it is clear that given the scale and speed of the intended ramp-up of 20+ major road and rail projects, it is crucial that additional public sector capacity be added quickly, as this is viewed by some as the weakest link in the execution chain. This personnel capacity could potentially be augmented with advisors who have international experience and who may also be less fearful to make decisions in the face of control institutions.

4. ***Political Champions***. Each project must have a clearly identified political champion at the Ministerial Level. To establish trust within the administration, it would be ideal if the Political Champion could be involved in the process of selecting and hiring the specialist task force members assigned to each project. The Political Champion must depend almost entirely on the analysis, modeling, and due diligence of these specialist task-force teams, and so the linkage between them must be strong and trust-based.

5. ***Training Programs.*** Training programs will be needed to handle the stepping up in the quantity and complexity of deals and personnel. Given the new processes and the relatively low experience levels of existing personnel, a long term training program in the planning, selection, processing, monitoring and enforcement of projects should be considered by DNP and ANI.

6. ***Separate PPP Unit***. Setting-up additional public sector capacity could be achieved through a separate administrative agency, with private sector compensation levels to attract top people and insulated from political cycles. Moreover, by centralizing management of PPP filtering, coordination, decision-making, and promotion it will resolve the problem that has been experienced in Peru, whereby multiple agencies represent projects and sometimes administrative confusion and conflicts can occur. The effectiveness of the centralized role of BNDES, and the success of PPP units in countries such as Canada, Australia, and the UK, were highlighted as examples of this model. Of course Colombia has its own unique administrative traditions, and further analysis would be required before making this recommendation.

7. ***Public Works Delivery Model***. A number of projects within the program could possibly be delivered using a public works delivery model. As such, the government should take a serious look at what public works can do (and should do) and begin immediately on those projects. The overhead involved in setting up a PPP concession is not justified for all projects. PPPs have been shown to provide enhanced value primarily for larger and more complex civil, transport, and social infrastructure projects. For such projects, aside from providing private financing, PPPs also bring global expertise and best practices to bear on the design, construction and operation. However ,for smaller and simpler projects, or projects required for national security where the government does not have time to do the front-end structuring of a concession agreement, it may be faster and cheaper to proceed on the public works track.

8. ***Strategic Communications***. With engineers and finance people driving the process, the strategic communications dimension is often forgotten. However, both internal and external messaging is crucial. An effective program of communications should 'sell' not only individual projects but also the bigger vision of the country's future. This should engage the public and excite and attract international partners. This will require an internal marketing expert who understands how to distill the message and stream it through key domestic media channels. It will also require a global marketing expert to carry the message to a constellation of potential strategic finance and delivery partners throughout the world.

9. ***Control Institutions***. It may be time to consider deep institutional reform of control institutions. For example, there is an Article in the criminal code that says it is a crime for a public official to enter into a contract without consideration of 'essential requirements'. The effect of this law is that public officials are afraid to make decisions with respect to entering into contracts, because it creates personal economic liability and a risk of being sentenced to jail. In order to avoid delays in decision-making with respect to the proposed PPP program, which involves hundreds of individual contracts, this law should be amended. At the very least, the government should define a legal standard for how essential requirements are evaluated.

10. ***Construction Companies***. The major causes identified by experts in the country for the failure of previous PPP programs rest on the opportunistic behavior of some construction companies together with their capacity to extract rents from the government. Yet, there is a paradox—while the government does not trust construction companies, construction companies are needed to take the heaviest execution risks. Accordingly, stronger institutional frameworks and better incentive frameworks and contracts are needed that include, for example, contractor equity commitments, minimum equity lock-up provisions, contractor performance bonding, and a refusal on the part of the government to grant arbitrary contract extensions.

11. ***Fiscal Support.*** As the opportunistic behavior is curbed, there will be a need for the government to include financial support mechanisms. Some projects may require mitigation of political risk (i.e. change in regulations, termination payments, and the like) or commitment of resources by the government in the form of availability payments, especially for social infrastructure projects. The granting of these financial supports should be centralized in the Ministry of Finance and the National Planning Department, to avoid over commitments, and properly accounted for in the national accounts.

12. ***Decentralization.*** Given the level of decentralization in the country and the fiscal independence of Departments and Municipalities, and also given the limited contract administration capacity and history of possible corruption in some regions, the approval process of sub-national governments must involve the appropriate central government agency in approving financial decisions above some *threshold size*. This is true even if the project does not involve central government financial support, because implicitly the central government is liable to intervene in the case of failure in the provision of fundamental public

services. This function would need to be staffed adequately, however, so as not to become a bottleneck.

13. ***Risk Sharing***. Investors raised concerns on rigidity of the government's risk sharing policy, particularly on the requirement that land acquisition and traffic risks are borne by private investors. Government officials said that a new land acquisition law is being drafted. Investors are keen to see this law define an arrangement in which the government is more involved (and exposed) to the land acquisition process. Investors would also like to see a shift in the policy for sharing traffic risk. Chile could be used as a model for designing this policy in Colombia. In Chile the government offers minimum revenue guarantees that cover the debt portion of the capital. Investors have to pay a fee if they want to use this guarantee and also agree to share the upside if actual traffic exceeds expected traffic.

14. ***Capital Availability***. There was a consensus amongst investors and financial advisors at the Roundtable that unprecedented liquidity exists in the capital markets. As such, if projects are structured sensibly, capital will be available. Latin American share of global GDP is 17%, and yet on average global institutional investors have allocated only 7-8% to Latin America, which suggests considerable future capital inflows. Institutional investors in the United States are searching for yield, as their T-bill holdings are returning just 1% interest. The Colombian domestic capital markets remain liquid. And across Latin America changes enacted by pension regulators in recent years have enabled greater regional portfolio diversification and greater possibility for investment flows into Colombia. As such, capital availability is not viewed as a constraint.

Roster of Participants

- **Alessia Abello,** Posse, Herrera & Ruiz Abogados
- **David Altshuler,** Meketa Investment Group, Inc
- **Luis Fernando Andrade Moreno,** Agencia Nacional de Infraestructura
- **Ignacio Barandiaran,** ARUP
- **Patricia Barriga,** Ministry of Transport
- **Juan Benavides,** Universidad de los Andes
- **Juan Carlos Buitrago Salazar,** Ocensa
- **Cristina Cano Sokoloff,** Castalia Advisors
- **Jorge Castellanos,** FINTRA
- **Adriana Chavarro Callejas,** Fiduciaria de Occidente S. A.
- **Paulo De Meira Lins,** IFC
- **Paula Delgadillo,** Seguros Bolivar
- **Juan Carlos Dominguez Poo,** BBVA
- **Cesar Ernau,** Superintendencia de Banca, Seguros y AFP
- **Melvin Escudero,** El Dorado Investments
- **Leo Festino,** Meketa Investment Group, Inc
- **Bernardo Gamboa,** Conciviles S.A.
- **Alfonso Guzman,** Castalia Advisors
- **John Haggerty,** Meketa Investment Group, Inc
- **Ray Levitt,** Stanford University
- **Carlos Loumiet,** DLA Piper LLP (US)
- **Paul Marca,** Stanford University
- **James & Cynthia Meketa,** Meketa Investment Group, Inc
- **Ashby Monk,** Stanford University
- **Santiago Montenegro,** ASOFONDOS
- **Luis Eduardo Nino,** DNP
- **Ryan J. Orr**, Stanford University
- **Hugo Palacios Mejia,** Estudios Palacios Lleras SAS
- **Jean Philippe Pening Gaviria,** DNP
- **Ana Maria Pinto Ayala,** IDB
- **Luis Guillermo Plata Páez,** Cornerstone Group
- **Ana Maria Ramirez,** Colombian Chamber of Infrastructure (CCI)
- **Ivan Reina,** Fiduciaria de Occidente S.A.
- **Maria Riaz**, Stanford University
- **Diana Carolina Roa Sarmiento,** BBVA
- **Alejandro Sanchez Vaca,** Corficolombiana
- **Daniel Settel,** Zanbato, Inc
- **Steve Sleigh,** International Association of Machinists National Pension Fund
- **Camilo Soto Franky,** Valfinanzas
- **Adriana Suarez Pardo,** Invest in Bogota
- **Xiaohuan Tang,** Jinzhao Mining Peru / Standard Bank China
- **Julio Torres,** Nexus Capital Partners
- **Victor Traverso Casagrandi,** CAF
- **Eva Maria Uribe Tobon,** Estudios Palacios Lleras S.A.S.
- **Camilo Villaveces,** Ashmore Management Company Colombia S.A.S.
- **Antonio Vives**, Stanford University
- **Sandra Zuluaga,** Proexport