Colombian Experience: Mobilizing Capital Markets

Clemente del Valle, FDN CEO, April 2014
Top-of-the-line infrastructure program
Colombia’s infrastructure ranks poorly…

The most problematic factors for doing business

- Poor work ethic in national labor force: 2.4
- Insufficient capacity to innovate: 2.8
- Inadequately capacity to innovate: 3.3
- Restrictive labor regulations: 6.3
- Tax regulations: 7.4
- Tax rates: 7.7
- Crime and theft: 8.1
- Access to financing: 8.1
- Inefficente gobernment bureaucracy: 12.2
- Inadequate supply of infrastructure: 14.6
- Corruption: 20.2


The Global Competitiveness Index

- Quality of overall infrastructure: 117
- Quality of roads: 130
- Quality of railroad infrastructure: 113
- Quality of port infrastructure: 110
- Quality of air transport infrastructure: 96
...but we are implementing an ambitious infrastructure program

Conducive macro environment
- Continuous growth
- Fiscal consolidation
- Controlled inflation
- Stable democracy
- Respect for property rights
- Investment grade (BBB)

Institutional framework development
- Strengthening of ANI and FDN
- PPP law and CONPES (4G)
- Anti-corruption and Infrastructure law

Pipeline of Bankable projects
- Regulatory changes
- Capacity building
- Financial products (FDN + MFI’s)

Capital markets mobilization
- Standard agreement (availability payment)
- Bankable pipeline:
  - 4G road program: 40 projects for US$27 billion
  - Other sectors pipeline:
    - Railways: US$6bn
    - Ports: US$1bn
    - Rivers: US$1bn

…but we are implementing an ambitious infrastructure program
Mobilizing capital for infrastructure
FDN’s catalytic role

FDN is identifying opportunities, determining barriers to entry and developing financial solutions that will mobilize and optimize capital for infrastructure.
FDN’s integrated approach for mobilizing financial and capital markets

1. Mobilizing financial products:
   - O&M bond (partial guarantee)
   - Construction bond (full wrap)
   - Debt fund (CAF)

2. Regulatory changes:
   - Creation of an infrastructure asset class
   - Revision of “minimum return” rules
   - Decree to upgrade QIB (Qualifying institutional buyers)

3. Innovative training programs:
   increasing institutional investor know how

- FONDES USD 2.5 bn
- LOCAL BANKS USD 13.5 bn
- LOCAL INVESTORS USD 12.5 bn
- INTERNATIONAL INVESTORS USD 1.8 bn
- INTERNATIONAL BANKS USD 1.8 bn
- MULTILATERALS USD 1.5 bn
- USD 2 bn
FDN’s innovative solutions for infrastructure financing
O&M bond: refinancing solution

**Financial closure**

**Construction**

**Loans**
- Local and global banks Loans
- A/B loans through multilaterals
- Guarantees

**Operation and maintenance**

- Securitization of the project upon completion
  - Senior: institutional investor engagement
  - Subordinated: FDN + multilaterals

**Benefits:**
1. Structures can be standardized and replicated
2. Competitive rates
3. Low credit risk
4. Issuance in tranches

*Project cash flow better aligned with liabilities*
Debt fund: Institutional investor participation from day one

Financial closure

Construction

Operation and maintenance

Loans
- Local and global banks Loans
- A/B loans through multilaterals
- Guarantees

CAF debt fund with a component in USD and COP

Investors can make financial commitments to refinance projects through senior debt or bond

FDN is considering issuing a partial credit guarantee to cover interest payments in the event of construction delays

Initial commitment
Construction bond: Another solution from day one

Financial closure

Construction Guaranteed Project Bond: >[20] years

Cash Flows

Construction guarantee

Construction
Operation and maintenance

Cash flows generated

Time

Cash Flows

(+)

Construction guarantee

(-)

Construction Guaranteed Project Bond: >[20] years

BENEFITS TO INVESTORS:

✓ Long-dated inflation-linked COP asset
✓ Opportunity for yield pick up during O&M phase
✓ Limited counterparty risk (triple-A rated guarantors)
FDN/WB’s innovative training plan builds investors capacity

*Learning-by-doing program for investors to get acquainted with infrastructure financing*

**Step 1: Pilot project identification and structuring**
- Identified bankable projects for first transactions: debt and equity recycling
- Structured financing products ready to be offered to investors
- Shadow rating for selected project/s

**Step 2: Institutional investors engagement**
- Document describing capacity building program, lesson learned and actions required
- Best practice guide
- Strategy to engage institutional investors
- Ad-hoc dissemination
Conclusions

1. We are pushing the envelop in mobilizing capital for infrastructure

2. Government (FDN + ANI) leads the way to build high standards of project finance

3. Our experience in developing infrastructure solutions will benefit other countries with the same challenge
THANK YOU