



Mobilizing Capital Markets for Infrastructure: the Colombian experience

Clemente del Valle, FDN CEO, April 2014



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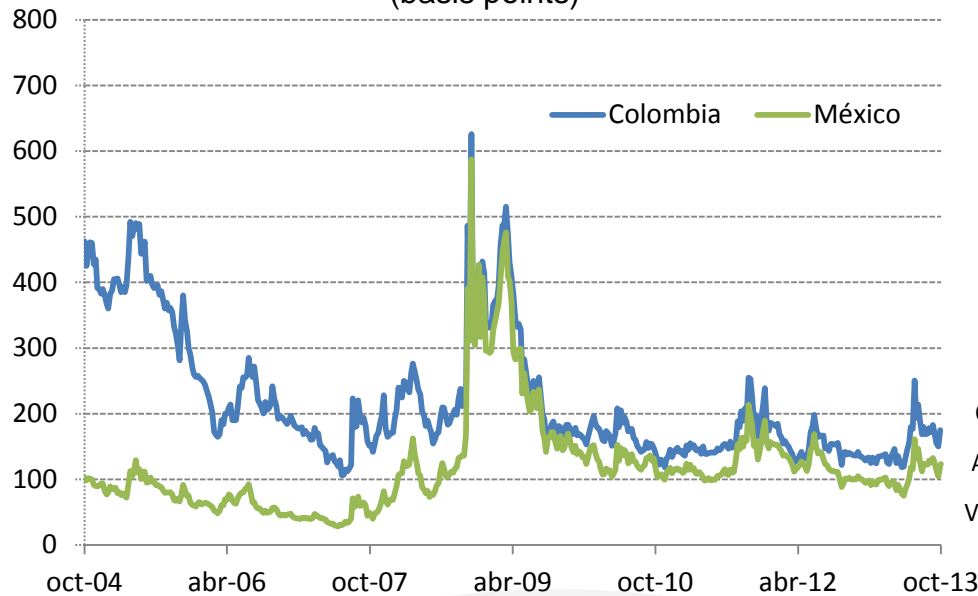
Entidad vinculada al Ministerio de Hacienda y Crédito Público.

Challenges

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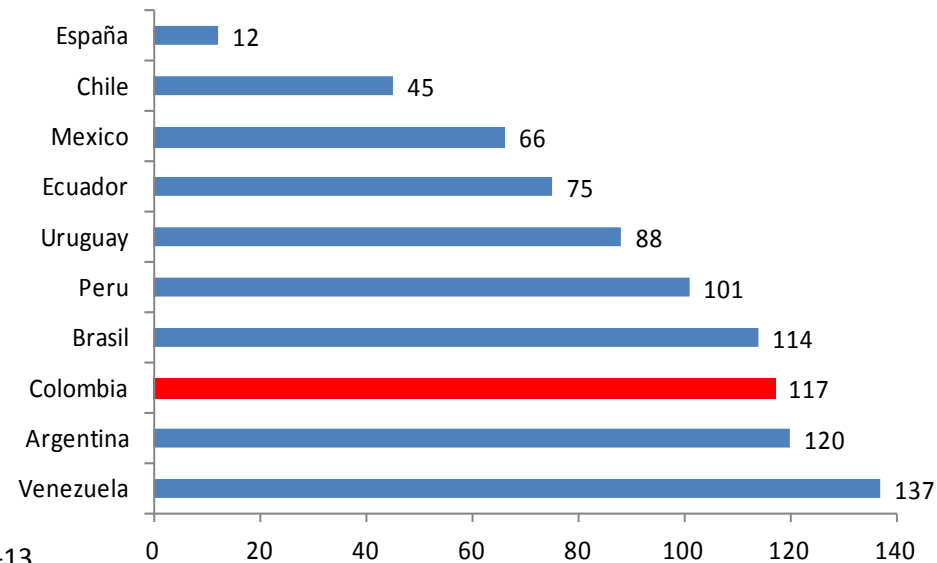
Infrastructure needs

Five year CDS (basis points)



Source: Bloomberg.

Quality of infrastructure ranking



Source: The Global Competitiveness Report 2013-2014 © World Economic Forum

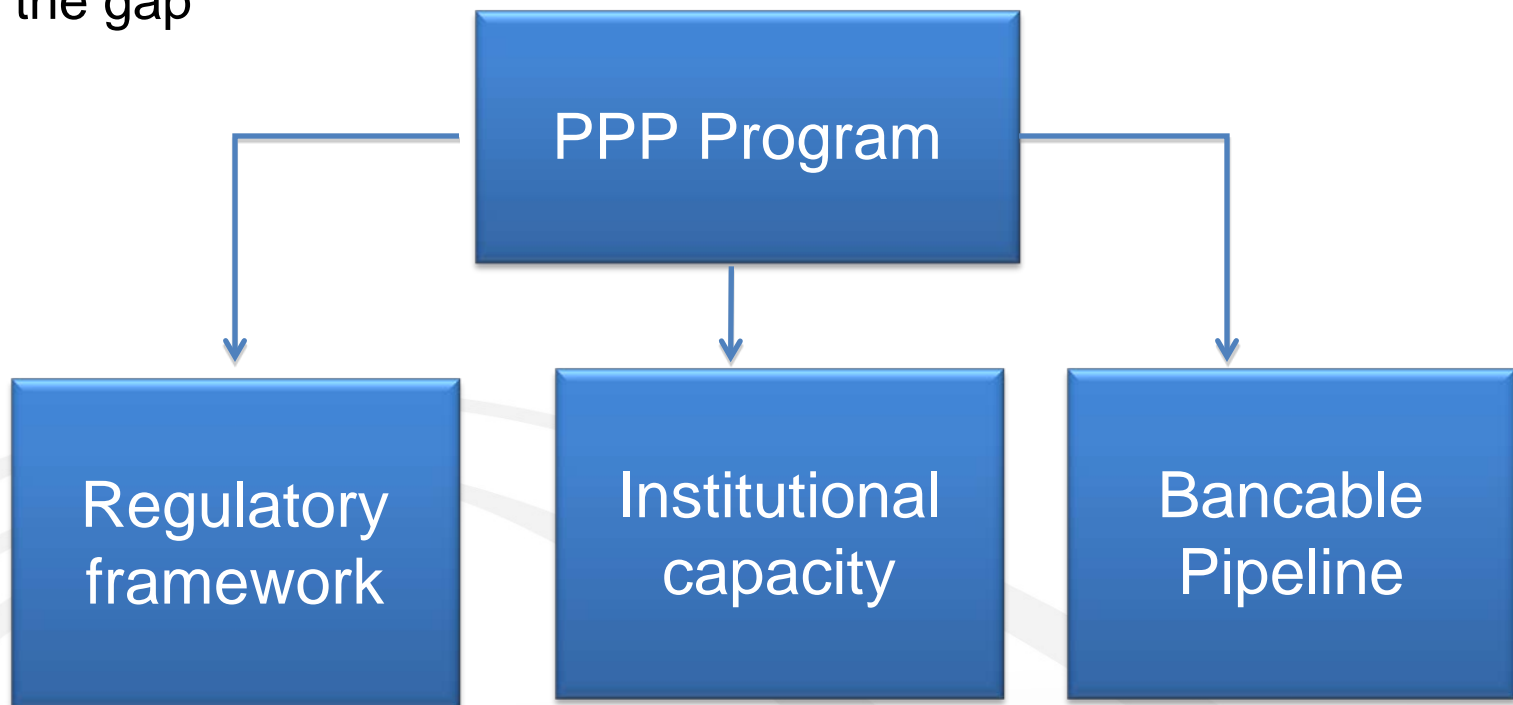
Despite this strong macroeconomic performance Colombia is still ranking poorly on infrastructure and hence plans for infrastructure upgrade are ambitious

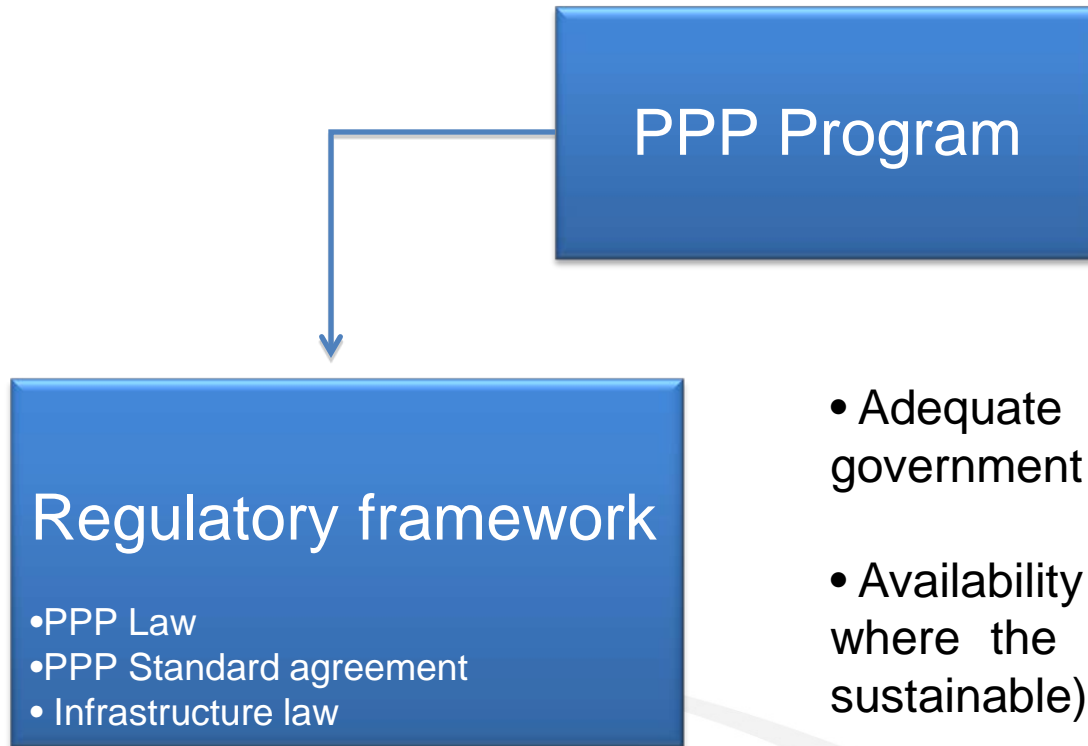
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An ambitious PPP program

Challenge: Lag in competitiveness due to lack of sufficient of investment in transportation infrastructure

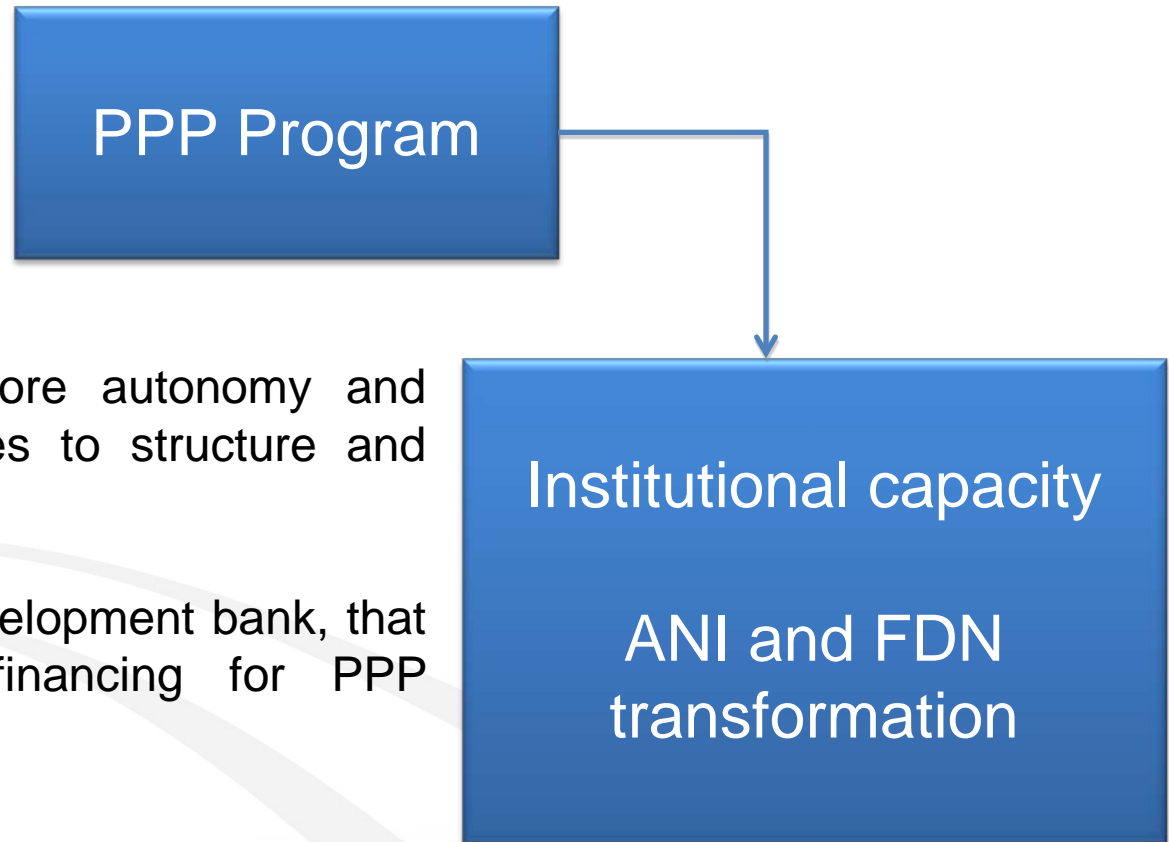
Solution: Conscious of its infrastructure needs, the Colombian Government has been working on a plan to invest in infrastructure to bridge the gap





- Adequate risk allocation between the government and the private sector
- Availability payment contracts (projects where the revenue stream is not self-sustainable)
- Minimum revenue guarantee from the government (compensation in years 8, 13 and 18)

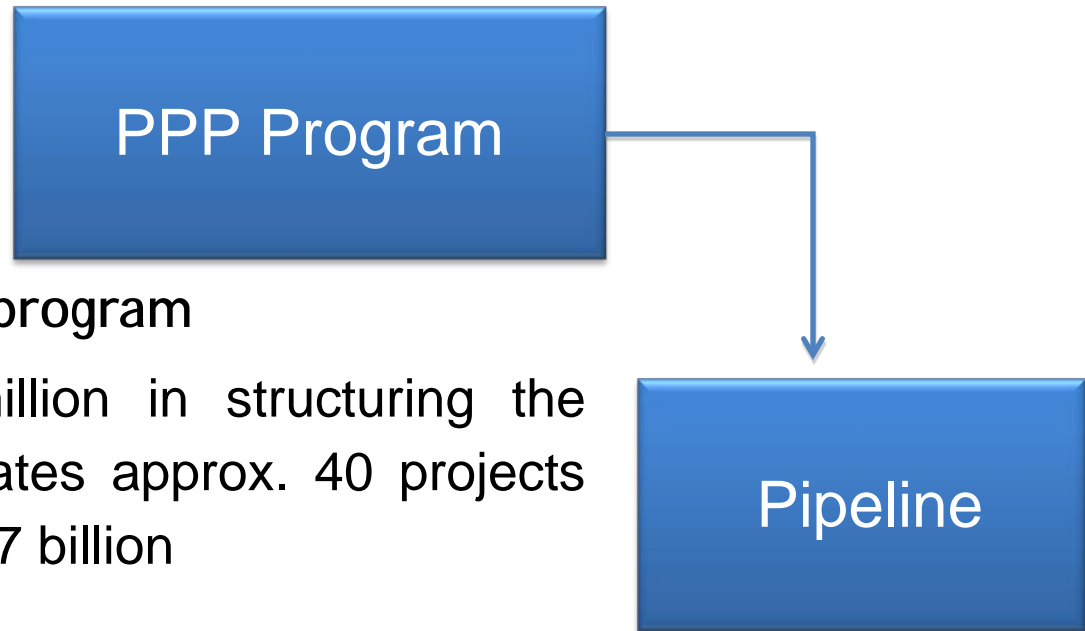
Capacity building to structure, manage and finance infrastructure projects



- ANI is an entity with more autonomy and greater technical capabilities to structure and manage concessions
- FDN is a broad based development bank, that provides and mobilizes financing for PPP programs

COLOMBIA

An ambitious pipeline of projects



4G road concession program

ANI invested US\$100 million in structuring the program, which contemplates approx. 40 projects for a total CAPEX of US\$27 billion

Other sectors

- Railways: US\$6 bn
- Ports: US\$ 1bn
- Rivers: US\$1 bn
- Airports: US\$1300 mn

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4G Road Concession Program

4G Program will have an enormous impact on the country's GDP economic growth



Increase Colombia's potential GDP annual growth rate from 4.5% to 6.0%



Increase investments in transportation by approximately 1% of GDP



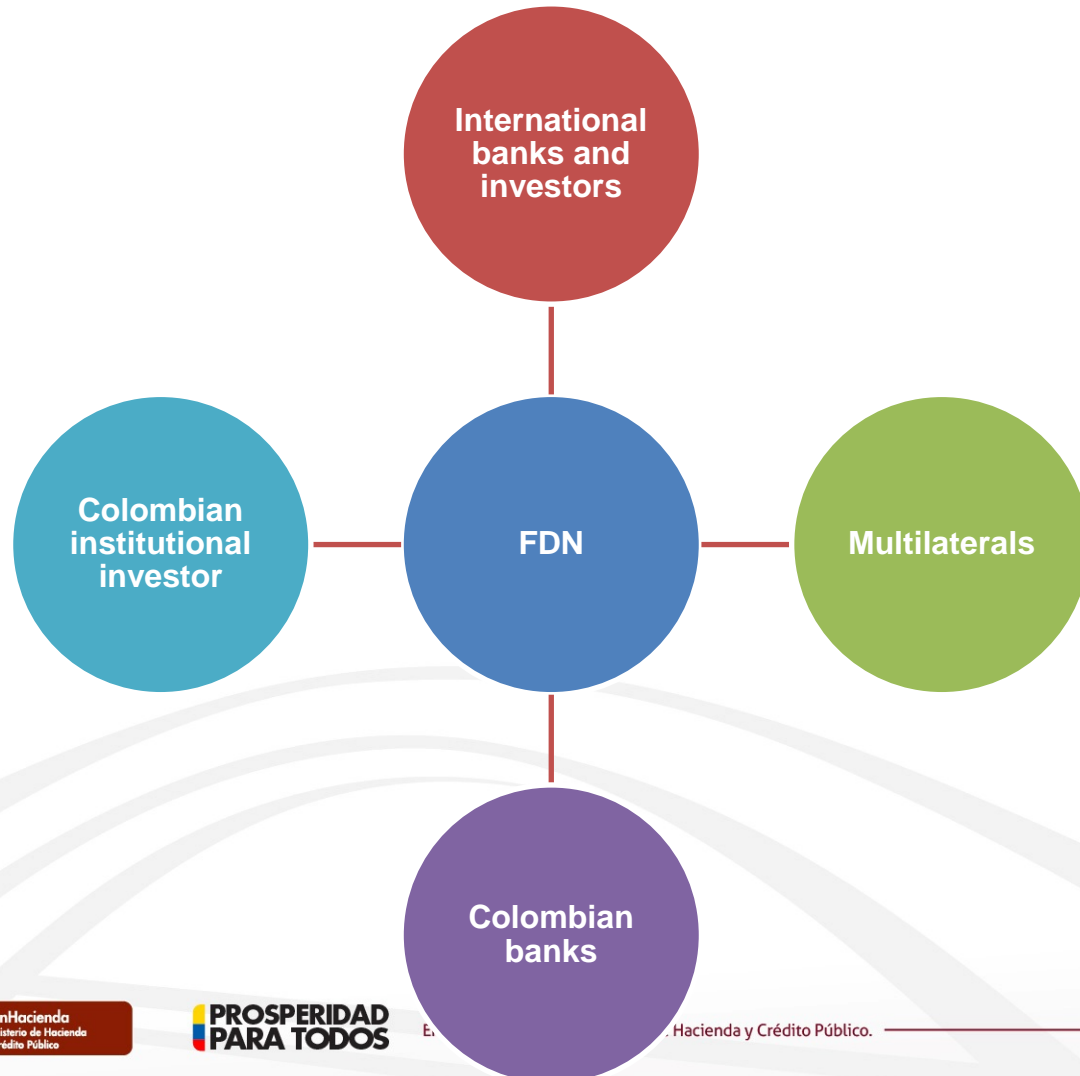
Create approximately 500,000 new jobs

How to finance Colombian PPP program?

Need for substantial financing capacity from capital markets to complement bank debt



FDN is exploring ways to mobilize large pools of funds from institutional investors to complement resources from commercial banks and multilateral entities

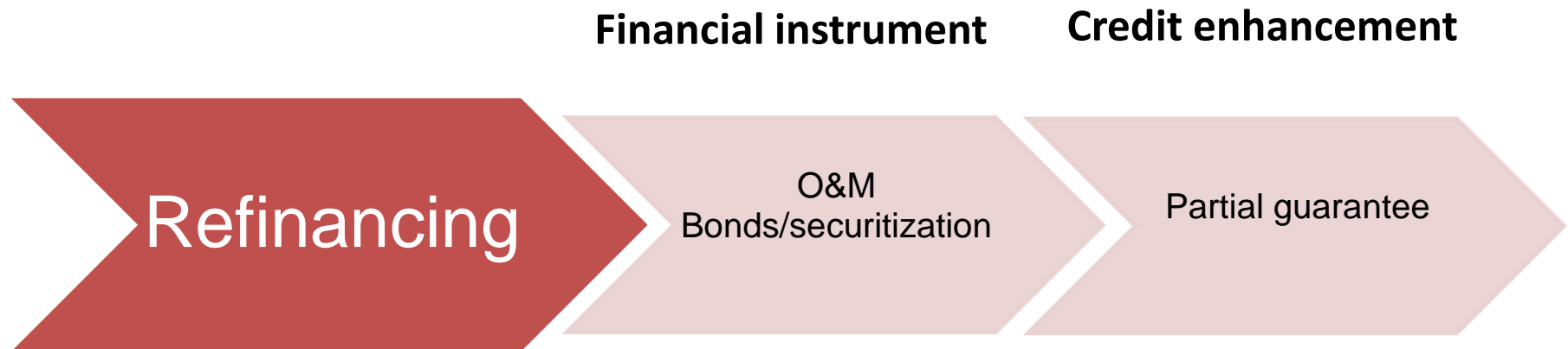


- Creating project finance framework and standards
- Training markets participants in project finance
- Promoting regulatory changes
- Bringing together the interest of key players in the infrastructure markets

MOBILIZING CAPITAL MARKETS

How can capital markets invest?

First approach (1a): Refinancing bank debt

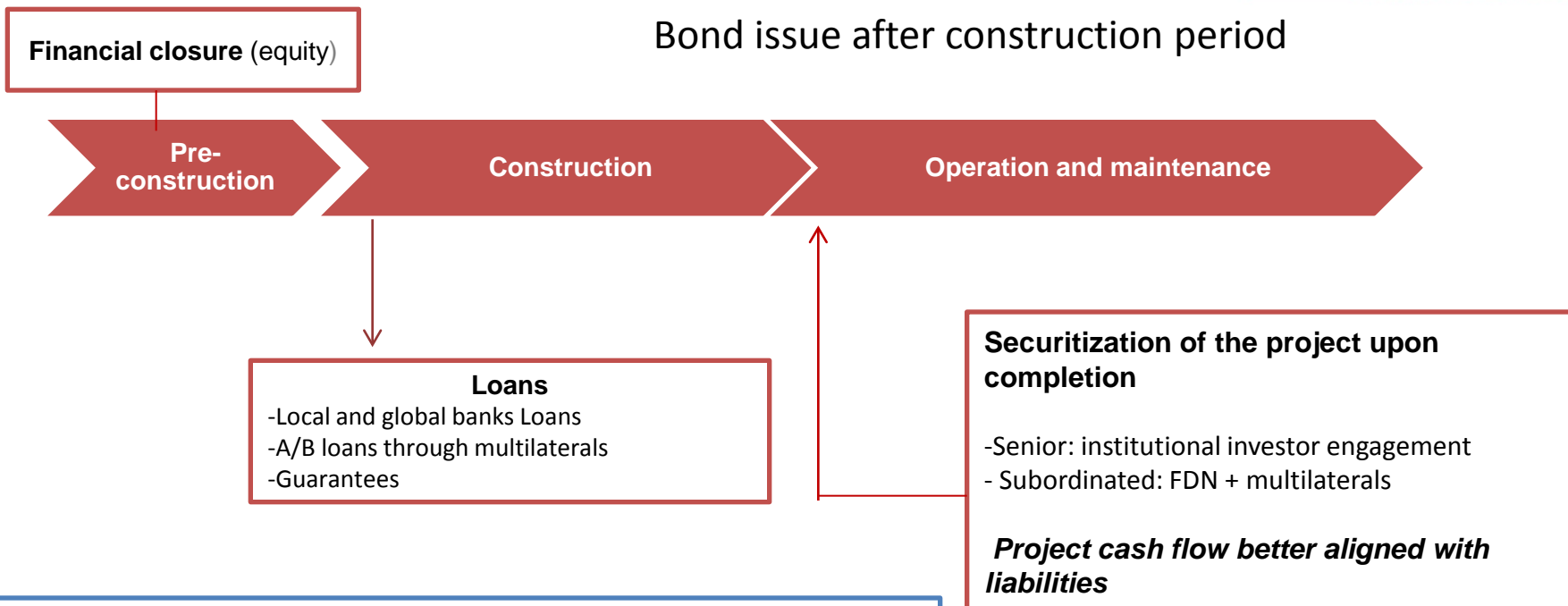


FDN and The Work Bank work together in the design of a O&M bond, where banks finance the construction phase and institutional investors refinance bank debt in O&M, as is the case in Peru and Chile

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O&M Bonds

Bond issue after construction period



Benefits:

1. Structures that can be standardized and replicated
2. Competitive rates (CPI + 6%)
3. Low credit risk (like sovereign risk)
4. Issuance in tranches

Although, refinancing risk remains...

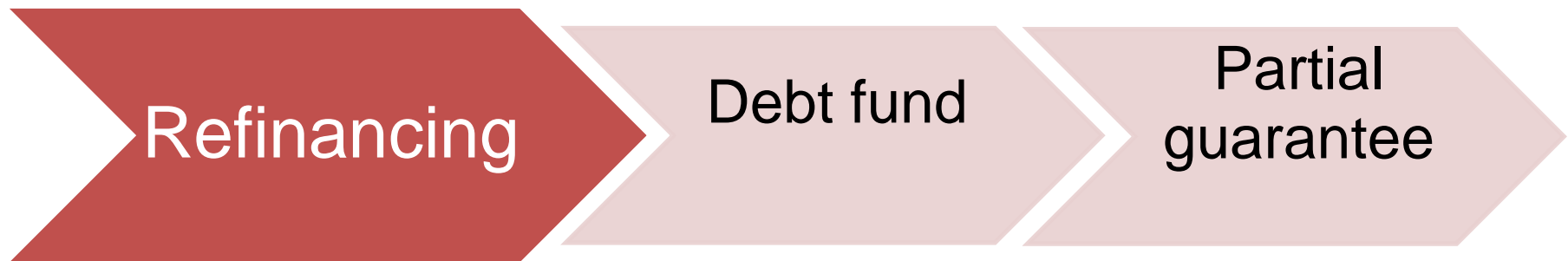
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How can capital markets invest?

First approach (1b): debt fund

Financial instrument

Credit enhancement

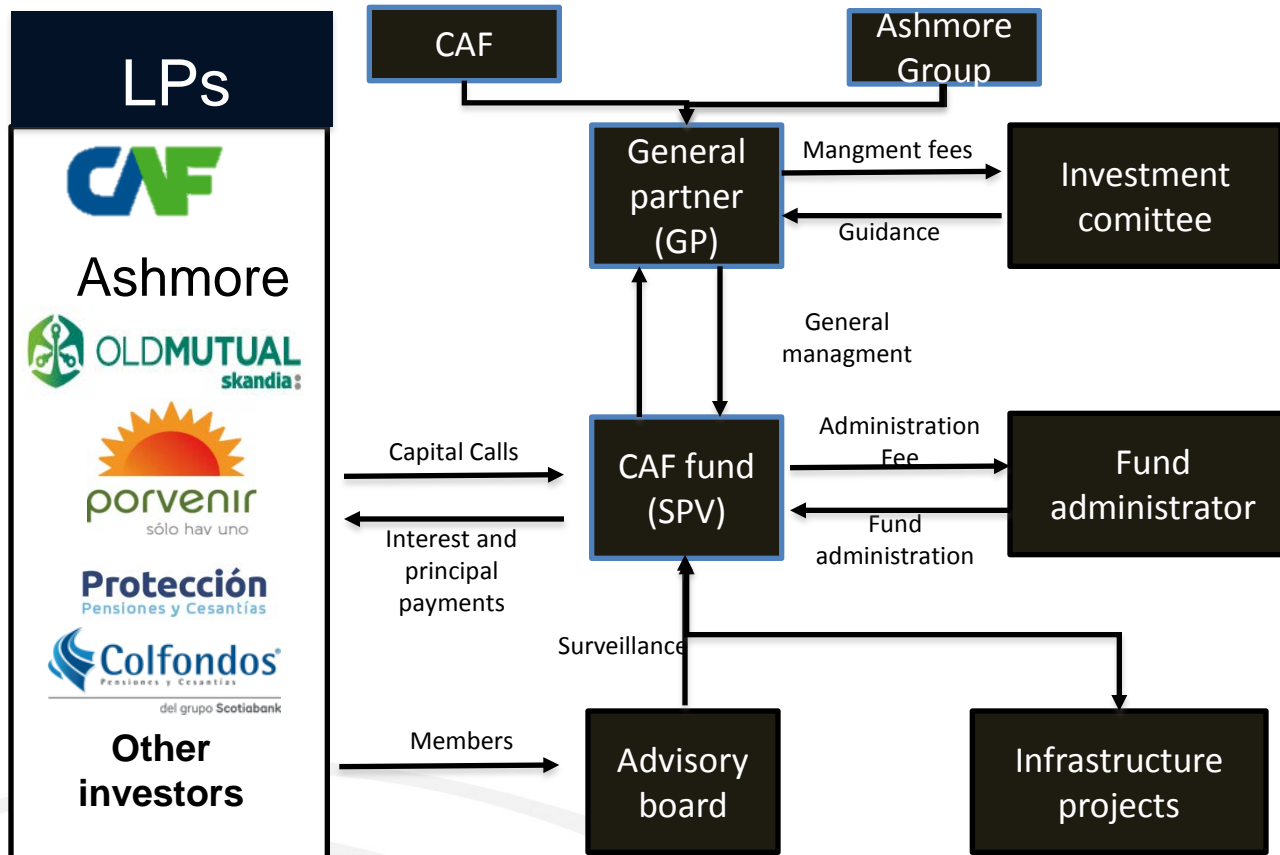


Debt fund with a CAF and FDN are structuring a debt fund, with a component in dollars and Colombian pesos, where investors can make financial commitments to refinance projects through senior debt or bond.

Regulatory changes have been promoted to facilitate entry of local pension funds, through creation of a project finance asset class.

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Proposed structure for debt fund

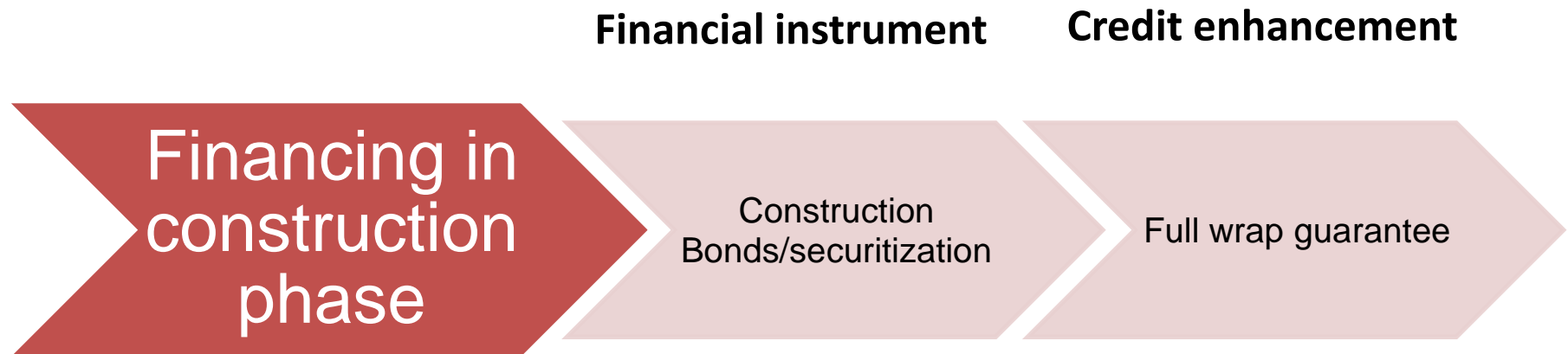


FDN is considering issuance a partial credit guarantee to the fund to cover interest payments in the event of construction delays

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How can pension funds invest?

Second approach: Financing from construction phase

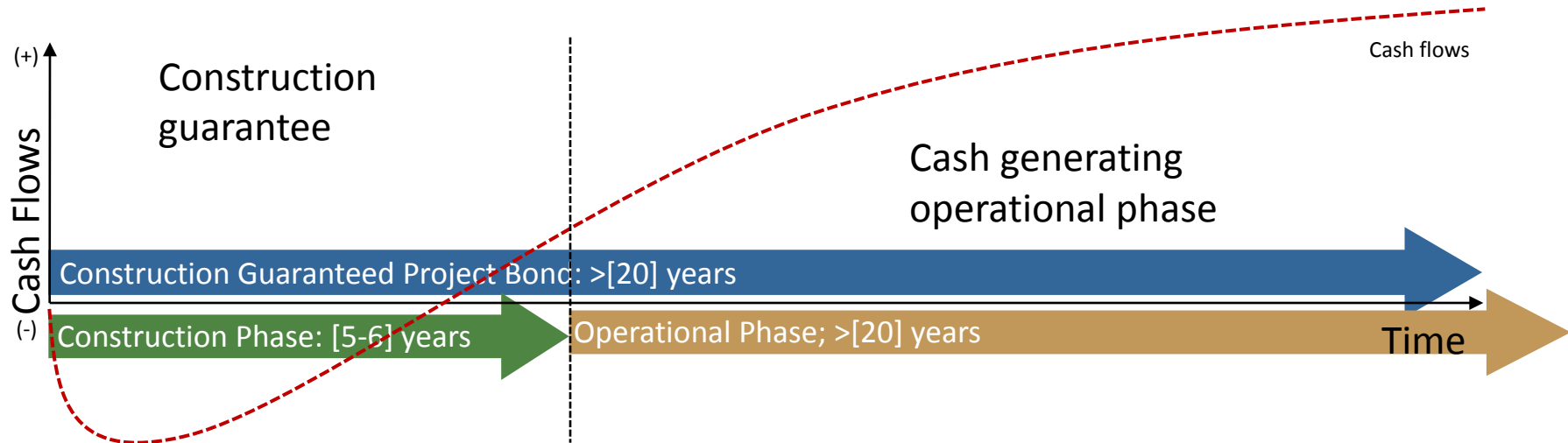


Institutional investor finance infrastructure projects in construction phase through a bond/securitization with a full wrap guarantee syndicated by banks, multilaterals (CAF and IFC) and FDN.

FDN is exploring two possibilities: a securitization or a bond (a firm underwriting of a 144a bond issuance with tranches in dollars and Colombian pesos)

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Construction bond



BENEFITS TO GUARANTORS:

- ✓ Gain unfunded credit exposure to construction phase at attractive pricing
- ✓ Limited refinancing risk
- ✓ Efficient recycling of risk capital after the construction phase of approx. [5-6] years
- ✓ Currency exposure contingent on project default

BENEFITS TO INVESTORS:

- ✓ Add long-dated inflation-linked local currency asset into the investment portfolio
- ✓ Opportunity for yield pick up during the cash generating operational phase
- ✓ Gain exposure to the 4G Road Concession program from the beginning (as opposed to refinancing stages)
- ✓ Limited counterparty risk due to triple-A¹ rated guarantors
- ✓ Simple financial guarantee structure

FDN is working with WB to develop best practices in Investments of Institutional Investors in PPPs:

1. Training program to develop technical understanding of institutional investors in project finance analysis (know how)
2. Financial structuring of one or two pilot projects to help institutional investors and FDN build capacity in all relevant areas related to project finance for infrastructure through the capital markets.
3. Identifying institutional, sectorial and regulatory issues that limit institutional investors' engagement.

THANK YOU



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