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PUBLIC-PRIVATE PARTNERSHIPS BRIEFS

Colombia: Ruta del Sol



Overview

Good highway infrastructure is essential to economic development. The Colombian government backed this concept in July 2010 when it awarded the concession of the third and final section for the construction and expansion of the \$2.6 billion Ruta del Sol highway. This 1,071 kilometer road connects the capital, Bogotá, with other large urban areas of the country's interior and Caribbean coast. When completed, Ruta del Sol will help foster the country's competitiveness in these sectors and improve road and travel conditions for passengers and goods.

Ruta del Sol was initially conceived by the government as a single project. It was later divided into three concessions to adapt to market conditions, to ease its construction and financing, and to mitigate single-operator risk. The winner of Sector 1 will be responsible for building a new 78-kilometer double carriageway road in mountainous terrain and for maintaining it for seven years. The winners of Sectors 2 and 3 will undertake the rehabilitation, expansion to double carriageway, maintenance and operation of 528 and 465 kilometers of existing roads, respectively, for up to 25 years. The project received Project Finance International's Transport Deal of the Year award for the Americas for 2011.

This series showcases how the World Bank Group supports the development and implementation of public-private partnerships. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.

Background

Like other countries in Latin America, in the last 20 years Colombia has been expanding its road network through different concession models. As a result, a number of projects have been awarded under a broad range of contractual structures. Over the years, however, many of these projects suffered construction and maintenance delays, leading to contract renegotiations and in some cases early termination. In addition, these projects attracted very limited participation from international investors and local pension funds. This situation led Colombia's National Concessions Institute (INCO) to seek assistance from IFC.

Extending more than 1,000 kilometers, Ruta del Sol was one of the most important missing pieces of Colombia's concession program. In the early 1990s there was a failed attempt to concession it. In 2007, Colombia's Ministries of Transport, Finance and Planning jointly requested IFC assistance to structure a new concession for the project and help prepare a bidding and contractual structure that could become a model for future road concessions.

Project Description

The project was structured in three parts:

Sector 1: A 78-kilometer double lane greenfield project. The due diligence phase included a deep engineering analysis and an assessment of potential alignments. Given its risk profile, Section 1 was structured as a medium-term concession of seven years with availability payments (five years for construction and two years for operation). The intention is to retender it as a toll road concession at a future date.

Sector 2: This project covers 528 kilometers of flat terrain and revenues include toll collections and government availability payments. This was structured as variable-term concession, so the concession will expire once the concessionaire's requested Net Present Value (NPV) of revenues is reached (maximum term is 25 years).

Sector 3: This project covers 465 kilometers of semi-flat terrain and revenues include toll collections and government availability payments. This was also structured as variable-term concession limited to a maximum term of 25 years.

Government subsidies for all sectors consisted of yearly, project-specific budgetary allocations assigned by the Ministry of Finance to each concession. These allocations will be transferred every year to individual concession trusts. Funds would be payable to the concessionaires upon completion of contractually-defined construction milestones. Deductions could be applied to the payments if the concessionaire does not meet minimum road condition

and operational performance parameters. This plan creates an incentive for compliance with construction and operation and maintenance goals.

The bidding criteria for all three sectors consisted of a combination of technical and economic variables with the greatest value assigned to the economic proposal. The economic variable was the lowest NPV of revenues.

Sector 1 was awarded to Consorcio Vial Helios, a consortium led by Colombia's Grupo Solarte and ConConcreto S.A. together with Argentina's Iecsa S.A. The government contribution requested was \$770 million, 20 percent less than the maximum-approved government contribution to this concession.

Sector 2 was awarded to Concesionaria Ruta del Sol SAS, a consortium led by Brazil's Constructora Norberto Odebrecht and the Colombian financial group Corficolombiana. NPV of revenues requested totaled \$1.047 billion, which represented 6.5 percent less than the maximum-allowed bid value.

Sector 3 was awarded to Yuma Concesionaria S.A. PSF, a consortium led by Italy's Impregilo, together with Colombia's Bancolombia and the pension fund Protección. NPV of revenues requested totaled \$1.039 billion for Sector 3, which was 9.5 percent less than the maximum-allowed bid value.

World Bank Group Role

IFC was the transaction advisor to INCO for the structuring of the three concessions which were tendered in two bidding processes. IFC's involvement included selecting and leading a group of consultants who helped carry out the project's due diligence and prepared detailed studies for structuring and market information purposes.

IFC's role also included preparing the project's financial model and evaluating different structuring alternatives. These analyses determined the level of support required to develop a public-private partnership, to help the government make an informed decision on its subsidy contribution.

Outcomes

- Ruta del Sol will reduce travel time, costs, and accidents along Colombia's main road.
- It will link agricultural, industrial, and urban centers with Caribbean ports, fostering the country's competitiveness.
- Ruta del Sol will provide better access and improved services for 10.5 million vehicles.
- Ruta del Sol is a model for future road and other infrastructure concessions in Colombia.



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