Overview

In the past decade, Colombia has seen remarkable economic growth. Per capita incomes have more than doubled to $2,424 per year in 2014, foreign direct investment inflows are now ten times what they were and the country is ranked highest in the World Bank’s Doing Business report amongst Latin American and Caribbean (LAC) countries.

However, public investment in infrastructure stands at a paltry 1.3 percent of GDP, the effects of which are manifest in its poor standing relative to LAC peer countries in infrastructure indices. The country is ranked 103 out of 140 in the Business Environment and Infrastructure Index of the World Economic Forum and, 130th out of 140 for transportation infrastructure. The Government of Colombia (GoC) has established the 4th Generation Roads Concession (4G) as one of the mainstays of its National Infrastructure Development Plan 2014-2018.

This series showcases how the Multilateral Development Banks’ collaboration supports the development and implementation of infrastructure investment. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.
Background

4G is an ambitious $24 billion (as of original estimates) near-decade long investment plan to create a nationwide toll road network through up to 40 different public-private partnerships (PPPs). This investment represents a doubling of the public spend on infrastructure and therefore requires capital markets financing to bridge the expected financing gap. To help achieve this, the World Bank Group (WBG) developed the Colombia Capital Market Deep Dive (DD) to bring together investment, advisory, and treasury support from the International Bank of Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the Multi-Lateral Investment Guaranteed Agency (MIGA). The Inter-American Development Bank (IDB) has also supported the Colombia 4G investment works through (i) financing of the project Perimetral del Oriente de Cundinamarca which is part of the “first wave” of 4G highways that represent the pilot operations for the new PPP framework of the GoC, and (ii) the $210 million Colombia Ashmore Infrastructure Fund making available equity and debt investments for toll projects.

Project Description

With very limited and dated rail networks, Colombia depends on its road network for more than 80 percent of internal transport. Therefore improvements to roads, bridges and tunnels are the top priority for the 4G program. Over the next eight years 4G is expected to deliver 5,892 kilometers of roads in three waves of PPP projects. Previous attempts to overhaul transport infrastructure, under the second and third generation programs, were fraught with construction and maintenance delays and/or a lack of funding especially from local pension funds. The 4G project will have to span strengthening bond markets, attracting new financing partners, strengthening the local investment capacity, and bringing an additional level of predictability and certainty to the PPP laws and frameworks that will cover the 40 or so planned transactions.

Multilateral Development Banks’ Role

IBRD, IFC, IDB and MIGA were able to come together and support the 4G Program in a variety of ways, which included among other things:

Funding

- Improved pricing benchmarks (government bonds) developed through technical advisory support from the IBRD
- Standardized project bond structure with a AA+ shadow rating and a project bond construction guarantee from IFC
- $70 million IFC equity investment in the Fondo de Desarrollo Nacional (FDN, Colombia’s infrastructure development bank)
- $50 million IFC investment in a local infrastructure debt fund that helped mobilize over $400 million in debt financing, mainly from pension funds
- MIGA cross-border risk guarantee for foreign investors

Technical Assistance and Advisory Services

- IBRD, IFC and IDB support for the creation of new regulations for issuing and investing in infrastructure bonds, including creation of debt funds to facilitate pensions investments and training for the pension funds on the infrastructure asset class
- IFC and IBRD support to FDN to strengthen their ability to address market failures
- IFC and IBRD support to improve the PPP legal, regulatory, and institutional framework as well as improved project preparation by standardizing PPP documents and structures

Outcomes

To date, 19 out of 40 projects planned under 4G have been awarded representing over $10 billion of investment mobilization. The 4G program is expected to reduce transport costs by 28 percent, increase GDP by 1.5 percent per annum once completed (closer to 3.0 percent during construction), and generate significant benefits for improved trade, job creation, and business growth. The Colombia 4G exemplifies how WBG and IDB collaboration and a programmatic approach were able to leverage capital markets and advisory support to strategic financing needs.

For more information please contact:
World Bank Group: Nadine Ghannam
Email: Nsghannam@worldbankgroup.org

Inter-American Development Bank: John P. Ferriter
Email: johnfe@iadb.org

---

Photo Credits
Front: Chris Lawrence/CC BY SA 2.0