IDB Invest

DEBrief

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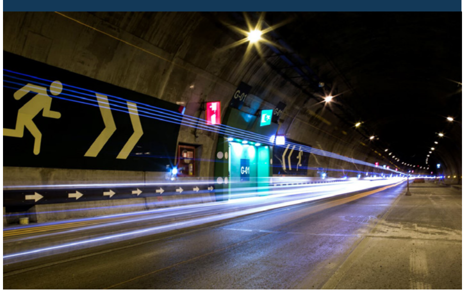
Public-Private Partnerships (PPPs) for Infrastructure: Spotlight on Colombia

- Infrastructure is key for development. However, the quality of infrastructure in Latin America and the Caribbean (LAC) lags behind other regions. Closing this gap would require sustained annual investments of 5% to 7% of GDP.
- While LAC has increased the use of public-private partnerships (PPPs) for infrastructure development, private participation is still limited.
- Colombia has strengthened its regulatory and institutional framework to encourage private participation in infrastructure development.
- The country is using PPPs to implement its largest infrastructure program ever, attracting global developers and investors.
- Colombia still needs to address ongoing challenges in PPPs, including local financing, property management, accountability, investment diversification in non-traditional sectors, and institutional capacity at the subnational level, among others.
- The IDB Group's PPP Window offers an integrated solution to address institutional needs, regulations, project identification and structuring, bidding processes, and financing.



THE IMPORTANCE OF INFRASTRUCTURE FOR DEVELOPMENT AND CHALLENGES FACING LAC

Infrastructure is key for promoting growth and equality. For example, access to energy can improve children's educational performance and school completion rates.[1] Similarly, better urban transport systems help people access jobs, as well as health and education services.[2] Large infrastructure projects in the logistics sector can help to improve regional integration, attract private investment, and improve countries' growth prospects.[3] And research shows that each dollar invested in infrastructure can increase gross domestic product (GDP) by two to eight dollars.[4]

However, in general, the quality of infrastructure in LAC lags behind other regions of the world.[5] To bridge this gap with more advanced economies, the region would have to invest an estimated 5% to 7% of GDP in infrastructure for a sustained period of time (up from around 3% of GDP today), equivalent to US$120 to US$150 billion a year.[6]

The private sector is a strategic partner for infrastructure investment and development, bringing to bear its innovation, asset management, and resource mobilization capacities. While the region has significantly increased the use of PPPs for infrastructure development, private participation is still limited, representing on average 30% of total investments.[7] From a global perspective, in 2017 LAC mobilized US$19.4 billion in private infrastructure investments, behind East Asia and Pacific, which with US$49 billion, represented over half of total private investment in infrastructure in low and middle-income countries.[8]

Private participation in infrastructure in LAC varies across sectors. It dominates telecommunications, given market size and deep local experience with concession and privatization processes. In energy, the push for renewable sources and prospects

Eastern Region of Colombia - Cúcuta

for increased demand have bolstered private sector participation. In transport, the development of concessions in countries such as Chile and Peru, and more recently, Colombia and Argentina, have generated interest among private developers. Conversely, there is less private participation in sectors such as water and sanitation, education, and health.

COLOMBIA: A HIGHLIGHT FROM THE REGION

Colombia has been working with the private sector for over two decades to address its significant infrastructure gaps and large investment needs. The country has made concerted efforts to strengthen its regulatory framework, institutional structure, and operational instruments to encourage private participation in infrastructure.

Regarding the regulatory framework, the 1991 Constitution included a foundational

1. IDB (2015). From Candles to Light: The Impact of Rural Electrification.
2. IDB (2018). Connecting to Economic Opportunity? The Role of Public Transport in Promoting Women´s Employment in Lima.
3. IDB Invest (2018). Infrastructure Investments and Private Investment Catalyzation: The Case of the Panama Canal Expansion.
4. Leduc, S. and Wilson, D. (2013). Roads to prosperity or bridges to nowhere? Theory and evidence on the impact of public infrastructure investment. NBER Macroeconomics Annual 27(1): 89-142.
5. World Economic Forum (2018). The Global Competitiveness Report.
6. IDB (2015). Financing Infrastructure in Latin America and the Caribbean: How, How Much and by Whom?
7. Infralatam database.
8. World Bank (2018). 2017 Private Participation in Infrastructure (PPI) Annual Report.

regulation to improve infrastructure development, management, and service delivery. Since then, various laws have been passed to regulate private participation at the sectoral level.

Likewise, PPP Law 1508 approved in 2012 builds on lessons learned from the first three generations of road concession projects, expands the reach of infrastructure PPPs to other productive and social sectors, incorporates the concept of performance-based payments, and rebalances risk distribution among public and private actors, among other elements. Finally, most recently, Law 1882 approved in 2018 includes adjustments related to transparency, property management, and the rights of joint ventures, public services companies, and regional entities.

To strengthen the country's institutional framework, the government created the National Infrastructure Agency *(Agencia Nacional de Infraestructura – ANI)*, with the role of planning, coordinating, structuring, contracting, executing, administering, and evaluating PPP projects.

The government also made improvements to institutions at the sector level by creating specific PPP programs within the Department of National Planning *(Departamento Nacional de Planeación - DNP)* and the National Development Finance Institution *(Financiera Nacional de Desarrollo - FDN)*. The FDN works with multilateral development banks to create long-term financing instruments, attract local and international investors, and stimulate capital markets to invest in infrastructure.

ADVANCING PRIVATE PARTICIPATION IN INFRASTRUCTURE

Colombia's sustained efforts to encourage private investment in infrastructure have paid off. In 2015, infrastructure investment reached 6.46% of the country's GDP[9], 60% of which came from the private sector. In 2017, Colombia ranked first, together with Chile, on the Infrascope Index[10], a benchmarking tool that assesses the enabling environment for PPP projects in 19 LAC countries. Currently, Colombia is implementing the most ambitious infrastructure program in its history.

9. Infralatam database.
10. Economist Intelligence Unit. The 2017 Infrascope: Evaluating the Environment for Public-Private Partnerships in Latin America and the Caribbean.

Santa Marta Port

The IDB Group has played a key role throughout this process in Colombia. The IDB Group has a dedicated PPP Window that coordinates its public and private sector activities in line with countries' institutional strengthening, regulatory, and project identification needs. For its part, IDB Invest provides advisory services to help clients structure bankable contracts and bidding processes, while also offering financing and mobilizing additional resources.

To date, the IDB has supported PPPs in Colombia with US$456 million in investment and policy-based lending, as well as over US$3 million in technical assistance and training resources. On the private sector side, IDB Invest has provided US$917 million in financing, mobilizing an additional US$1.4 billion from co-investors for airport, port, energy, and highway projects, including fourth generation road concessions (4G).

El Dorado International Airport

CHALLENGES MOVING FORWARD

Key lessons learned from Colombia and international experience with PPPs include the importance of: (i) having specific policies/regulations in place that clarify both public sector responsibilities and rules for private participation; (ii) strengthening pre-investment processes; (iii) developing mechanisms for projects' financial sustainability; and (iv) devising approaches to attract diverse types of investors and mobilize investment from capital markets.

Despite advances, Colombia still faces challenges with the use of PPPs, including increasing access to local financing, improving property management, enhancing transparency and accountability, diversifying investments in non-traditional sectors such as social infrastructure, strengthening the capacity of subnational entities to identify and structure projects, and prioritizing and evaluating private initiatives.

The country is working toward addressing these challenges and has the opportunity to continue positioning itself as one of the most attractive destinations for private investment in LAC, while at the same time improving Colombians' quality of life through infrastructure development.

The coordination between the Government of Colombia and the IDB Group has demonstrated how countries in LAC can promote private investment in infrastructure in an organized, transparent, and efficient way. ■

Additional Information
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This DEBrief summarizes the findings of the study by Manuel Rodríguez, Ana María Pinto, Natalia Ariza, Ginette Lozano, Julian Marquez, Ricardo de Vecchi and Paula Castillo (2018), "Participación Privada en Infraestructura: su evolución en Colombia y el apoyo del Grupo BID" (*only available in Spanish*).

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