

The Colombia 4G slow down

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After generating a lot of attention and excitement among international financial institutions, the 4G roads programme in Colombia has stalled. Market watches are hopeful that the financing of projects will be revived after the country's upcoming presidential elections on 27 May 2018, but that is not guaranteed.

The revelations of corruption scandals involving Odebrecht in Colombia really slowed progress on 4G projects in 2017. Just one deal with international participation reached financial close during the year: [Ruta al Mar](#) in December, which included IDB Invest.

Now two legal cases connected to road developments look set to further shake confidence in the Colombian market in the midst of the election process. A project awarded before the 4G programme, Ruta del Sol II, is in the middle of a judicial battle between banks and the Colombian government. There is also the legal situation involving Carlos Solarte, one of the most important road developers in the country.

4G: A new milestone

Colombia's Fourth Generation (4G) road and infrastructure programme was launched in 2015. The programme was intended to build a structure to attract investment into much needed road projects in the country, with new regulations created, transparency improved, and security to investors increased.

In its initial stages the main complaint heard about the programme was that it was too ambitious. The projects awarded were seen as interesting investment opportunities, but the country was perceived as not ready to attract all of the required capital. Total investments into the 30 4G projects are expected to exceed Ps30 trillion (\$10.4 billion).

Despite this perception, the country kept seeing projects reaching financial close here and there, maybe with longer negotiations than in another places, but still moving forward with a mix of international and local commercial banks, investment funds and development agencies.

But now activity has all but frozen. Some banks, such as Itau and Davivienda, are said to have withdrawn completely from investing in the country's infrastructure. BBVA is said to be almost out, although it is participating in the financing of [Ruta del Cacao](#). Bancolombia is said to be still participating on negotiations, although highly skeptical. And banks from the Grupo Aval conglomerate are said to be analysing financing only on projects where they participate as developers.

Ruta del Sol II case

The Ruta de Sol II legal dispute has spooked many lenders. Colombian infrastructure agency ANI and its participating banks differ on the payments owed by the government, a dispute that has generated a lot of stress in the banking market. In December 2017, the governmental agency decided not to pay the lenders the Ps1.4 trillion (\$488,245) owed under the original terms of the concession contract, instead paying just half of it (Ps790 billion).

The government believes it cannot pay everything until the settlement of the contract is defined. It wants to wait until it gets a clearer picture of contingencies that may materialize.

Ruta del Sol II was awarded under the 3G programme, which means it does not benefit from the same structures and protections as 4G projects, meaning lower governance standards and a higher risk to lenders. The developers were Odebrecht (65%), Corficolombiana (35%) and the conglomerate Solarte (5%).

In February 2017, following the emergence of Odebrecht's corruption scandals, Colombian agency for industry and commerce (SIC) determined that ANI should terminate and liquidate the concession contract, make a payment to the banks, and award a contract for the remaining construction (around 50% had been completed).

But the government did not know how to legally end the contract early and now it does not know how to charge for reputational risk. In December of last year, the cut in payment was announced to the banks.

Banks directly affected are said to be:

- Itau
- Davivienda
- Bancolombia
- Grupo Aval

The Solarte case

Carlos Solarte's family owns CASS Constructores, an important local contractor in Colombia. He is currently under investigation for involvement in corruption scandals related to Odebrecht. A final ruling in his trial is expected in March and he is at risk of going to prison. Banks are said to be avoiding any projects related to Solarte.

Solarte is involved with five 4G projects, and the case has complicated the financing of all of them.

The 4G projects in which he is involved are:

- Autovia Neiva-Girardot (has achieved financial close)
- Santana-Mocoa-Neiva, concessionaire Aliadas para el Progreso (doesn't have financing in place, but needs to start construction soon)
- Bucaramanga-Pamplona
- Santander de Quilichao-Popayan
- Buga-Buenaventura

Next steps

There are 4G projects inching towards financial close but negotiations for these have been hindered and prolonged due to recent events, and they are only likely to attract bank support from the local market.

A resolution to the pending legal disputes is needed before the programme can start to gain momentum again, and even then it may take time to rebuild confidence in the market in the eyes of international lenders.

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