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PwC Capital Projects &Infrastructure (CP&I)

Challenges of Infrastructure Funding for Colombia –

Perspective from US infrastructure investors

January 2016

About PwC's Infrastructure Practice

PwC's services can be grouped into 3 main offerings		
Strategy	Finance	Execution
<i>Identification, selection, location and rationalization of capital projects in alignment with strategy</i>	<i>Structuring and financing of capital projects</i>	<i>Delivering capital projects on budget, on schedule and to performance expectations</i>

Sectors

- | | | | | | |
|----------|------------------|-----------------------|---------------------|----------|-----------|
| ➤ Energy | ➤ Transportation | ➤ Technology | ➤ Utilities | ➤ Water | ➤ Telecom |
| ➤ Mining | ➤ Manufacturing | ➤ Real Estate | ➤ Health Industries | ➤ Waste | ➤ Ports |
| ➤ Power | ➤ Hospitality | ➤ Industrial Products | ➤ Government | ➤ Social | ➤ Nuclear |

- 800 dedicated professionals worldwide— 300 in the US, 100 in Latam

MBAs

Project managers

Designers

Engineers

Construction managers

Cost analysts

Construction attorneys

Banking professionals

Accountants

CPM schedulers

- 800 infrastructure projects – across sectors

Clients I work with – Infrastructure investors

Infrastructure funds -- US, Canadian, European

Pension plans

Sovereign Wealth Funds

As well as

Strategics (many foreign)

Governments

Infrastructure investor's primary concern -- project risk

Projects in the US, Canada and Europe:

- What is the market risk?
- What is the long term operations risk?

Projects in Colombia:

- Slightly different focus....

Infrastructure Equity Investors -- simplified

Investment objectives

Return CPI + 2

Low risk

Long term preservation of Capital

Assets that they like

1st Choice:

Brownfield or stabilized assets

- Operating for a long time

In US or Europe

- Familiarity

2nd choice:

Greenfield in US or Europe

3d choice:

Latin America Chile, Mexico

Colombia, Peru, Brazil

Challenges in Colombia

Few brownfields, all greenfield

- Construction risk, Operations risk, possibly Market risk

Lack of familiarity

- Companies and players
- Skills levels
- Business practices

Pre-conceived ideas

- Suspicions

Key elements of construction risk and how to address them

Key risks

Predictability of construction cost

Principal / Agent problem
(Brother in law effect)

What to do

Contractual transfer construction risk to local partner – difficult

- Risk of delays
- Risk of litigation
- Risk of revenue delay
- Risk of loss of concession

So...

A concrete example – US investor in neighboring country

Partner has 30 year concession for transmission line, lacks capital

US investor is interested but scared

Investor comes to PwC:

- We have a willing partner – but we are scared
- We have a good contract – but we are scared
- Technical advisor tell us the plan is good – but we are scared
- What if our partner does not deliver? Litigation? Worse?

So what do you do? What did we do?

Monitoring by investors (or their agents) of elements that are the key sources of the construction and operations risks

1. Understand the project risks
 - › Technical, managerial, site related, accounting related
2. Put a plan to measure and monitor these risks -- as they unfold
 - › Controls and systems specific to the project
3. Actively monitor
 - › Be able to understand what is being reported
4. Intervene early
 - › Much easier if the above is done

IT'S ALWAYS ROSY UNTIL IT COLLAPSES

PwC Capabilities (again) -- Execution

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Thank You Very Much

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