

# TRANSAMBIENTAL...

*A PROJECT THAT IS CHANGING PEOPLE'S LIVES...*



**IFC**

International  
Finance Corporation  
WORLD BANK GROUP

**FINANCIAL SOLUTIONS FOR CITY  
RESILIENCE CONFERENCE  
JULY 11, 2018**

# Transambiental Case Study - Agenda

- ❖ Background – History of Mass Transport Systems in Colombia
- ❖ The Story of Transcaribe
- ❖ Transambiental, IFC's 1<sup>st</sup> investment in a private mass transport system operator
- ❖ Lessons learned

# HISTORY OF MASS TRANSPORT SYSTEMS IN COLOMBIA

- Highly urbanized country ~ **75%** of the population lives in cities
  - **30%** lives in **4** cities (Bogota, Cali, Medellin, and Barranquilla)
- **1995-1996**: National Urban Transport program to develop BRT's in the largest cities
  - **7 cities** ~ min population **500,000** inhabitants
  - **PPP** Model
    - **City**:
      1. infrastructure (trunk lanes and stations);
      2. the system's planning & operation;
    - **Private** Sector Participation:
      1. fleet acquisition & operation;
      2. construction of maintenance facilities;
      3. fare collection & fleet management systems;
      4. acquiring & scrapping the existing bus fleet.



# HISTORY OF MASS TRANSPORT SYSTEMS IN COLOMBIA

## Timeline:

- **1995:** Medellin - Metro de Medellin
- **2001:** Bogota - Transmilenio
- **2006:** Pereira - Megabus
- **2008:** Cali - MIO
- **2009:** Bucaramanga - Metrolinea
- **2010:** Barranquilla - Transmetro
- **2011:** Bogota - SITP
- **2016:** Cartagena - Transcaribe



# KEY ISSUES FACED IN THE IMPLEMENTATION OF MASS TRANSPORT SYSTEMS

## Construction

- ❖ Infrastructure construction delays

## Implementation

- ❖ Delays in arrival and operation of the new fleet
- ❖ Delays in scrapping of the existing fleet
- ❖ Inability of concessionaires to achieve financial closing

## Financial

- ❖ Inability to reach projected demand levels due to:
  - ✓ increased illegal competition
  - ✓ shift in preference to private vehicles
  - ✓ low quality service levels
- ❖ Inability to reach financial sustainability to fund the system's costs



***Transcaribe was the last integrated mass transport system to be implemented in the country...***

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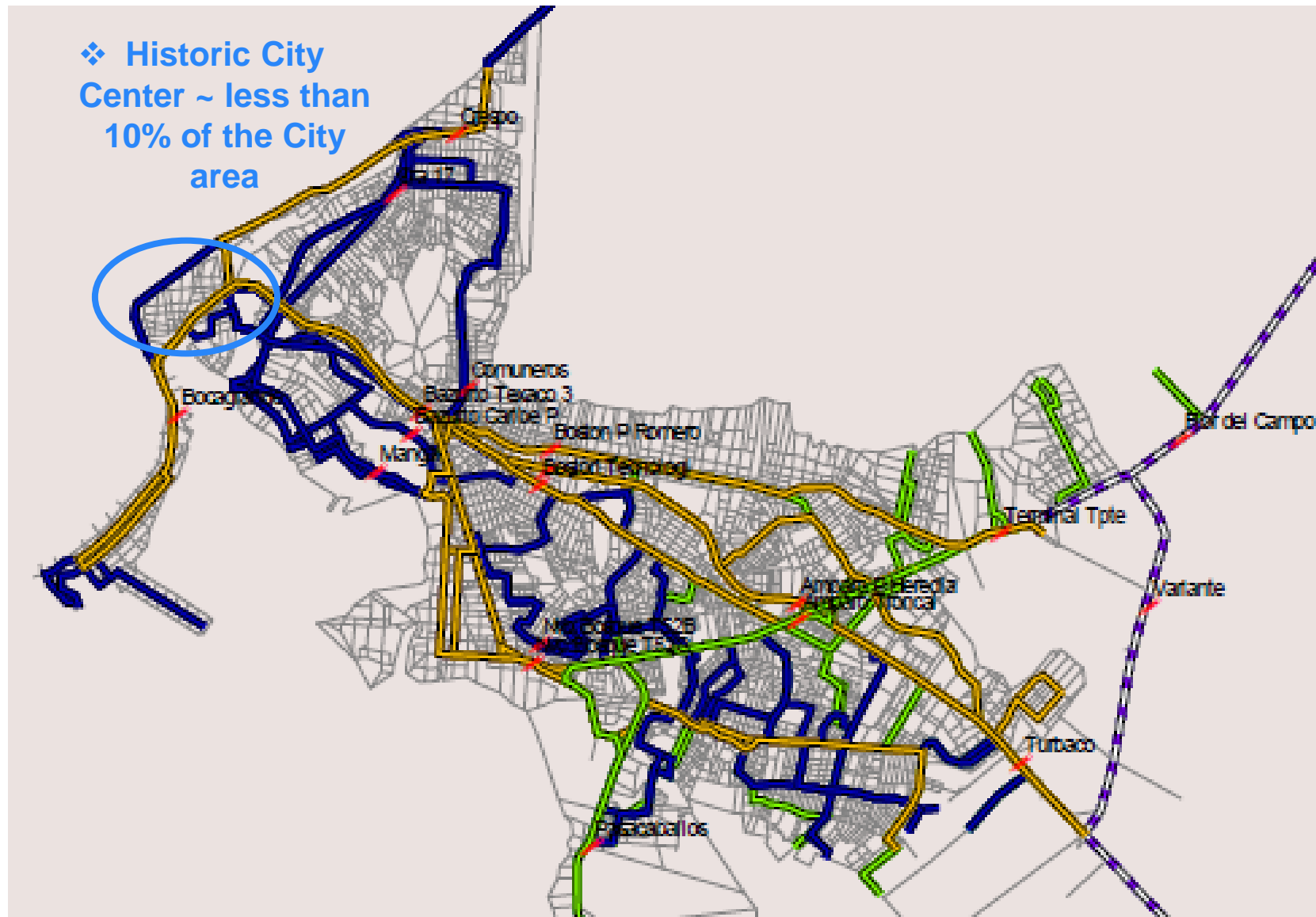


# CARTAGENA, COLOMBIA...





# MAP OF CARTAGENA





UNTIL 2015, THIS USED TO BE THE PUBLIC TRANSPORT SYSTEM  
SERVING 1 MILLION PEOPLE...



# THE SYSTEM WAS IN NEED OF AN URGENT REVAMP...

- Unregulated, **inefficient** system;
- **Chaotic & congested**;
- Old, **Obsolete**, and poorly maintained fleet of ~**1,600** buses



- ~**490,000** passengers per day  
~ **86%** low income;
- **High CO<sup>2</sup> emissions** levels;
- **Poor labor** conditions ~ **14/16** hour shifts, unstable earnings, no benefits



# ON NOVEMBER 2015, AFTER WAITING FOR 9 YEARS, TRANSCARIBE STARTED OPERATIONS...

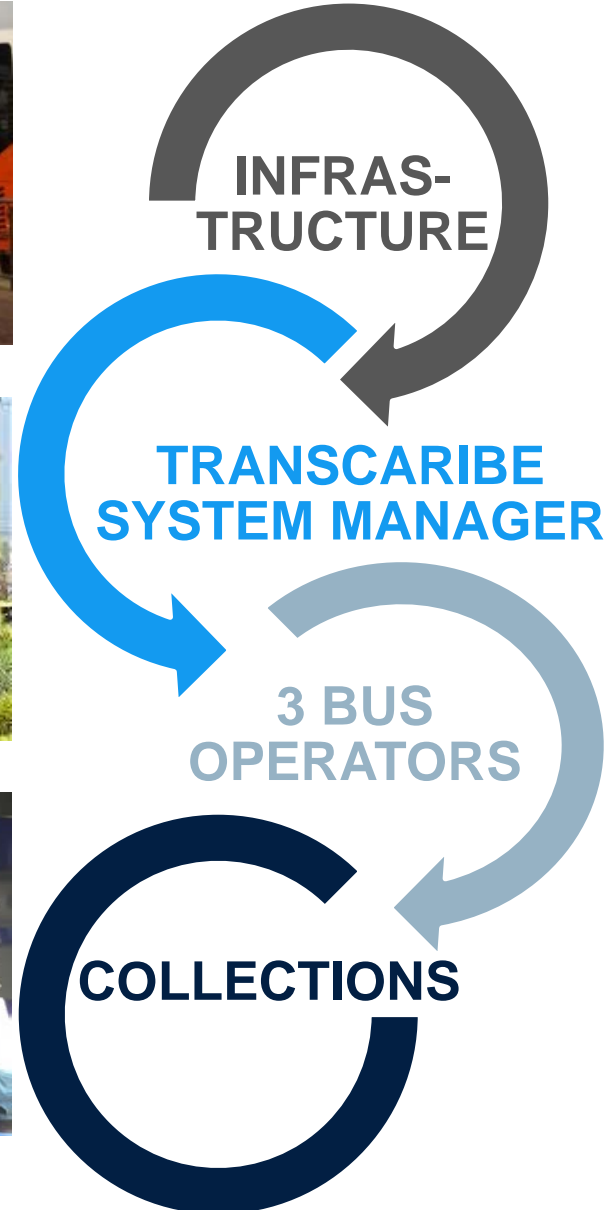
- Integrated mass transport system designed through a **PPP** model
- Designed to cover **100%** of the City's demand
- **BRT** + organized bus routes
- Fleet of **658** gas-powered buses;
- Financially sustainable system  
~ **User fare** > technical tariff



- Increase in reach & efficiency by:
  - ✓ streamlining **routes** and services;
  - ✓ eliminating **oversupply**;
  - ✓ replacing **old, diesel** consuming buses;
  - ✓ reducing **68%** annual CO<sup>2</sup> emissions

# THE TRANSCARIBE SYSTEM IS COMPRISED BY:

## AGENTS OF THE PPP MODEL



- ✓ **Trunk Lanes & Stations:** Public works done & financed by the Municipality
- ✓ **Bus Patio & Maintenance Facility:** Construction works done by Private Concessionaire

- ✓ **Public Entity:**
  - Responsible for the operational design, supervision, and coordination of the different agents of the system

- ✓ **2 Private Concessionaires & 1 Public Entity:**
  - Provision & operation of 1/3 of the new bus fleet
  - Funding 1/3 of the resources used to buy & scrap the existing fleet

- ✓ **Private Concessionaire;**
  - Centralized common revenue Collection system
  - Operation & Installation of fleet management & collection equipment



## Crowdsourcing Q&A

### Instructions:

1. Please discuss the following question in your table (5 mins):

*What risks do you think the City tried to mitigate in its concession contracts?*

2. To upload your answers please go to:

[www.menti.com](https://www.menti.com) and use code 24 22 75

# MAIN RISKS & MITIGANTS INCLUDED IN THE STRUCTURING OF THE SYSTEM

## IMPLEMENTATION

- ❖ Synchronized new bus fleet implementation & scrapping
- ❖ High prices to incentivize sale & scrapping of existing bus fleet
- ❖ At the start of implementation, infrastructure was 95% complete

## DEMAND

- ❖ Cover 100% of the City's demand
- ❖ Additional fleet will only be requested when 75% of the projected demand
- ❖ Estimated demand 600,000 ~ system design was done with 425,000
- ❖ Increased illegal transportation risk will be assumed by the City

## FINANCIAL SUSTAINABILITY

- ❖ Infrastructure construction & maintenance costs excluded from technical fare  
~ User fare only covers system's operation costs
- ❖ Concession tenors are based on a minimum expected income
- ❖ Automatic adjustments to the user fare to ensure it covers the technical tariff  
~ subsidies must be in place in case the Mayor decides not to raise user fare

## Crowdsourcing Q&A

Please go to: [www.menti.com](https://www.menti.com) and use code 24 22 75

1) Which risk get you more worried?

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# TRANSAMBIENTAL

## IFC's 1<sup>st</sup> INVESTMENT IN A PRIVATE BUS OPERATOR...

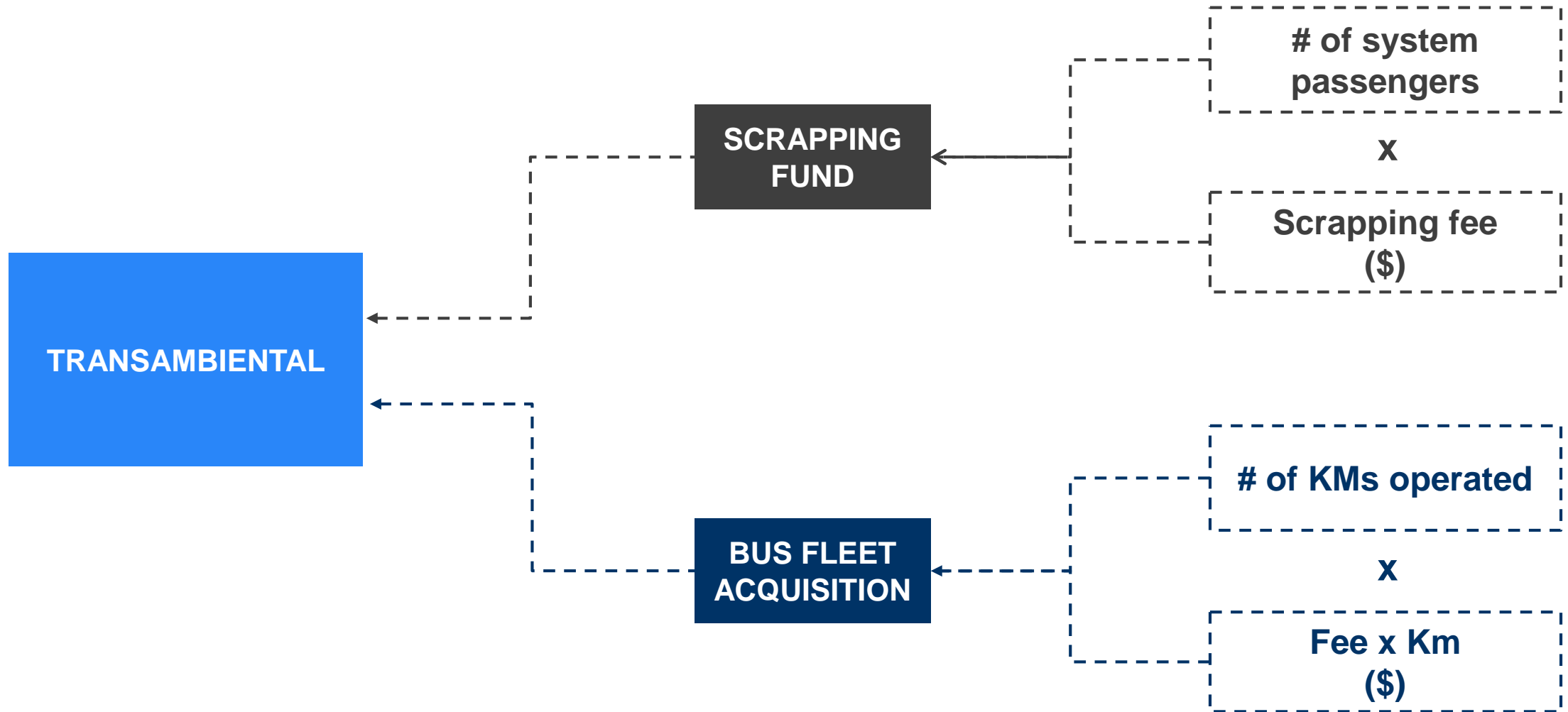
- Concession # 3 of the Transcaribe system
- Concession term ~ up to 19.5 yrs
- Responsible for:
  - ✓ Acquire, operate & maintain 223 buses
  - ✓ Fund 1/3 of the system's scrapping fund
- Sponsors:
  - ✓ Ashmore Infrastructure Fund Colombia (63%)
  - ✓ Si 03 (30%)
  - ✓ LinkColombia Investments (7%)
- Total investment approx. US\$93 million

### Currently, Transambiental:

- ✓ Operates 128 buses and travels +447,000km monthly (70-80% of the System's total km).



# TRANSAMBIENTAL's REVENUE STREAM



# Crowdsourcing Q&A

## Instructions:

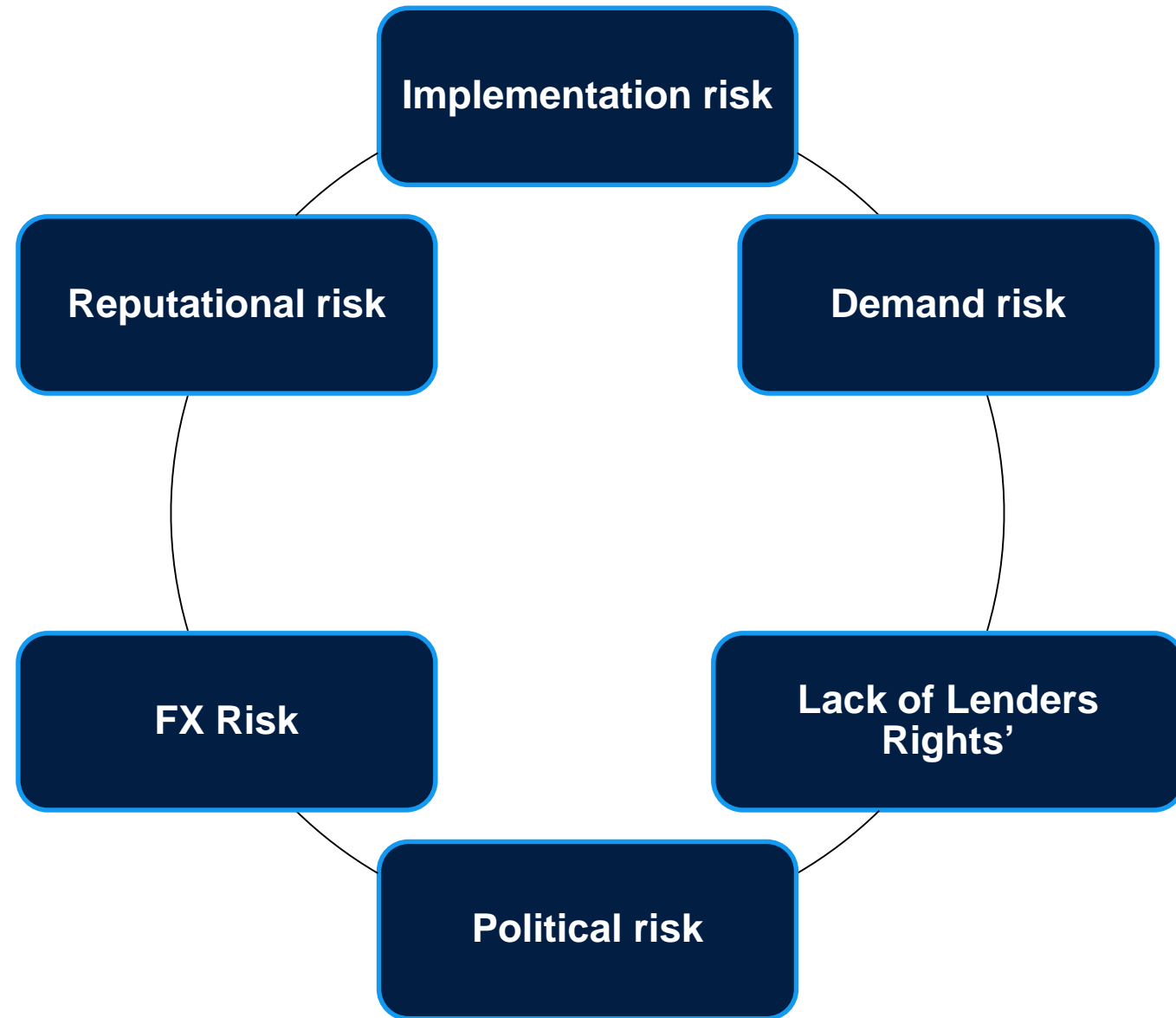
1. Please discuss the following question in your table (5 mins):

*What other risks & issues did IFC identify during due diligence?*

2. To upload your answers please go to:

[www.menti.com](https://www.menti.com) and use code 24 22 75

# MAIN RISKS IDENTIFIED BY IFC DURING DUE DILIGENCE





# MAIN RISKS & MITIGANTS IDENTIFIED DURING DUE DILIGENCE

	RISK	MITIGANT
<b>IMPLEMENTATION</b>	<ul style="list-style-type: none"> <li>❖ Coordinated ramp-up between all agents</li> <li>❖ Transcaribe's lack of experience</li> </ul>	<ul style="list-style-type: none"> <li>❖ Introduced Conditions for Disbursement linked to the system's implementation</li> </ul>
<b>DEMAND</b>	<ul style="list-style-type: none"> <li>❖ Competition from the existing system &amp; illegal transportation</li> </ul>	<ul style="list-style-type: none"> <li>❖ Steer Davis Glee demand study to validate assumptions</li> </ul>
<b>REPUTATIONAL RISK</b>	<ul style="list-style-type: none"> <li>❖ Legacy issues – Citizen's mistrust</li> <li>❖ E&amp;S –resettlement, retrenchment of informal workers, and negative publicity</li> </ul>	<ul style="list-style-type: none"> <li>❖ Provided donor funding to help Transcaribe design a retrenchment plan &amp; a communication strategy</li> </ul>
<b>POLITICAL RISK</b>	<ul style="list-style-type: none"> <li>❖ User fare adjustment by the Mayor</li> <li>❖ Upcoming election</li> </ul>	<ul style="list-style-type: none"> <li>❖ Support Agreement between the City &amp; Transcaribe + Track record in Colombia</li> </ul>
<b>LENDER'S RIGHTS</b>	<ul style="list-style-type: none"> <li>❖ Lack of standard step-in rights &amp; termination compensation payments</li> </ul>	<ul style="list-style-type: none"> <li>❖ Amended the concession contract &amp; raised Lender's rights to international standards</li> </ul>
<b>FX RISK</b>	<ul style="list-style-type: none"> <li>❖ Mismatch between revenue stream &amp; its funding/debt source</li> </ul>	<ul style="list-style-type: none"> <li>❖ Provided a peso-linked loan + hedge to parallel lenders</li> </ul>

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# AN **INTEGRATED** SOLUTION PROVIDER



Long-term Financing  
...unavailable in the Market

In May 2016, IFC committed a **10-yr** syndicated loan for  
**COP\$145,000 million**

Joint IFC-IBRD  
Collaboration

Valuable input and lessons provided on **IBRD's** past work experience in Colombia's **BRTs** enhanced **IFC's value proposition** in structuring the financing



# LESSONS LEARNED

Long-term Financing  
...unavailable in the  
Market

Joint IFC-IBRD  
Collaboration

*Public vs. Private*

## Implementation Risk

*Who's **responsibility** should it be?*

- **Shared responsibility** – Public/Private through PPP
- **Phased** implementation adjustable to **demand**
- **Parallel** implementation and scrapping



## LESSONS LEARNED

Long-term Financing  
...unavailable in the Market

Sponsor's Expertise

*What is the right combination?*

Ashmore

Financial



Technical

- **Sophisticated** Sponsors
- Strong bid requirements to **guarantee** Sponsors are able to reach **financial closing**
- Corporate **Governance** Risk ~ right balance between **inclusion** and **functionality**





# LESSONS LEARNED

Long-term Financing  
...unavailable in the Market

## Step-in Rights

*What was needed to make Transambiental  
**bankable** within a **project finance**  
structure?*

- **Amend** the original **Concession Agreement** to introduce the following concepts:
  - ✓ **Temporary step-in rights** to a **cure** breach without having to replace the Concessionaire
  - ✓ **Lenders Right** to **change** the shareholding in case of a breach of the Concession or the Loan Agreement
  - ✓ **Cure periods** to **avoid early termination** or required **step-in**



# LESSONS LEARNED

Long-term Financing  
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## Termination Compensation Formula

*What was needed to make Transambiental  
**bankable** within a **project finance**  
structure?*

- **Payment** that is equal to:
  - ✓ the amount of **investments and costs** incurred by the Concessionaire in case Concessionaire default
  - or
  - ✓ **expected return** of the Concessionaire in case Grantor-cause termination



# LESSONS LEARNED

Hedging provider  
... to mitigate FX risk

## Local Currency Financing

*How to **address currency** risk in a USD/EUR financing?*

- **Funding** source currency has to **match** the Project's revenues
  - ~ **Peso-linked** loan
  - ~ **Hedge Provider** for parallel lenders



# LESSONS LEARNED

Donor Funding  
...to support urban resiliency

## Mitigation of Reputational Risk

*How to **mitigate** potential reputational risks?*

- **Strategic** engagement plan for **Transcaribe** to address impacts of the new system on existing bus drivers and the informal sector
- **Shared** world-wide expertise and know-how
- **Advisory services** through donor funding to improve counterpart limitations/weaknesses

## IN SUMMARY...



Long-term Financing  
...unavailable in the  
Market

Joint IFC-IBRD  
Collaboration

Hedging provider  
... to mitigate FX risk

Donor Funding  
...to support urban  
resiliency



**TRANS  
AMBIENTAL**  
— OPERADOR DE TRANSCARIBE —

**BANKABLE  
PROJECT  
WITH IMPORTANT  
DEVELOPMENT IMPACT**