TRANSAMBIENTAL...

A PROJECT THAT IS CHANGING PEOPLE’S LIVES...
Transambiental Case Study - Agenda

- Background – History of Mass Transport Systems in Colombia
- The Story of Transcaribe
- Transambiental, IFC’s 1st 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.
Timeline:

- **1995**: Medellin - Metro de Medellin
- **2001**: Bogota - Transmilenio
- **2006**: Pereira - Megabus
- **2008**: Cali - MIO
- **2009**: Bucaramanga - Metrolínea
- **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

- Historic City Center ~ less than 10% of the City area
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 CO₂ 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 CO2 emissions
THE TRANSCARIBE SYSTEM IS COMPRISED BY:

**INFRAS-TRUCTURE**

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

**TRANSCARIBE SYSTEM MANAGER**

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

**3 BUS OPERATORS**

- **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

**COLLECTIONS**

- **Private Concessionaire;**
  - Centralized common revenue Collection system
  - Operation & Installation of fleet management & collection equipment
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](http://www.menti.com) and use code 24 22 75
### 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 and use code 24 22 75

1) Which risk get you more worried?
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TRANSAMBIENTAL
IFC’s 1st 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

- SCRAPPING FUND
  - # of system passengers × Scapping fee ($)

- BUS FLEET ACQUISITION
  - # of KMs operated × Fee x Km ($)
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](http://www.menti.com) and use code 24 22 75
MAIN RISKS IDENTIFIED BY IFC DURING DUE DILIGENCE

- Implementation risk
- Reputational risk
- Demand risk
- FX Risk
- Lack of Lenders' Rights
- Political risk
## MAIN RISKS & MITIGANTS IDENTIFIED DURING DUE DILIGENCE

<table>
<thead>
<tr>
<th>IMPLEMENTATION</th>
<th>RISK</th>
<th>MITIGANT</th>
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<tr>
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<td>Coordinated ramp-up between all agents</td>
<td>Introduced Conditions for Disbursement linked to the system’s implementation</td>
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<td>Transcaribe’s lack of experience</td>
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<td>DEMAND</td>
<td>Competition from the existing system &amp; illegal transportation</td>
<td>Steer Davis Glee demand study to validate assumptions</td>
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<td>REPUTATIONAL RISK</td>
<td>Legacy issues – Citizen’s mistrust</td>
<td>Provided donor funding to help Transcaribe design a retrenchment plan &amp; a communication strategy</td>
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<td>E&amp;S – resettlement, retrenchment of informal workers, and negative publicity</td>
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<td>POLITICAL RISK</td>
<td>User fare adjustment by the Mayor</td>
<td>Support Agreement between the City &amp; Transcaribe + Track record in Colombia</td>
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<td>Upcoming election</td>
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<td>LENDER’S RIGHTS</td>
<td>Lack of standard step-in rights &amp; termination compensation payments</td>
<td>Amended the concession contract &amp; raised Lender’s rights to international standards</td>
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<td>FX RISK</td>
<td>Mismatch between revenue stream &amp; its funding/debt source</td>
<td>Provided a peso-linked loan + hedge to parallel lenders</td>
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**IMPLEMENTATION**
- Coordinated ramp-up between all agents
- Transcaribe’s lack of experience

**DEMAND**
- Competition from the existing system & illegal transportation

**REPUTATIONAL RISK**
- Legacy issues – Citizen’s mistrust
- E&S – resettlement, retrenchment of informal workers, and negative publicity

**POLITICAL RISK**
- User fare adjustment by the Mayor
- Upcoming election

**LENDER’S RIGHTS**
- Lack of standard step-in rights & termination compensation payments

**FX RISK**
- Mismatch between revenue stream & its funding/debt source
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❖ Background – History of Mass Transport Systems in Colombia

❖ The Story of Transcaribe

❖ Transambiental, IFC’s 1st investment in a private mass transport system operator

❖ Lessons learned
In May 2016, IFC committed a 10-yr syndicated loan for COP$145,000 million. Joint IFC-IBRD Collaboration enhanced IFC’s value proposition in structuring the financing.

Long-term Financing …unavailable in the Market

Valuable input and lessons provided on IBRD’s past work experience in Colombia’s BRTs.
LESSONS LEARNED

**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

**Long-term Financing**

... unavailable in the Market

**Joint IFC-IBRD Collaboration**
LESSONS LEARNED

Sponsor’s Expertise

What is the right combination?

Long-term Financing
...unavailable in the Market

Ashmore + SI

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

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

Long-term Financing
…unavailable in the Market
LESSONS LEARNED

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

Long-term Financing
… unavailable in the Market
LESSONS LEARNED

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

Hedging provider

... to mitigate FX risk
LESSONS LEARNED

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

BANKABLE PROJECT WITH IMPORTANT DEVELOPMENT IMPACT