Antioquia port, Colombia

Published 15 Mar 2022 **Last Updated** 15 Mar 2022 18:34

George Hames

Tags Transport Latin America

A consortium of 9 sponsors will shortly break ground on the Antioquia port project (Puerto Antioquia) – arguably the country's most important infrastructure investment in decades which reached a hard-fought financial close in the final days of 2021.

On opening in 2025, the new port will comprise 2 interconnected facilities – a 5-berth offshore deck in the Gulf of Urabá, an onshore logistics hub, and a 3.8km viaduct connecting them. The $759 million project will transform the way that this region handles exports, replacing an improvised system of boats and barges with the kind of modern infrastructure that can keep local industry afloat for decades to come.

This is a project which is at once truly innovative and, perhaps counter-intuitively, a bastion of simplicity. Innovative in its technical design and a non-recourse financing structure which achieves the close-to-impossible, it also satisfies simple but crucial development goals in ensuring the survival of an industry under threat and giving local players lasting power in their key infrastructure.

Barges, boats and bananas

The Urabá region – centred around the eponymous Gulf of Urabá – is one of Colombia's key agricultural zones. It produces around 75% of the country's banana output, providing exports which depart Urabá for destinations across the world (principally the US and Europe).

It does this despite real shortfalls in its infrastructure. The region lacks access to an industrial-scale port and the gulf itself is really more akin to a large lake, with insufficient depth for modern shipping vessels. Moreover, local environmental factors – including the presence of a nature reserve – have precluded much onshore development, cutting off the most obvious avenues to expand export capacity.

All of this leads to difficulties in securing the exports on which the region's economy relies – the banana industry supporting 100,000 jobs alone.

Under the status quo, getting bananas out of the gulf requires a complex sequence of manoeuvres. First, the bananas are loaded onto pallets – rather than modern refrigerated containers – which are then placed on a barge. That barge sails into the middle of the gulf and meets up with a ship which, in turn, must also be small enough to navigate its shallow waters. The ship takes the crates off the barge using an integrated crane, reverses out of the gulf, and finally the goods are on their way.

Replacing this setup with a bespoke greenfield port capable of handling super post-Panamax vessels – built primarily offshore, to protect the local environment – is a no-brainer. Indeed, the idea has been knocking around in some form for the best part of a century.

It's also a proposal with innate potential to capitalise on the successes of Colombia's infrastructure policy over the past 3 decades – most of which has been designed around building and expanding highways. Puerto Antioquia will meet up with several of the country's flagship highway projects (including Mar 1 and Mar 2), as well as becoming the country's closest port to the Panama Canal – a key strategic entry point.

Alberto Haito (pictured) – counsel at Clifford Chance who advised the lenders on the project's financing – told *IJGlobal*: "The beauty of this is that it all comes around. This is the cherry on top of everything because all the infrastructure finally gets connected.

"This was a project that was very much needed for the Antioquia region. It had a lot of support from a lot of people and the country itself was highly invested in making this project a reality."

You're gonna need a bigger boat

There is a myriad of different reasons why the dream of building a greenfield port in Urabá took so long to come to fruition.

Many of these are historical. This is a region that was particularly affected by the Colombian conflict, and as such its security environment has changed drastically even over the course of the past decade. Interrelated with this is the nature of the government's development priorities – other coastal regions (notably including Cartagena and Baranquilla) were earlier targets of the government's infrastructure agenda, while port infrastructure in Urabá fell down the to-do list.

And those are just the geographic fundamentals. Building what is effectively a pure greenfield port – complete with all the traffic risk that entails – is a tall order just about anywhere in the world, let alone in this particular emerging market.

What ultimately shook this project out of inertia is a familiar force – the clock.

For decades, the local banana industry has been dependent on this delicate dance between barges and boats in the middle of a lake to keep goods moving and the economy running. Moving goods by road in Colombia is notoriously expensive and this is an industry that runs on razor-thin margins. Without boats, the industry is no longer viable.

But this model is on borrowed time. The small boats used to bring Urabá's bananas to the rest of the world are among the most polluting and inefficient still in use in the region; an anachronism in an industry moving towards bigger ships with better environmental credentials.

Within 5 years these boats will need to be retired – and the local banana industry will need a new plan.

Widening the team

Unsurprisingly, the drive to bring Puerto Antioquia to fruition began with the local banana industry – bringing together the 4 leading banana exporters in the region.

Next, the banana producers needed a partner from the port industry. They brought on Puertos Inversiones y Obras (PIO), a local port developer that had previously worked on a brownfield project in Buenaventura.

In 2015, PIO brought on Astris Finance as the project's financial adviser – beginning 7 years (and counting) of involvement for the firm.

"This is probably the most complex project we've ever worked on at Astris," Fabrice Henry, chief executive of Astris Finance (pictured right), told *IJGlobal*. "It's complex from a construction perspective because it's offshore work. It's complex from an operational perspective because it's a fairly innovative layout. And it's complex from a business standpoint because it's full traffic risk in a multi-operational model."

Santiago Pardo (below right), managing director and head of Andean region at Astris, adds: "Working in regions which have been deeply affected by years of civil conflict in Colombia also brings a whole new host of issues to the table which we managed to overcome over 6 years of hard development work: for us it is immensely rewarding to close a Project that will not only turn a region which has suffered through decades of under investment into a major logistic and agricultural hub but will also produce very tangible benefits in terms of competitiveness for the country as a whole.

"From that perspective the level of support we have received on the part of the local government, the Department of Antioquia and the central government of Colombia – through several administrations – is simply unheard of."

To meet these challenges, the sponsors and Astris needed to widen the equity team in line with 2 interrelated goals: building the project's credibility and bringing in the necessary expertise to make all aspects of the project viable.

CMA CGM was next on board. The French firm – now the largest individual shareholder in the port – was chosen as one of the few companies in the world that could offer the knowledge of both a port operator and a shipping line.

Eiffage and Termotécnica Coindustrial joined the project as its lead EPC contractors, and last (but not least) private equity fund Unión para la Infraestructura (UPI) – owned by Credicorp Capital and SURA – rounded out the list.

By the time of financial close, the equity makeup was as follows:

- CMA Terminals – 22.1%
- Eiffage – 22%
- Uniban – 15.51%
- Puertos Inversiones y Obras (PIO) – 11.1%
- Unión para la Infraestructura – 8.21%
- CI Tropical – 6.21%
- Agrícola Santamaría – 5.69%
- Termotécnica Coindustrial – 5.17%
- Banafrut – 4.14%

All the while the sponsors had been busy acquiring the land for the port and obtaining environmental permits. As the project requires no public funding – no revenue guarantees, no availability payments, *nada* – there was no need for a formal procurement process.

In March 2019, having secured the necessary permits and finalised negotiations with Colombia's national infrastructure agency (ANI), the sponsors signed a 30-year concession to build and operate the port.

Achieving the "almost impossible"

The sponsors reached financial close on 30 December 2021, securing a $393.7 million senior debt package with a club of 4 lenders, backed by $235 million of equity from the sponsors.

The 17-year senior debt facility saw IDB Invest joined by 3 local lenders – development bank FDN plus local banks Davivienda and Bancoldex, the latter an SME-focused bank making its debut as a project finance lender.

The lenders split the debt – all of it dollar-denominated – as follows:

- IDB Invest – $200 million
- Financiera de Desarrollo Nacional (FDN) – $103.7 million
- Davivienda – $60 million
- Bancoldex – $30 million

The defining challenge of the financing was to deliver a non-recourse structure for a greenfield project which would receive no public funding – and where local fruit exporters would account for almost a third of the sponsor group.

It would be a very different beast to most of the Colombian project financings that had gone before.

Joaquin Fernandez Salvador (pictured right), senior associate at Astris, notes that "the big difference between the road projects that Colombia has put up for tender in recent years and this project is that most of these roads rely in some shape or form on some degree of government support, like minimum revenue guarantees or availability payments, even when most of these roads are actually brownfield improvements or expansion of existing infrastructure.

"Whereas this particular project is 100% greenfield – there is existing traffic, but it is true greenfield – with not a single dime of government support. This is full-traffic-risk greenfield infrastructure of the kind which is almost impossible to project finance without investing the amount of structuring and detailed due diligence which went into this Project, all the way to sampling dozens of final customers in Colombia who are already anticipating the opening of a new terminal that will be a complete game-changer in Colombia."

The expectation of detailed due diligence fed into the choice of which banks to approach. IDB Invest provided technical knowhow, whilst the local lenders on the ground were in a position to really reckon with the port's development potential.

Using local banks brought its own challenges – principally their ability to lend in dollars. To achieve this, the sponsors' financial adviser arranged a dedicated credit line through the Multilateral Investment Guarantee Agency (MIGA) to allow local development bank FDN to lend in dollars for the first time.

The senior debt was complemented by a $130 million mezzanine debt tranche provided by Global Infrastructure Partners through 2 of its credit funds (GIP CAPS I and II).

Bringing GIP into the equation allowed the sponsors to alter the project's risk profile (specifically the degree of leverage) to ensure that the final equity check was commensurate with the means of the local fruit industry – giving them capital in the port for decades to come.

Romain Pappasian (pictured right), director and co-head of infrastructure Americas at Astris, highlighted the importance of this commitment to the project. "To make this project work we absolutely needed to have the banana growers invested in the capital of the company. These companies bring decades of experience in exporting and importing goods in the Gulf of Uraba, and we had to craft the entire capital structure in a manner such that these companies could remain in the ownership of the Project with a very significant stake.

"This Project constitutes a fantastic diversification opportunity into logistics for the largest employers in the region – who represent the interests of hundreds of small family-owned farms, who will indirectly be part of a mega infrastructure project alongside global players – this is an outcome we are very proud of."

Crafting a non-recourse structure for an operationally complex greenfield asset understandably took time and even more due diligence than usual – so the project's long journey to financial close is not surprising.

Haito notes: "It was a complex financing and we needed to make sure that we got to a point where all interests were adequately aligned and all parties were getting the best deal they could without affecting the project or their risk appetite."

The future: more to logistics than just roads

Puerto Antioquia is legally, financially and practically a very different beast to Colombia's main infrastructure pipeline – the 4G and 5G programmes that have dominated ANI's docket over the past decade.

But looking to the future some commonalities may emerge. 5G marks the first time that ANI is incorporating non-highway logistics projects into its central infrastructure planning: the first phase of the 5G tenders includes 2 river dredging and widening projects – Magdalena and Canal del Dique – which, if all goes to plan, should be awarded by the end of the year.

Though Puerto Antioquia is its own distinct entity, the 2 riverway PPPs share a similar spiritual aim – to literally unlock new channels to move people and goods across the country in a way that thinks bigger and bolder than simply laying more tarmac.

This could prove to be the defining characteristic of 5G, and as Puerto Antioquia begins to take shape over the years to come, it could be an early illustration of what the future holds.

"We expect that Colombia will continue thriving from all the expertise they have gathered developing and financing infrastructure projects," Haito concludes. "Clearly they are on the right path to continue closing their infrastructure gap."

Advisers

Advisers to lenders:

- Brigard Urrutia – legal
- Clifford Chance – legal
- Cuatrecasas – legal
- Garrigues – legal
- Milbank – legal
- Advisian – technical
- Marsh – insurance

Advisers to sponsors:

- Astris Finance – financial
- Dentons – legal
- Herbert Smith Freehills – legal
- Posse Herrera Ruiz – legal
- Willkie Farr & Gallagher – legal

- Marsh – insurance