

Colombia

In Prime Time



Key Ally and Fast Emerging Global Player

Last year, for the third year in a row, Colombia's economy grew by 5% and registered a surge in investment. This is no mean achievement given that this Andean country of 43 million people has had to endure Latin America's longest-running insurgency.

For four decades it has suffered continuous armed conflict, assassinations and kidnappings. In that time it has become the world's leading source of illegal narcotics, recorded the world's highest toll of land-mine casualties and had some 3 million of its citizens driven from their homes.

Colombia's civil conflict may not yet be over, the war on narcotic production may not yet be won but – to the surprise of many – for the past five years confidence and optimism have been returning to Colombia. It is South America's fourth-largest economy, and legitimate business, industry and investment activity have been soaring to new heights.

Colombia has experienced a dramatic reduction in the level of violence practiced by both terrorist and paramilitary groups in the past two years. Homicides are down 37% compared with 2002, and kidnappings have dropped by 72%.

While other Latin American countries have experienced a rise in criminality and turned to left-wing governments, Colombia has achieved its turnaround under a center-right coalition government led by Alvaro Uribe Vélez, a tough, 54-year-old Oxford- and Harvard-educated lawyer whose father was killed by the country's left-wing rebels 20 years ago.

To maintain the nation's emerging confidence and boost economic growth still further, Uribe's government intends to spend \$98 billion over the next four years on developing the country's infrastructure, improving social conditions, increasing security measures and reducing the number of people living in poverty – nearly half the population – by 10%.

"We want to make it safe to invest,

study, work and live in our country," said President Uribe in an interview for this report. "But we rely on facts, not images. We have not tried to hide the problems we have, but at the same time we have shown how eager we are to solve them."

Since his election as president in 2002 and his return to office by a landslide vote last year, Uribe has confronted the insurgency problem head-on.

With the help of \$600 million in aid annually from the United States, the government's armed forces have driven the country's left-wing rebels out of Colombia's towns and cities, curbed the activities of right-wing paramilitary groups by disarming more than 30,000 of their members, and taken sometimes-controversial steps to tackle the drug trade and revitalize the economy in deprived areas.

These developments have been accompanied by a reduction in unemployment to 12.1% of the workforce, a

five-year low; a reduction in the inflation rate to 4.5%, its lowest level in decades; and a decline in poverty levels from 58% in 2002 to 49%.

Vice President Francisco Santos says that while Colombia's economic and social circumstances have changed dramatically, the country's international image is harder to turn around.

"Statistically, the biggest cities in Colombia have fewer homicides than all the main cities in Latin America. But ironically, the international perception is harder to change," he says. "Our institutions are stronger than ever. While violence is growing in other cities of the world, here it is decreasing dramatically. This country's change for the better has brought about a change of mentality in all levels of society."

Santos, who was once kidnapped by the rebels and forced into exile, says business people who left during the worst years of turmoil are returning. "They are coming back eager to start doing business in the country, which they see now as a land of opportunities."

Colombia's strength, he says, lies in the

fact that it has the oldest and most stable democracy in South America. Also, it has always been fiscally responsible, and at the beginning of its economic development, it restricted foreign investment.

"The protectionism we experienced in those early years led to the creation of some very strong commercial groups, and once the country opened its doors to the world, these groups began expanding outwards with a considerable competitive capacity," Santos says.

"Since 1991 Colombia has been continuously open to the world, and the path we have cleared creates new and countless opportunities for investors."

The attention the government is now paying to improving social conditions is significant because Colombia has a particularly pronounced disparity between rich and poor. According to a World Bank report, its rate of inequality is one of the highest in Latin America, with the wealthiest fifth of the population retaining 60% of the national income while the poorest subsists on less than \$2 a day.

However justified the rebellion may have been originally, it has had huge –

and negative – economic consequences. One recent survey estimates that if Colombia had achieved peace 20 years ago, the income of an average person today would be 50% higher and 2.5 million more children would be living above the \$2-a-day poverty line.

Today, as Uribe's government appears to be gaining the upper hand in its tripartite battle with the rebels, the narcotics gangs and the problem of social inequality, Colombia's political and business leaders believe that their country's resurgent trade and investment will take its economic progress to a new level. Exports are expected to increase by 10%, and they hope that foreign investment will create 380,000 new jobs and lift more and more sections of the community out of poverty. ♦ Michael Knipe

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Colombian President Alvaro Uribe during his inauguration ceremony at Congress in Bogotá

Uribe Q&A

President Alvaro Uribe, who was inaugurated for his second four-year term in August 2006, answers questions about his government's future plans and its relations with the United States.

Q: What is the relationship between the democratic security policy of your mandate and the economic prosperity Colombia is experiencing?

A It has presented new investors with a placid environment, and at the same time it has brought back some old investors that had left the country ... in the last decades. Colombians understand how important security is to our development. Their perception of security has changed from one that judged it as a fascist activity to one that views it as a democratic value, without which no other democratic value could be realized.

Q: How would you like political relations with the United States to evolve in the near future?

A It is important that the American Congress not have any doubts concerning the [bi-lateral free trade agreement] treaty with the United States. Second of all, it is important for Congress to continue supporting Plan Colombia. It is true that we have had some difficulties, but with the proper readjustments better results will come. In any case, the second phase of Plan Colombia should not suffer any delay. With these two policies the United States can

send a signal of trust to the rest of Latin America.

Q: How do you think the help the United States gives to this region of Latin America will evolve in the next few years?

A Colombia cannot complain about the support the United States has given it. However, the dimension of the problems is such that every day more assistance is required.

Q: How about infrastructure? What are the objectives your government has in this regard?

A I will tell you about three issues: airports, ports and roads. We have just assigned a concession to El Dorado airport that will more than double its current passenger and cargo capacity. We are also negotiating the continuation of private concessions in different ports, but especially in Buenaventura, a harbor that requires a big investment. And we have signed ten road concessions in routes related to international commerce.

Adapting and Thriving

As Colombia's state-owned utilities services have opened up to competition in the past 15 years, their modus operandi has had to change drastically. They have had to allow varying degrees of private participation, enter alliances with foreign partners, and enhance the quality and breadth of services they provide their customers.

A prime example is ETB (Empresa de Telecomunicaciones de Bogotá). The opening of the telecommunications sector in 1996 brought competition to the market. ETB released a partial stock offering to raise capital, drawing investment from both Colombian and international funds, as well as more than 60,000 individual shareholders. It is consolidating its recent transformation, eyeing expansion into the Latin American and Caribbean markets, working on aggressive expansion of its Internet business and embracing environmental stewardship.

"It is not only about being sustainable,

but it is common sense to eliminate waste in order to save money," says Rafael Orduz, general manager of ETB's state-of-the-art recycling program.

This kind of pragmatism has enabled the company to succeed in a competitive environment.

ETB recently entered a joint venture with EPM (Empresas Publicas de Medellín) to launch the cellular phone provider Ola. In September, the joint venture will expand, giving control to Luxembourg-based Millicom. With this strategic alliance, Ola is preparing to compete against the two other mobile phone companies operating in Colombia. Orduz is quick to acknowledge the importance of association with a major international partner.

"It is clear that in a competitive sector such as telecommunications, only with a strategic partner can we compete and expand," he says, speaking of the possibility of pursuing a partnership with another Colombian company or looking

outside the country's borders for a strategic ally.

An increasing number of formerly state-owned enterprises are realizing the necessity of adopting a market- and customer-oriented approach in order to grow. EMCALI, a public works company based in the city of Cali that provides water, energy and telecommunications services, was on the verge of bankruptcy in 1999. Bolstered by the Uribe government's approach of restructuring without selling the company, and with support from banks and investors, the company is back on its feet and growing quickly. EMCALI has learned a valuable lesson from this turmoil.

"We need to change our mentality to a market-oriented approach, normalize investment to continue the development of the company and establish a strategic partner to develop telecommunication activity," says EMCALI's general manager.

With backing from foreign investors, the company should be able to consolidate its growth and compete on the national stage. ❖ Jan Dutkiewicz & Daniel Trigo

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Rising Regional Dynamism

In the past decade Colombia has doubled both its inward investments, to \$3 billion, and its exports, which now account for around 18% of the country's GDP, well above the Latin American average.

What makes Colombia so attractive to investors and so successful as an exporter? Luc Gerard, president of Tribecapital Partners, the country's first capital fund, says Colombia's appeal, especially when compared to the rest of Latin America, is the strength of its economy, its public institutions, its entrepreneurial and capitalist culture, and the presence of strong local companies.

Francisco Santos, Colombia's vice president, says that if private enterprise is doing well the country will do well, too. "We are creating a political, economic, fiscal and legal environment so that private investors can feel comfortable coming to Colombia."

In key sectors of the economy, according to Gerard, the market leaders are Colombian companies "not because they

are protected by the government but because they are competitive, with highly qualified human capital."

They differ from other medium-size companies in the region in that they are better prepared for competition.

"They are used to dealing with and overcoming problems of infrastructure and security. All the problems that emerging markets experience, they have been dealing with here without the government stepping in and offering subsidies. Here it was sink or swim. So rather than lobbying, for example, the way up has always been to work harder," says Gerard.

It is for these reasons, he says, that Tribecapital has based itself in Colombia and opted for a regional focus. "What we have done is chosen six sectors in which we feel Colombia has a competitive advantage and identified three companies in those sectors. We don't do distressed assets. We work with good companies with positive cash flows. We also

don't do commodities. We look for proprietary know-how that can be branded, replicated and implemented in another part of Latin America."

In the export field, take the example of Cementos Argos, the country's leading producer of construction materials.

Through the acquisition of three companies, in Texas, Georgia and the Carolinas, and the construction of a maritime terminal in Savannah, Georgia, Argos has become the major Colombian investor in the United States, with sales last year of \$1.3 billion.

Jose Alberto Vélez, the company president, says that the U.S. market now represents more than half of Cementos Argos's operations and that it will expand these further.

Not only is Colombia competitive, but its regions offer greater economic diversity than those of other Latin American Countries. The Andean, Caribbean, Pacific, Amazon and Orinoquia regions all have something different to offer.

In Bogotá the predominant services and industrial sectors are once again flourishing, and the capital's 7 million inhabitants enjoy the benefits of a modern mass-transit system that has become a model for cities worldwide.

Medellín, the Andean city once notorious for narcotics trafficking and violence, has reasserted itself as the development engine of the region. Mayor Sergio Fajardo Valderrama says the murder rate has been reduced from 3,000 per 100,000 inhabitants to 37 per 100,000, less than that of Washington or Detroit. As a result, the city's innovative and entrepreneurial traditions are once again making it a suitable location for new companies to establish themselves.

Medellín's first priority is education, and 40% of the city's budget is devoted to this.

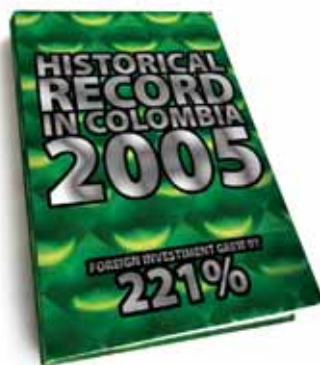
Cali, the capital of the Pacific region and the country's second-largest city, has flourishing printing, publishing, food, beverages and pharmaceutical industries that generate 11.5% of the country's GDP.

Buenaventura, on the Pacific coast, handles 50% of the country's total international trade.

In the Caribbean region, the seaports of Cartagena and Baranquilla are undergoing restoration to boost their attractiveness as tourist and industrial centers, respectively.

The Amazon and Orinoquia, the country's largest and least-populated regions,

Where are you investing these days?



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“Analysts seem to think that Colombia changed in a day, but it is the cumulative effort and coherent politics of the last six years that have resulted in what we are witnessing today.”

Luis Carlos Villegas, President, National Association of Entrepreneurs

have also shown significant economic activity. Leticia, capital of the Amazon, has grown commercially thanks to its location on the border between Colombia and Brazil, while Orinoquia's oil fields are becoming increasingly important to the national economy.

“Analysts seem to think that Colombia changed in a day, but it is the cumulative effort and coherent politics of the last six years that have resulted in what we are witnessing today,” says Luis Carlos Villegas, the president of the country's National Association of Entrepreneurs (ANDI).

The government has played an important role, he says, by creating an environment that promotes clear and stable business practices, encourages local and international investment, and assists the private sector's international expansion.

“My experience has always been that

once a Colombian company finally goes abroad, every client is surprised by the quality of its services,” he says.

Villegas concedes that the narcotics-trafficking element in Colombia's economic development and the human loss this has brought have hugely damaged its reputation. It can and must improve its international image by showing the “positive reality” of its current circumstances.

He is confident that the Colombian economy will continue to grow, regardless of the fate of the free trade agreement with the United States, because of the free trade links with the rest of South America it has gained through its associated membership in Mercosur (the Southern Common Market) and its increasing trade with Mexico, Chile and the European Union.

“We have the lowest interest rate in probably 30 years and inflation under 4%,” he says. “This allows the economic sectors to take advantage of the real exchange rate and increase their sales abroad.” ♦ Michael Knipe

Passionate About Colombia

Colombia is, after Brazil, South America's second-most-populous country and is blessed with pristine beaches on both the Caribbean and Pacific coasts, virtually untouched rainforests, pre-Columbian ruins and some of the last high-altitude glaciers found in the tropics.

The walled fortress city of Cartagena, a UNESCO world heritage site on the north coast, is a popular destination, as are the white beaches and deep bays that run along the thousand miles of Caribbean shore. One-third of the country is situated in the Amazon Basin, and from Leticia, a small town on the banks of the Amazon River with good tourist facilities, travelers can embark on jungle trips, including visits to Indian tribal areas.

“After all the suffering that Colombia went through, tourism can help us to consolidate as a nation once again,” says President Uribe, whose hard-line stance against the rebels has restored confidence among Colombians and international tourists alike.

Cruise line companies have re-introduced Colombia's ports to their South



PHOTO: DANIEL TRIGO

Colonial treasure, Cartagena de Indias

American itineraries, and the airlines are bringing in more visitors. Nearly a million foreigners visited Colombia last year, and the government hopes to double the figure in 2007. It is promoting the country abroad with the new slogan, “Colombia Is Passion.”

At the same time the government is taking steps to boost investment in the tourism sector.

“We have created a law that relieves investors in tourism from taxes for some years, and hotel companies are investing here,” says Vice President Francisco Santos. “We are also developing packages for eco-tourism in several parts of the country. These measures are working – the number of foreign visitors has tripled over the past few years.” ♦ Marco Venditti

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From the Ground Up

Colombia, with proven oil reserves of 1.6 billion barrels, is looking to nearly double its production by 2011 as improved security and a favorable investment climate woo back oil multinationals.

Coal production is already increasing. At El Cerrejón, the world's largest open-pit coal mine, the total amount extracted increased by 10% last year and will reach 32 million tons by 2008. A second phase of expansion that would take production to 40 million tons by 2011 is under consideration.

"We have the infrastructure and can easily meet these new prospects," says Leon E. Teicher, the president of Carbones del Cerrejón, jointly owned by Xtrata, BHP Billiton and Anglo American.

Colombia's nickel deposits are also abundant, as are gold, copper, uranium and emeralds. Combined with coal, they account for more than 20% of the country's exports.

Some of the international oil companies have quadrupled their exploration budgets in recent years as they become more secure about their long-term investment. Other medium-size companies, like Canada's Solana Resources, have been present in Colombia uninterrupted since 1998.

"Everybody has heard of the drugs and the violence but very little of everything else," says Stephen Newton, the company's chief executive officer. "There are still issues to solve, but the reality that is shown on CNN is not at all a true reflection of the country's situation."

According to the Colombian National Hydrocarbons Association, the new tax and incentive laws and the improved security situation could attract \$750 million in new exploration before the year's end.

President Uribe has proposed selling off a 20% stake in the national oil company Ecopetrol, a measure that has faced strong opposition at home, especially in the workers' union. Ecopetrol has been in the state's hands for more than five decades but, according to the government, the partial flotation will allow an overhaul of the way it is run and reverse a decline in oil output.

Colombia's oil output has dropped from more than 800,000 barrels a day in the late 1990s to less than 600,000 barrels a day at present, creating concern that the country could become a net

importer by the end of the decade.

This privatization move sets Colombia in stark contrast to the trend of the region, where leftist leaders in countries like Venezuela, Ecuador and lately Bolivia have taken advantage of record-high oil prices to renegotiate their contracts with multinationals or to expropriate their assets altogether. The business-friendly attitude of Colombia has, in fact, established the country as a hot spot for oil and gas investment in South America.

"Ecopetrol needs to find its own resources if it wants to compete with the oil multinationals, because the state has other responsibilities that keep it from investing in the company," says Hernán Martínez Torres, the recently appointed minister of mines and energy. He stresses the different ideological path the Uribe government has taken. Multinationals may now drill independently from Ecopetrol, and by selling off 20% of the



El Cerrejón mine in Guajira

company, Colombia hopes to attract as much as \$5 billion to finance new explorations. "Since 2003 we have been improving the conditions for the private sector to come and invest in the hydrocarbon sector of Colombia. We have attracted some of the biggest companies in the world to operate here and the government is making sure that these investments will be sustainable over time," says Torres. ♦ Marco Venditti

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Doing the Right Thing

The idea that a company should act in a beneficent manner – that it try to do what's right and good – when dealing with its community, environment and stakeholders is an integral part of the ideology of many Colombian companies. They don't regard social stewardship as just a trendy term, but instead believe that the positive image and goodwill a company creates will benefit its bottom line.



PHOTO: GETTY IMAGES

Focus on the future

Luis Carlos Villegas, president of the National Association of Entrepreneurs (ANDI), explains that in the most recent survey of its members' managerial social responsibility, almost 3% of its affiliates' income went to social programs. Considering that ANDI counts Colombia's largest private firms among its members, this represents a considerable investment.

"We are aware that the responsibility to get back on track as a country is not only governmental. The hard times make us realize that peace, security and poverty are issues common to all of us and not only the responsibility of the government," says Villegas.

In a country with a violent past, it has often been private enterprise that has stepped in to aid local communities when the government was unable to do so, as a result creating a sense of solidarity regarding the task of improving the country.

The mining sector, which often oper-

ates in remote areas of the country's interior, plays an important social role. Coal giant Carbones del Cerrejón operates its open-pit mine in the northern department of Guajira and is committed to sustainable development and social responsibility. "We have close to 9,000 people working for us and the influence we have over the economy of the region is more than considerable," says President and Chief Executive Officer

Leon E. Teicher. Cerrejón handles 6% of the country's exports, and its role in providing jobs in rural areas is fundamental. "We are the country's second-largest tax contributor with more than \$100 million a year, and we understand that this is part of our social responsibility," says Teicher. "But we keep a close look at the way these royalties are handled, as the better they are put to use, the better it is for the region and the company altogether."

Underlying much of Colombian companies' social allegiance is a palpable hope for a safe and stable future for the country and generations to come. For example, Productos Familia, makers of sanitary and plasticware products, has built and stocked several libraries in lower-income neighborhoods in its home city of Medellín. Familia also supports

Medellín's ambitions to become the scientific core of the country by sponsoring projects with the region's universities.

"Our expectation is to have a long-term impact in society, since we focus mainly on children," says Familia President Luis Carlos Uribe.

Some members of Colombia's private sector embrace commerce as part of their philosophy of social commitment. Fundación Social, a major Colombian financial entity, is based on a unique model. Rather than a company that controls social foundations, it is a social foundation that owns companies, including Colmena, Caja Social and BCSC, the leading banks providing financial services to the country's middle and lower classes. Alvaro Dávila, the group's president, is quick to point out that by giving people in the lower classes access to banking services, their business itself creates social value. ♦ Jan Dutkiewicz

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