

**50**  
million inhabitants

**2**  
times the size  
of France

Taxes represent  
**~70%**  
of net profits  
(source: National  
Association of Industrial  
Companies)



Valle de Cocora

Pedro Szekely

# A RISKY YEAR FOR COLOMBIA

Colombia's peace agreement with FARC guerrillas two years ago put an end to decades of violence, but this Andean country is still facing corruption issues and sluggish economic growth.



Carlos Ayalde Garcia



Juliana Florez

Colombian voters will choose a new president in early June, and during the primaries in March, Gustavo Petro stood out as one of the main contenders. Conservatives describe this left-winger as a "castrochavista": a Colombian mix of Fidel Castro and Hugo Chavez. Given the hard times the country is experiencing, it's no wonder that his anti-establishment arguments are popular. Colombia's economy grew a mere 1.8% last year, a recession-like performance for a developing country. "The M&A market was frozen in 2017. Deal value went down by 85%," notes **Carlos Ayalde Garcia (H.08)**, an investment banker based in Bogota.

Low commodity prices have been the main cause of this decline. "Colombia is less dependent on oil and gas than Ecuador or Venezuela are, but this sector is still a major pillar of its economy," explains

**Cédric Martin (H.07)**, a credit analyst at Agence française de développement (AFD). Exacerbating the problem, Colombia's oil production has been dropping since 2013, in part because guerrillas bombed the country's pipelines but also because most foreign oil and gas enterprises now prefer to invest in Mexico and Argentina, which offer more proven reserves than Colombia. "The Vaca Muerta field in Argentina, for instance, is the second-largest shale-gas deposit in the world," says **Juliana Florez (MBA.11)**, formerly strategic-marketing manager at GE Latin America.

Losses by state-owned Ecopetrol and a drop in royalties and fiscal contributions from foreign oil and gas producers have combined to significantly cut into Colombia's federal revenues. To make up for the losses, the government raised taxes in early 2017, including upping the value-added tax from 16% to 19%, further hampering GDP



## LIVING IN COLOMBIA

The developing Colombian economy is full of opportunities. *"We need talents from outside. I've collaborated with several foreign entrepreneurs who have succeeded here. One of them founded a frozen-yoghurt company that is doubling in size every year and now ranks number two in Colombia,"* says investment banker **Carlos Ayalde Garcia (H.08)**. Foreign investors will have no problem integrating into Colombian life. *"There is a good fit between French and Colombian culture,"* AFD's Cedric Martin (H.07) points out.

True, moving to Colombia implies taking additional security precautions. *"Hailing a cab in the street is not a good idea; better use an app like Tappsi or Uber. Also, like in all major cities of the world, there are places where you can go alone and others where you should not without guidance,"* explains **Juliana Florez (MBA.11)**. On the other hand, expats enjoy a great quality of life in Colombia. With a decent job, one can afford a big apartment with household staff. And, despite a recent history of violence and civil war, Colombia is a very welcoming land that has been ranked the second-happiest country in the world after Fiji<sup>1</sup>. Colombians value family ties and love sports, music and salsa dancing. This welcoming Andean nation bases its resilience on strong human connections.

1. The four letters now stand for Common Alternative Revolutionary Force



growth. Fortunately, the recent surge in oil prices should help the economy rebound in 2018; experts anticipate 3% GDP growth this year.

### A FRAGILE PEACE

The oldest democracy in the southern hemisphere, Colombia is still recovering from 50 years of civil conflict that claimed 200,000 lives. In President Juan Manuel Santos's deal with FARC—an achievement that won him a Nobel Prize—the guerrilla group handed in its weapons in return for 10 seats in Congress, five each in the House and Senate. The country has become safer as a result. *"Last year there were 11,000 homicides and 200 kidnappings, versus 30,000 homicides and 3,000 kidnappings in 2002,"* Carlos Ayalde Garcia points out. On the other hand, in many remote areas FARC has been replaced by criminal gangs, both cocaine producers and terrorists from a smaller guerrilla group, ELN (National Liberation Army). Peace talks have polarized Colombia's citizens, who are very divided on the issue. *"Many people think that we are experiencing a break rather than a peace,"* reckons **David Eusse (MBA.96)**, the CEO of Calipso, an Internet services provider. In fact, pro-peace parties lost seats during Colombia's congressional elections in March. Despite widespread scepticism about how long it will last, the current peace has undoubtedly improved security, which bodes well for the economy. Key industries like transportation, energy and agriculture should benefit from a safer environment and the end of "no-go" zones. Colombia's image abroad has improved as well. Tourism is on the rise and foreign investors are once again seeking out opportunities in Colombia, not only in its core industries like oil and mining but also in services. *"Our country*



A street in Medellín

# 220,000

deaths since 1958 due to internal conflicts  
(source: National Centre of Historical Memory)

*is very well located in South America, and it has well-educated people and cheap labor costs,"* notes **Alain Fouquier (MBA.03)**, CEO of the Colfondos private pension fund. He adds, *"It is a perfect place for setting up operation centers serving the entire continent, as Canadian firm Scotiabank has done in Bogotá."*

Colombia is also attracting new investment in infrastructure projects, in spite of the uncertainties raised by the upcoming presidential election. The government recently announced a \$40 billion infrastructure-development program, and in February, Italy signed a cooperation agreement with Colombia that paves the way for joint investments in renewable energies and smart grids. *"I don't think this would have happened without the peace talks,"* says Juliana Florez.

French construction firm Vinci has been awarded a 1.3 billion-euro concession to build a highway between Bogotá and Girardot in a 50/50 joint venture with a local partner, Coconcreto, and in Medellín, Agence française de développement is supporting infrastructure projects that will have a positive impact on the local population. *"We have funded a 275-million-euro investment in hydro-electricity and we have loaned 200 million euros for the construction of a tramway line and two cable lines,"* **Cedric Martin** points out. Bogotá is also planning to build a viaduct metro line, although the project has been postponed several times. Colombia's infrastructure-investment drive has been threatened, however, by a continent-wide corruption scandal involving the Brazilian construction firm Odebrecht, which bribed Colombian officials. *"International banks have cautiously delayed the financial closing of the contracts,"* Carlos Ayalde Garcia explains.

# 3%

GDP growth  
expected in 2018  
(source: OECD)

# 59<sup>th</sup>

country in the  
Doing Business  
ranking, ahead of  
Argentina, Ecuador  
and Brazil  
(source: World Bank)

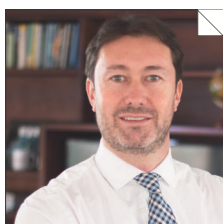




Peace agreement between FARC and the Colombian president (sept. 2015)



Ciudad Perdida



Alain Foucrier



Cédric Martin

## NIGHTMARE AT THE BORDER

Along with the sluggish economy and persistent corruption problems, Colombia's presidential elections will be influenced by the wave of migrants crossing the border from Venezuela. The neighboring country, whose GDP is expected to fall by 15% this year, is facing a dramatic humanitarian crisis that has been worsened by authoritarian repression. Colombian officials counted 550,000 Venezuelan refugees in end-2017, up from 210,000 six months before. *"These people are starving and they have health issues. Some are desperate. Crime rates have gone up,"* Alain Foucrier explains. *"Figures don't show it yet, but I am pretty sure that unemployment is rising, because Venezuelan immigrants are taking small jobs in housekeeping and construction. They are ready to accept lower wages,"* Juliana Florez adds. This upheaval may influence Colombia's citizens to vote for radical political candidates whose agenda would damage the country's economic attractiveness. Colombia is doing better, but the presidential election could bring chaos again. The weeks to come will be decisive. ●

Source: Gallup International <http://www.gallup-international.com/surveys/happiness-hope-economic-optimism/>

# \$15,000

dollars: Colombia's per capita GDP, in purchasing-power parity  
(source: IMF)

## A PARADISE FOR TOURISTS

The peace agreement and increased safety are not only drawing more investors to Colombia but also more tourists. Last year the country registered 6.5 million tourism entries, up from 2.6 million in 2010, according to the government. Paradoxically, a major draw has been the "Narcos" series on Netflix, which tells the story of Pablo Escobar and drug cartels in Colombia. In Medellín, tourists can even participate in a "Pablo Escobar tour" which takes them to *"the drug lord's most significant locations in a customized journey by car."* More importantly, Colombia offers an incredible diversity of landscapes and places to visit, from the Caribbean coast to coffee plantations, the Amazonian jungle, colonial towns like Villa de Leyva and Cartagena, national parks, salsa centers like Cali, and much more. *"It is a beautiful country with many unexplored paradises,"* sums up **Carlos Ayalde Garcia (H.08)**, a native of Bogota.

Our journalist was able to check that out for himself. He participated in an adventurous excursion in the Sierra Nevada region to the so-called Ciudad Perdida, or Lost City. This ancient site, which was discovered in 1972, is believed to be 650 years older than Machu Picchu. During a four-day trek in the jungle (with absolutely no cellular network coverage), our journalist met Kogui indigenous tribes, ate delicious fish, swam in natural pools and spotted frogs, butterflies, snakes and monkeys. At night, he could admire a sky full of stars from his hammock. A magical experience.

## A HYBRID SYSTEM FOR PENSIONS

Out of the 22 million people working in Colombia, only 8 million contribute every month to their pensions, with the remaining 14 million working in the informal economy. Colombians can choose between two retirement schemes: a public, defined-benefits one like France's, and a private, defined-contribution one where the employee contributes a portion of his earnings to an individual account. Pension reform will be a crucial issue for Colombia's new government. A graduate of Universidad de los Andes and HEC's MBA program, **Alain Foucrier (MBA.03)** manages Colfondos, one of the four private pension funds in the country; Canadian group Scotiabank has a 51% share. *"Pension funds here deliver double-digit returns, in contrast to the single-digit returns in developed countries,"* he explains. Higher risk means higher profitability.