

# Inside Colombia

## A changing landscape

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## The rebirth of a nation

Colombia's recent political shifts appear to have ushered in a new era of peace and prosperity, but is the corruption and fear really a thing of the past? Rory Carroll reports

**T**he flower sellers of Bogotá used to make a lot of money from funerals. A car bomb would explode, or bodies would be dumped on the street, and there would be rush orders for wreaths.

Back then, Colombia was a country at the mercy of left-wing guerrillas, right-wing militias and drug cartels; the closest thing to a failed state in South America.

But stroll through the stalls at Parque de las Flores today and you see few wreaths but plenty of bouquets. "It's different now," says Diana Infante, 30, arranging some lilies. "I get most of my business from marriages and birthdays. I prefer it this way."

In the space of just five years something remarkable has happened – the cities have become relatively safe. Murder and kidnapping rates have plunged, and there are no more bombs. The only explosions are in property prices.

Streets that were once deserted at sunset are now filled with shoppers and revellers. Business executives who once feared ending up in a kidnapper's car boot now fret only about having a hotel suite with Wi-Fi. Welcome to a new Colombia.

"When my administration began we had 3,000 cases of kidnapping per year," says president Alvaro Uribe. "Last year it was under 300. I recognise that we have a [lot of] work left; however, it is very important that the international community accepts the progress we have made."

On the evidence of foreign direct investment it is indeed doing so, driving last year's growth to 6.8% and accounting for

a quarter of GDP, according to government figures. New hotels and apartment blocks are rising up over Bogotá, Cali, Cartagena and Medellín, and neighbourhoods are being gentrified.

Bogotá's La Calle del Sol, a fashion hub that considers itself a bellwether of consumer confidence, is thriving, says Lina Cantillo, a designer who owns an eponymous chain of shops. "If we are in chaos, people aren't in the mood to enjoy or buy fashion." Sales are brisk and roads are secure enough to source materials and artisanal work from communities in the desert and the Amazon, she says.

First-time visitors to the capital marvel at the bicycle lanes, the people on roller-skates, the wide, clean avenues, the nifty – if packed – public transport system, the drinkable tap water – things not to be taken for granted in Latin America.

Pankaj Jain, the managing director of Pushpsons Industries, an Indian textile exporter, was nervous during his first visit three years ago. Now he considers Colombia safer and more reliable for business than Brazil, Mexico or Venezuela.

That view is echoed by Javier Gutiérrez, the president of Ecopetrol, a state energy giant soon due to be partially privatised. In addition to security the pro-market conservative government offers a stable business climate, he says.

**Clockwise from top left: The Candelaria – Bogotá's old town; flower sellers at the Parque de las Flores, Bogotá; picking coffee near Pereira, western Colombia; street parade in the Plaza de Bolívar, central Bogotá; business as usual on 72nd St, Bogotá**

"We have no limitations on foreign investors. Here you don't have to talk about the possibility of investment; it's happening. You can observe how many foreign CEOs are based here," he says.

There is anecdotal evidence of Colombia attracting capital flight from Bolivia, Ecuador and Venezuela, regional neighbours whose radical left-wing governments are making investors skittish.

Britain, depending how you do the sums, edged out Spain last year as the second biggest investor after the US, bringing in \$16bn. The British ambassador, Haydon Warren-Gash, says that five years ago Colombia was not a good destination for investors. "But today it is. It is one of the most business-friendly environments in Latin America. This is not to say there are no problems. The state is not totally in control of every part of the country. But in my view the security situation now is a factor to be addressed and integrated into decision-making as opposed to a reason not to invest."

Tourist numbers jumped 21% in the first quarter of this year, compared with the corresponding period in 2006, and among them were the former US president Bill Clinton and the queen of Spain. The family of Donald Trump is considering building hotels in Cartagena.

Colombians attribute the turnaround to President Uribe's security crackdown after he was elected in 2002. The army and police, beefed up with \$700m in annual US aid, pushed left-wing guerrillas out of the cities and back into distant rural redoubts. At the same time the government demobilised 31,000 right-wing paramilitaries, militia that started out as defenders of businesses

and landowners and turned into powerful drug traffickers who stole land, massacred peasants and bribed politicians.

"When I came to the presidency this country was under the control of terrorist guerrillas and terrorist paramilitaries," says Uribe. "We have advanced a lot." His re-election last year and sky-high approval ratings show that most Colombians agree.

Not all is well, however. Some serious problems have not been solved so much as contained. Drug barons no longer openly challenge the state but remain a powerful, corrupting influence. Some paramilitaries have moved into organised crime. An unfolding scandal has exposed links between the paramilitaries and the political and business elite, including allies of the president. From their rural bases the guerrillas remain lethal, undefeated and plotting their next move.

Human rights abuses continue, with trade unionists regularly assassinated. Journalists are also targets. Five were killed last year, a steep fall from previous years, but the number of threats against them tripled to 302. Continued conflict in the countryside has swollen the estimated 3m people who have been displaced over the years, mostly peasants forced to abandon their land and move to shanty towns, a scale to match Darfur or Congo.

Dominga Murillo, 51, fled with her eight children last year to Cartagena, a colonial gem on the Caribbean coast, after her husband was shot dead. Unemployed and unable to afford treatment for a skin disease that disfigures her face, she lives in a shack overlooking cruise ships in the bay below. "Maybe I'll get a job wash- >>>

### Introduction

What most of us know about Colombia can be summed up in two words: violence and cocaine. But record economic growth and a new period of relative security seem to be changing perceptions around the world – Colombia is increasingly being seen as a place to invest and even to holiday in. Is it true that things really are changing?

We wanted to investigate where it is heading. Guardian South America correspondent Rory Carroll travelled to Colombia to see for himself, and to meet, in a rare interview, president Alvaro Uribe. We also sent acclaimed photographer Magali Delporte to capture the spirit of the Colombian people and their changing society. And we assess the stability of the "economic miracle". A new Colombia is beginning to emerge. This supplement is your guide to that country.

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# More than coffee on offer

The recent surge in Colombia's economy is down to an expansion in both investment and exports and new interest from the international community – including the UK, finds Fiona Walsh

**T**he Colombian economy has enjoyed strong growth since Alvaro Uribe became president in 2002.

When the Harvard and Oxford university-educated lawyer, now in his second term of office, came to power five years ago, growth in gross domestic product was less than 2%, although that was a marked improvement on the 4.3% contraction seen during the 1998-9 financial crisis.

Last year, growth in the newly confident Colombian economy raced to its highest level in almost three decades – 6.8% – on the back of rapid growth in consumer spending and an influx of foreign investment. Foreign investment in Colombia totalled almost \$6.3bn last year and is expected to remain buoyant in 2007.

Local company profits have risen to record levels, attracting increasing interest from both domestic and overseas buyers. Investors have also been attracted by a wave of privatisations.

Crucial to the new economic success of Colombia has been the increased security of the Uribe regime. And, despite the continued conflict, the Colombian economy – Latin America's fifth-largest – is undoubtedly enjoying a new confidence.

Consumer spending has surged and investment is flowing back into the country. As well as new overseas investors, there are signs that Colombians who had invested abroad are now bringing their money back home.

Just last month, the US debt ratings agency Standard & Poor's said the country was on its way to achieving coveted investment-grade status, marking an important milestone in its economic progress.

The country has made "remarkable improvement" in its key indicators over the past four years, the agency said. It is now just one notch away from joining Mexico and Chile as Latin America's only investment-grade economies, although further fiscal reforms to cut spending and close tax loopholes remain crucial to the country's continued success.

According to S&P, "consolidation of reform could propel Colombia on a path to sustained economic growth, growing fiscal flexibility, higher exports and declining debt burden, which would strengthen credit-worthiness and lead to an investment-grade rating."

The UK is one of the largest foreign inves-



tors in Colombia, with investments estimated at more than \$16bn. More than \$3bn of this is accounted for by BP, the country's second-largest direct foreign investor. By far the largest foreign investor is London-listed SABMiller, the South African brewing group, which in 2005 bought Colombia's biggest brewer, Bavaria, for \$7.8bn.

Along with BP, British companies with a significant presence in Colombia include drinks group Diageo, consumer products giant Unilever, insurer Royal & SunAlliance, and pharmaceutical majors GlaxoSmithKline and AstraZeneca. Britain's biggest bank, HSBC, established a presence in the country last year through its \$1.8bn takeover of Grupo Banistmo.

Britain is an important trading partner for Colombia, with bilateral trade increasing by 28% over the past two years. In 2006, Colombian exports to the UK totalled \$600m, and imports from the UK reached \$261m.

The drive to attract foreign investments has been led by Proexport, which is responsible for promoting non-traditional Colombian exports. One of its key tasks is to close the gap between foreign percep-

tions of Colombia and the new reality of the country, its booming economy and skilled workforce. Proexport has a network of 15 offices worldwide, including one in the UK.

However, coal remains the leading Colombian export to the UK, followed by vegetables and fruit, flowers, coffee and palm oil.

Colombia is also enjoying its share of the global boom in merger and acquisition (M&A) activity. At a recent Latin American Investment Summit, hosted by Reuters in the Chilean capital Santiago, the retail sector was singled out for a "wave" of expansion on the back of the boom in consumer spending, with predictions of "pitched battles" for market share.

In Colombia, foreign buyers have already fought for control of Almacenes Exito, the country's largest supermarkets chain. Cencosud, Chile's biggest retailer, eventually ceded victory to the French retailer Groupe Casino, which upped its stake in the business from 39% to over 60% in a \$320m deal with the Colombian Toro family.

Cencosud remains keen to expand outside its small and mature domestic market

but dropped its plans to bid for Exito after clinching a deal with Casino whereby the French and Chilean firms will collaborate on opening a chain of DIY stores in Colombia. Casino will own 30% of the venture and Cencosud will own the controlling 70% stake. They plan to invest up to \$200m in the venture in the next five years.

Medellin-based Exito has also taken control of its main rival, Carulla Vivero, in a deal that created the largest retail group in Colombia, with annual sales of almost \$3bn. The combined company has more than 250 stores and a commanding market share of around 50%.

Nor has M&A activity been restricted to the retail sector. Earlier this year the Brazilian industrial group Grupo Votorantim took a controlling stake in Colombia's largest steelmaker, Acerías Paz del Río, in a near-\$500m deal.

More activity is expected in the months ahead and economic prospects remain good. The Economist Intelligence Unit expects GDP growth to remain "solid", although it is likely to slow to 4.6% in 2007-8.

There are pressures building within the Colombian economy, however. Inflation,

although well below the 22% seen less than 10 years ago, has been rising faster than expected, and is now running at 6.26% against 4.48% in 2006. It has been driven by higher food, education and healthcare prices and is now well above the government's 3.5%-4.5% target for the year.

The rate is also well ahead of other Latin American countries such as Peru, Brazil and Chile, although the Colombian central bank says it expects food price inflation to ease in the second half, and remains confident it will meet its targets.

In an attempt to keep inflation under control, the central bank has been steadily raising interest rates over the past year. Now at 8.5%, up from 6% over the past year, many economists believe they could go higher still in the battle against inflation.

Bogotá-based economists at Citigroup expect inflation to reach 5% by the end of the year, up from their previous forecast of 4.2%. That in turn could see interest rates reach 9%, a half-point increase on their previous forecast of 8.5% by the year end.

The Colombian peso has also strengthened significantly, both against the US dollar and the euro. In May, it reached a new seven-year high against the dollar, taking its gain for the year so far to more than 8%. This is despite heavy intervention in the foreign exchange markets by the Colombian central bank, Banco de la República.

In a further attempt to slow the peso and curb inflation, the central bank has just imposed new reserve restrictions on banks aimed at stemming the flow of short-term, speculative capital.

Finance minister Oscar Ivan Zuluaga says the measures will not affect direct foreign investment, although some analysts warn that if these relatively moderate restrictions fail to work, there is a risk of more harsh action in the future.

While a strong peso may bring cheap imports, it has already hit exports: fruit and flower exporters have been hit particularly hard, with their goods more expensive in overseas markets. Urban unemployment also remains high at around 12%, although it has been falling.

Meanwhile, prospects of a free-trade deal with the US, a key driver of future economic growth for Colombia, remain uncertain. President Uribe, US president George Bush's closest ally in Latin America, was in Washington earlier this month lobbying Democrats who control Congress to ratify the deal.

## « The rebirth of a nation

**3m people have been displaced over the years, mostly peasants forced to abandon their land and move to shanty towns**

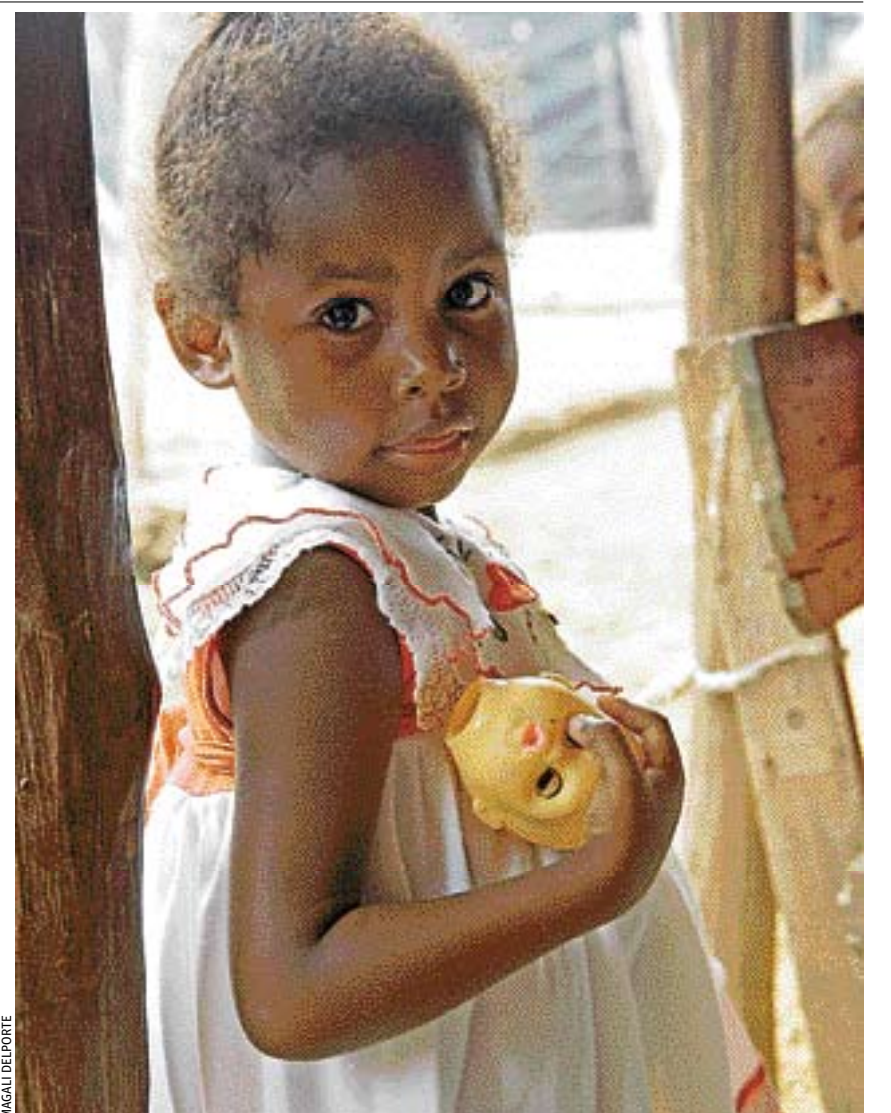
ing dishes," she says. Or maybe, like so many other displaced Colombians, she will remain destitute, stuck high on a hill with no running water, a world away from the glossy images displayed in tourist brochures.

Bridging this gulf is one of Colombia's greatest challenges. One promising initiative is the Bank of Opportunities, a joint public-private venture that last year gave small business loans totalling \$1.5bn to 1m poor people. Another \$6bn is earmarked for the next three years, says the bank's director, Carlos Moya. "Colombians don't want charity, they want opportunity."

The government says poverty has fallen from 56% to 45%, that education and health care are to be made free and that spending on displaced people is climbing steeply. "We can't solve all our problems in four-and-a-half years; we're doing it step by step," says Oscar Zuluaga, the finance minister.

The Spanish conquistadors who came here seeking El Dorado, the mythical city of gold, ended up disappointed. Now, centuries later, despite its problems, Colombia is again glinting with promise. This time around the odds are better that the prize – security and prosperity – just might prove to be real.

Schoolgirl at Hijos de Maria school in Villa Hermosa, a town in mainly agricultural Tolima department in western Colombia



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# 'We have advanced a lot'

Alvaro Uribe's methods and allegiances have been criticised, but Colombians are simply happy that, under his regime, there is relative peace and security – at least for now. Rory Carroll joined him on a typical working day

**H**undreds of people pack the outdoor auditorium: army generals, government ministers, bishops, mayors, peasants, taxi drivers, carpenters, fishermen – all sweating in the tropical morning heat, all waiting.

Burly security men in suits dab their earpieces and look upwards. Then we hear it, the clatter of a helicopter. The noise swells as the machine descends from a bright azure sky. He is here.

President Alvaro Uribe strides towards the crowd, an informal figure in beige trousers and a short-sleeved blue shirt, but from the reaction it could be George Clooney at Cannes. He is instantly mobbed, hands reaching out to touch him, voices calling out, eyes following him as he moves towards the stage.

For the next seven hours he hosts a free-wheeling, and at times raucous, communal meeting here in Caucasia, a rural town deep in Colombia's interior, and he gives every impression of enjoying it. And so does the audience. For many, Uribe is more than a president; he is a saviour.

"Never before have we had a president so close to the people," says León Ojeda, the mayor of nearby Montería. "He is what we have been waiting for; no one can replace him."

This province has extra reason to adore Uribe. It was here that the right-wing paramilitaries were born and here that they pushed out left-wing guerrillas, much to the relief of landowners and businessmen. For them, the president's alleged soft spot for paramilitaries is not a scandal but a feather in his cap – proof of his success as a counter-insurgency strategist.

Speaking to the Guardian later, the 54-year-old president, one of South America's few conservative leaders, echoes that assessment. "Five years ago when I came to the presidency this country was under the control of terrorist guerrillas and terrorist paramilitaries. We have advanced a lot."

That is one version of the story: that of Uribe, the Harvard-trained lawyer and democrat who saved Colombia from chaos, delivered security and prosperity, and who was thumpingly re-elected last year by grateful voters. There is, however, another version: that the leader of the region's most violent country has appeased right-wing death squads, neglected social problems and smeared and bullied opponents.

So say Democrats in the US congress, among others, and it is why they may block a trade deal and reduce Washington's \$700m annual aid flow to Bogotá. "Uribe is no 'to-the-core' democrat; rather, he is a cynical pragmatist," said a recent report from the Council on Hemispheric Affairs, a Washington-based thinktank.

There is no doubt Colombia has done well under Uribe. In 2002 he inherited a grisly, narco-fuelled conflict pitting left-wing rebels against the state and right-wing militias known as paramilitaries. A security crackdown pushed the guerrillas out of the cities and into the countryside. And a deal with the paramilitaries led to their demobilisation. As cities and roads became safe, confidence returned, bringing investment, tourists, jobs and economic growth.

Now in his sixth year in office the president is enjoying 75% approval ratings, according to an April survey, and some supporters want to change the constitution so he can run again in 2010.



Weatherbeaten men in ponchos, they complain that the army's fumigation of illegal coca plantations, which make cocaine, is damaging legitimate crops such as rice and maize. Generals are asked to respond, notes are taken, promises made, and the meeting moves on. Schooling, fishing, roads – all are discussed at length, down to mind-numbing detail about different types of gravel and the topography of a particular hill.

Fans whirr in an unequal battle against the heat and, as the afternoon stretches, people wilt, though not Uribe, a teetotal workaholic whose typical working day is said to start at 4am and finish at 11pm, with a break for yoga at midday. He sneaks a few glances at his BlackBerry, and consumes sweets and fizzy drinks that are first sniffed by a bodyguard.

He wraps up proceedings with a speech blending folksy proverbs with technocratic details, shakes a hundred hands, and is cheered back to his helicopter. To supporters, this is quintessential Uribe, focused, driven, pragmatic, with a populist dash. "He loves his people. I think since he was a boy he was preparing to be president," says Oscar Zuluaga, the finance minister.

Speaking to the Guardian on the flight back to Bogotá, however, the president seems tetchy. He trumpets a report that says coca cultivation has fallen from 200,000 to 79,000 hectares, as if this signifies victory over the drug barons.

But productivity per hectare is thought to have more than doubled, explaining why cocaine is still so abundant in Europe and the US. Uribe treats this information as an insult. "Don't come here to blame Colombians. If you want to be here with us come with ideas to help. Don't come here to make a circus."

Asked if he is considering changing the constitution to make another run for office in 2010, his face reddens. "I cannot waste my time. If you have serious questions ... then please go ahead, otherwise let me take a rest."

The president is also agitated when asked to respond to criticism that too many journalists and trade unionists are still being killed in Colombia, and that his allies collaborated with illegal right-wing paramilitaries while they massacred peasants and trafficked drugs.

Under his watch, 31,000 paramilitaries have been demobilised and many leaders jailed. "This is the government that has dismantled their organisation," he says.

Sceptics say his hand was forced by the courts and that the paramilitaries remain active. That perception has tainted his image abroad and may sink the trade deal with the US.

The key to Uribe's political success, however, is that these criticisms do not seem to matter to voters. The famous tetchiness, the faltering war on drugs, the dodgy allies – none have dented his popularity. "People turn away from the scandals, as if they're not happening," says Eduardo Marquez, head of Colombia's journalists' federation.

The president has delivered to the cities what his war-weary people most craved – security, and with it the chance of a better life. After decades of mayhem, people savour the normality like a fine wine and do not care if the label on the bottle betrays a murky provenance. The hope is that Colombia is escaping its bloodsoaked history, and it is intoxicating.

You can see his appeal at the marathon talk-fest in Caucasia. To leave his air-conditioned palace in Bogotá and visit such a remote spot wins him points with locals, as does the forum: a day-long question-and-answer session in which anyone can take a microphone and raise any topic. Uribe does this every Saturday, picking different towns, and he takes a bevy of ministers and officials with him. Colombia may be the size of France, Spain and Portugal combined, and facing a crisis in its relations with the US, but politics is always local.

**Pragmatic or anti-democratic? Alvaro Uribe's methods remain closed to scrutiny, but they get results – and Colombians continue to vote firmly in his favour**

Thanking the bishop who kicks off the meeting, Uribe fields questions from motorcycle taxi drivers aggrieved at being undercut by unlicensed competitors. "My business has dried up," grumbles one. "They're pirates; they don't even wear helmets," says another.

Uribe nods, grills the local mayor and police chief about the matter, then invites the transport minister to speak. An hour later the subject is exhausted, proposals are accepted, and it is the turn of the peasants to voice their concerns.

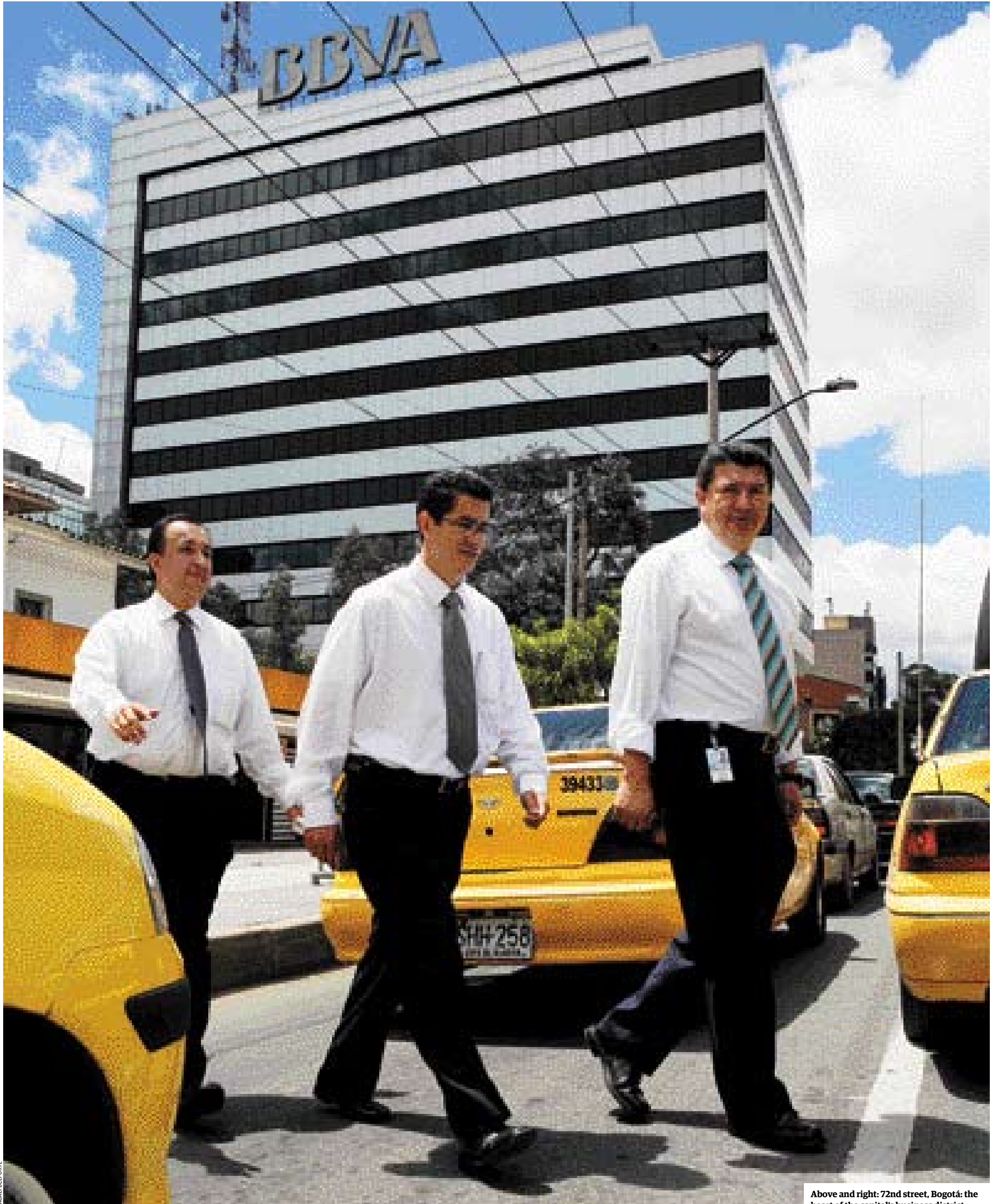
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# Colombia: open for business

Buoyant economic growth and Colombia's business-friendly environment have proved a magnet for foreign investors in the past couple of years. Money has been flowing into the energy, mining, financial and retail sectors with total foreign investment last year totalling \$6.3bn. Fiona Walsh reports



## Communications and transport

Recent years have seen the recovery of the important airline industry in Colombia, as well as the rapid accession of telecoms to the marketplace

Air transport is particularly important in Colombia, which is reckoned to have proportionally the highest rate of air travel in the world. National flag carrier Avianca Airlines, Colombia's largest airline and the second oldest commercial airline in the world after KLM, operates frequent flights to all major cities. There are thought to be more than 500 airports and landing strips in the country, many of which are privately owned.

In total, airlines are estimated to handle four times more cargo tonnage than the national railway system, which largely serves the coal industry and suffers frequent problems with landslides.

Meanwhile, more domestic cargo is shifted by truck than rail in Colombia, and improvement to the road transport network is one of the key objectives of the Uribe government. The terrain is rough and, like the rail network, roads are often rendered impassable by rock falls.

The International Finance Corporation, the private-sector arm of the World Bank Group, is active in providing finance for infrastructure projects in Colombia involving public-private partnerships, such as the expansion of ports, roads and airports, as well as support to logistics companies.

The airline industry has largely recovered since the steep fall-off in trade that affected the global travel industry after the September 11 attacks in the US in 2001, followed by sharp increases in fuel costs on the back of soaring oil prices.

Last year saw increased passenger traffic, and Colombian airlines have been investing in new fleets and technology. Avianca recently placed a \$1.5bn order with Boeing for 10 of its 787 Dreamliner jets, the largest Latin America order for 787s to date.

The communications industry in Colombia has enjoyed rapid growth in recent years on the back of new technologies.

Figures from the International Telecommunication Union (ITU) show a sharp increase in internet usage, from 21 per 1,000 people in 2000 to 104 per 1,000 in 2005.

Mobile phone subscriber numbers have surged from 53 per 1,000 to 479 per 1,000 over the same period, with mobile phones becoming the primary method of communication, both in rural and urban areas. Reflecting this, landline telephones have slipped from 170 per 1,000 to 168.

After lagging behind countries such as

Venezuela and Ecuador, mobile phone penetration has now surged to close to 70%, the highest in the region. Behind the growth surge has been new entrants to the market, such as Spain's Telefonica and the Mexican group América Móvil, which owns Colombia's leading mobile phone operator, Comunicaciones Celulares (Comcel).

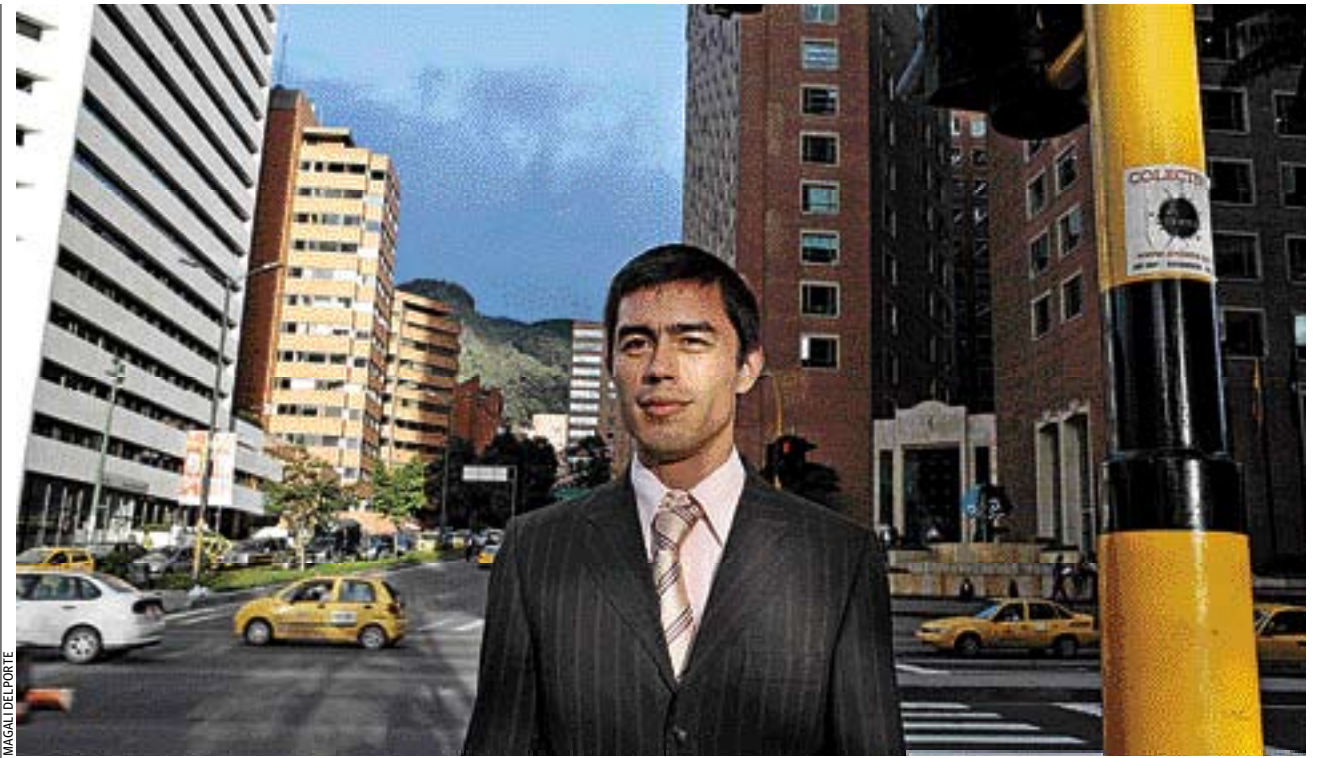
Since it took control of Comcel in 2002, the Colombian company's subscriber base has surged from 1m to almost 20m, according to Comcel president Adrián Hernández.

Now Latin America's largest company, América Móvil was founded by Carlos Slim, Mexico's richest man and the second richest in the world, according to a recent ranking of billionaires by Forbes.

Spain's Telefonica is the number-two player in the mobile phones market. Last year took a controlling stake in Colombia Telecom, the country's leading landline provider. Telefonica is one of the largest foreign direct investors in the country.

Telecoms companies such as ETB, headed by Rafael Orduz, have been actively chasing internet subscribers in favour of the traditional telephony markets. "If you were to stay in local and long-distance calls, you would be dead," says Orduz.

While internet penetration in Colombia remains low, growth has been impressive in recent years. ETB alone has seen internet subscriber numbers climb from 8,000 to 220,000 in the past two-and-a-half years, says Orduz, and could reach 310,000 this year.



## Banking Advanced banking technology in Colombia reflects the country's growing prosperity, as foreign investment gathers pace

The banking and financial services sectors in Latin America continue to attract significant foreign investment.

Britain's biggest bank, HSBC, recently secured a major foothold in the Colombian banking industry via last November's \$1.8bn acquisition of Grupo Banistmo, Central America's leading banking group.

The British bank has been established in Panama since 1972, but the deal took it into Colombia for the first time. It is HSBC's biggest move in Latin America, where the bank's revenues are growing at twice the rate of its established operations in Europe and North America.

Announcing the deal last year, HSBC chairman Stephen Green said the acquisition of Banistmo was "the culmination of two and a half years' work examining the region and choosing our partner."

The move gives HSBC "a strong presence across a fast-growing economic region which, with the ratification of the Central American Free Trade Agreement [Cafeta], has encouraging prospects," he added. "It will allow us to expand into new markets, in a region of 83m people, including Colombia, and in which large sections of the population do not currently have bank accounts."

The banking system in Colombia has been recapitalised and modernised in recent years and the widespread consolidation in the industry, together with the

influx of foreign competitors, has served to strengthen the sector.

After several failed attempts, the Colombian government completed its final bank privatisation last year, with the auction of Bancafé, the country's sixth-largest bank. Privatisation of state financial institutions was one of the conditions set by the IMF in its loan agreements with Colombia.

The buyer of Bancafé, in a \$900m-plus deal, was Banco Davivienda, which played a key role in the transformation of Colombia's mortgage sector in the financial crisis of the late 1990s. Finance for the purchase was provided by the International Finance Corporation, the private-sector arm of the World Bank Group.

Banco Davivienda is now Colombia's leading mortgage and retail bank, and has moved into third in the country's overall banking league, ahead of Spain's Banco Bilbao Vizcaya Argentaria. In pole position is Bancolombia, followed by Banco de Bogotá.

Despite large parts of the population still without bank accounts, Colombia has some

of the most advanced banking technology in the world. It was one of the first countries to introduce fingerprint biometrics on automated cash machines: rather than punching in a pin number, customers simply place their thumb on the screen for verification.

South American customers have proved less resistant to such technology than their North American neighbours. Several years ago, Bancafé, which is traditionally strong in the coffee-growing regions, rolled out the biometric ATMs across its entire network, enabling it to reach small coffee growers previously reluctant to set up accounts.

Growing prosperity has also attracted the attentions of wealth management companies. US banking group JP Morgan Chase recently opened in Colombia, where it will also operate as an investment bank and a brokerage.

The US financial company Stanford last year bought Bolsa y Banca, the stockbroking firm founded by coffee-grower Gustavo Gaviria. Stanford plans to step up its investment this year, capitalising on the boom in M&A activity.

Announcing the investment plans earlier this year, president Allen Stanford told La República: "We know that Colombia has had difficulties in the past, but what many people don't know is that there are perhaps more investment opportunities here than in any other place in the world."

**Colombia was one of the first countries to introduce fingerprint biometrics on automated cash machines**

## Energy and mining To promote self-sufficiency through its twin resources of coal and oil, Colombia is encouraging outside investment, as well as researching development in biofuels

The Colombian mining sector has attracted the largest share of international investment, at 31.9%, followed by oil & gas, at 28.1%, transportation, warehousing and communications at 12.5%, followed by manufacturing (10.6%), restaurants and hotels (8.5%), financial institutions (6.4%), construction (2.9%), and community services (0.3%).

Although mining has the largest share of foreign direct investment, its inflow actually dropped by 7% last year, to \$2bn, while oil and gas investment surged by 57% to \$1.8bn.

In stark contrast to Latin American neighbours such as Venezuela and Ecuador, Colombia is actively wooing overseas investment in the energy sector as it seeks to prolong its self-sufficiency in oil. It is the region's fifth-largest oil exporter, with 1.5

bn barrels of proven oil reserves, but is forecast to become a net importer by 2011.

In an attempt to boost its dwindling reserves, the Colombian government is keen to encourage the involvement of foreign companies in the hope of new discoveries.

While its neighbours have either nationalised energy assets or upped tax and royalties, the country has an extremely generous fiscal regime. A dozen overseas companies are now engaged in the search for oil in Colombia, where the last major find was made by BP back in the 1980s.

At the same time, and also against the Latin American trend, the state-owned Ecopetrol is to float on the Bogotá exchange in late August.

The sale of a 20% stake in the group, which accounts for around 60% of Colombia's oil production, is expected to be worth

some \$3bn. It will be the government's biggest-ever asset sale.

Proceeds from the share sale will be used to finance a substantial increase in exploration activity, as well as refinery upgrades and development of ethanol and biofuels.

Equally important is the freedom the partial float will give the group to operate in a more commercial way. It has already teamed up with Brazil's part state-owned oil firm Petrobras on a Brazilian exploration venture.

It is also expected to be among the bidders this autumn when oil and gas exploration rights are auctioned off by the government in 13 offshore blocks along the Caribbean coast. Foreign firms will also be looking closely at the blocks, with interest likely from BP, Royal Dutch Shell, Exxon Mobil, Petrobras, and Argentina's Plus-

petrol. There could also be interest from Chinese energy companies.

Winners of the auction will have a 10-year right to explore in the area, and the awards will be made to companies that offer to transfer the biggest share of oil or gas production to the government if they make a commercial discovery.

The Colombian government is also wooing investors in the mining industry, with legal changes aimed at freeing up exploration areas being sat on by speculators. It also plans to improve labour conditions.

Changes include payment of royalties at the time land is requested, rather than when exploration takes place, which is expected to reduce the amount of land tied up by companies that then fail to carry out any exploration.

In 2006, Colombia's mining sector picked

up 32% of foreign investments in the country with close to 2.1bn, much of which was earmarked for exploration.

One company to have particularly benefited from overseas investment and expertise is Cerrejon, which operates the largest open-pit coal mine in the world.

Its shareholders are mining giants Xstrata, BHP Billiton and Anglo American. As Cerrejon president Leon Teicher says: "When your company's shareholders are the three biggest mining firms on the planet, that gives you access to capital, know-how, technology and mining knowledge. That is very important for us."

According to Teicher, one of the strengths of Cerrejon is its reliability. To date, it has never suffered a "force majeure" incident; supplies to its customers have never been interrupted, he says.

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# Outside interests

The new generation of business leaders in Colombia are concentrating on encouraging international investment, as well as changing perceptions of their country, says Kathryn Tully

**H**e may live in New York and work from an office on Park Avenue, but Alejandro Santo Domingo is a firm believer in Colombian industry.

He ought to be. His family-owned business, the Santo Domingo Group, is one of Colombia's biggest industrial conglomerates and owns more than 100 businesses, including breweries, energy and TV firms and one of the country's biggest newspapers, El Espectador.

Just 30 years old, the former investment banker and Harvard graduate has now followed his father, Julio Mario Santo Domingo, one of Colombia's richest men, into the family business.

Its interests span Latin America and beyond. When SABMiller took a controlling stake in the family's beer company, Bavaria, in 2005, the Santo Domingo Group took a 15% interest in the FTSE 100 company and Santo Domingo and his cousin, Carlos Alejandro Pérez, are now on the board of the world's largest brewers.

Santo Domingo is also a vice-chairman of SABMiller in Latin America and chairs the Colombian board of Bavaria, the holding company that was merged into SABMiller. He sits on the board of the Valorem, the private equity company that controls the family's portfolio of other businesses, as well as several companies within that group.

As if that weren't enough, he supports several Latin American charities, including the family's own Mario Santo Domingo



COURTESY OF ALEJANDRO SANTO DOMINGO

**Santo Domingo: 'Colombia has really come around in the past five or six years'**

Foundation, and is a business partner in fellow Colombian Shakira's América Latina en Acción Solidaria (ALAS), a new foundation that will stage a series of Live Aid-style concerts aimed at reducing poverty in the region. He says it means he spends a lot of time travelling: "I'm usually away for two to three weeks a month," he says.

The Santo Domingo group is thinking of buying some new energy companies in Colombia and possibly some new radio properties. Yet far from unequivocally defending his family's interest, Santo Domingo believes it's about time more multinationals came to the country. He says SABMiller's \$7.8bn stake in Bavaria, Latin America's second-largest beer company, was critical for the family business.

"It helped us diversify our assets in terms of geographical, political and currency risk. It also gave us an entry into markets such as China, Russia and India, and brought in what I think is one of the best management teams in the consumer goods industry. We had done very well with Bavaria but I think we had taken it as far as we could."

But as one of Colombia's largest direct investments to date, he also thinks the deal put the country on the map for international investors. "I think it opened the eyes of a lot more investors to its potential as a place to look for acquisitions or start up a business."

Santo Domingo thinks large family-run

businesses that have controlled most of Colombia's biggest companies for decades – largely because foreigners were too scared to go there – are now natural targets for first-time investors looking for joint ventures or acquisitions.

Certainly, more foreign firms seem to be warming to the idea. In February, General Electric's consumer finance division agreed to take a minority stake in one of Colombia's largest banking groups, Banco Colpatria.

"The deal with SABMiller showed that Colombia has really come around in the past five or six years with everything President Uribe has done with the Democratic Security Plan," says Santo Domingo. "This was really a way of showing how much that environment has improved, not just for people living there, but for would-be investors."

He does admit, however, that outsiders' perceptions of the country can be hard to change.

"The reputation is still there, although it has improved a lot. For example, our TV company finds it's not always easy to convince people to come to shoot movies in Colombia. But as far as I'm concerned, Bogotá is a safer city than Mexico City, Rio or São Paulo."

Although Colombia attracted \$6.3bn of foreign direct investment in 2006, it severely lags behind many of its neighbours, despite being the region's fourth largest economy.

It could do with a few more alliances along the lines of SABMiller and Bavaria to help spread the word.

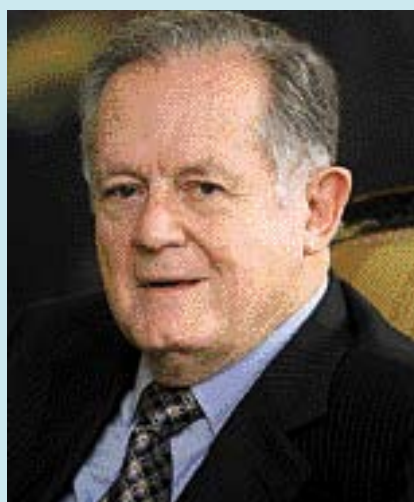
## Colombia's finest Prominent players

### Luis Carlos Sarmiento

The other Colombian to feature in the Forbes billionaires list is 74-year-old Luis Carlos Sarmiento (right), in 167th place with an estimated net worth of \$4.7bn.

Unlike Santo Domingo, who inherited his fortune, Sarmiento is a self-made man who was once Colombia's top builder. The father of five, who is grooming son Luis Carlos Jr to take over, redirected his construction fortune into financial services, and his Grupo Aval now takes in banking, insurance and commercial lending.

Based in Bogotá, last year he borrowed \$200m from Citigroup to buy a controlling stake in Megabanco from the Colombian government.



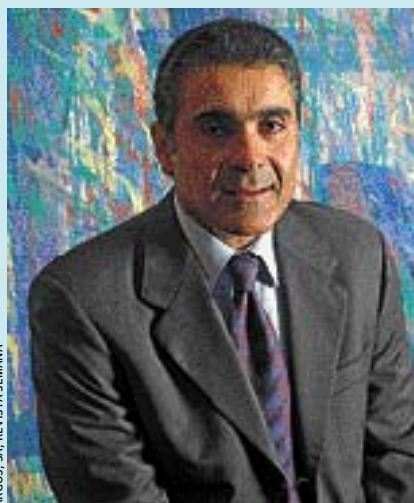
### David Bojanini

Another key player in the Colombian business world is David Bojanini (below left), president of Suramericana de Inversiones, one of Colombia's leading financial services companies. It is part of the Antioqueño group, which also takes in food and cement operations.

Like other leading business figures, Bojanini is optimistic about continued growth prospects for the country, although further reform is necessary, he says.

"We do get things done and I think we have come a long way," he says. "I don't want to be entirely pessimistic but we have not been capable of doing the reforms we need in a single try."

Colombia's reputation for violence does damage the country, but he points to the significant drop in homicides in the once-violent Medellín region in recent years: "As long as there are job opportunities for the people and economic growth maintains itself, then violence is reduced," he says. "The vast majority of Colombians are good, hard-working, honest people."



ARGOS, SA, REVISTA SEMANA

Drug trafficking and narco-terrorism have severely damaged the country's image abroad, and he is scathing in his view of the leftist guerrillas: "I am not saying this because I am a businessman, but these individuals draft children, place landmines, deal drugs and kill people. What ideology do they follow? What is their ideological message? None. Their leaders live in very opulent conditions; they have big fortunes and do not know what to do with them. These are the revolutionaries that live here."

Bojanini thinks the security problems are overstated outside Colombia. There are no-go areas, he says, but the rest of the country is very safe. He has a farm two hours away from what was once one of the worst areas, Medellín but, he says, "we move around calmly. I have encountered no problems travelling. I sleep tranquilly."

"You can be in Medellín or Bogotá, and the level of risk is equal to that of New York, London or Paris."

### Jose Alberto Velez

The cement side of the Antioqueño group, Cementos Argos, is headed by Jose Alberto Velez (top right), and is Colombia's largest cement and aggregates producer. It also has substantial interests outside Colombia, particularly in the US.

While Velez is also confident about Colombia's growth prospects, Argos is targeting overseas markets for even greater growth: "Colombia is growing, and at a very good pace, but a company like Argos has greater potential for growth than that of the country's economy."

It makes sense, he says, for the group to look outside its domestic market. It already makes around half its profits in the US and will continue to expand overseas.

Like sister company Suramericana, Argos is active in social projects in Colombia. Velez

highlights an initiative last year, in conjunction with the American agency, USAid, to help former paramilitaries and their families rejoin civil life and find new ways of making a living.

They planted crops of chilli and tropical fruits in three areas worst affected by violence in the past. Some 320 people have already benefited.

Velez believes there has been an improvement in Colombia's image in recent years, partly because developed countries, where drug abuse is greater than that in Colombia, have started to understand that the problem is not only the supply of narcotics but their consumption.

"Then you start wondering whether the egg or the chicken came first; if demand existed before there was a supply. What is true is that as long as someone is willing to buy drugs, there will be someone in the world willing to produce them, even if it is in a small synthetic lab."

### Francisco Diaz

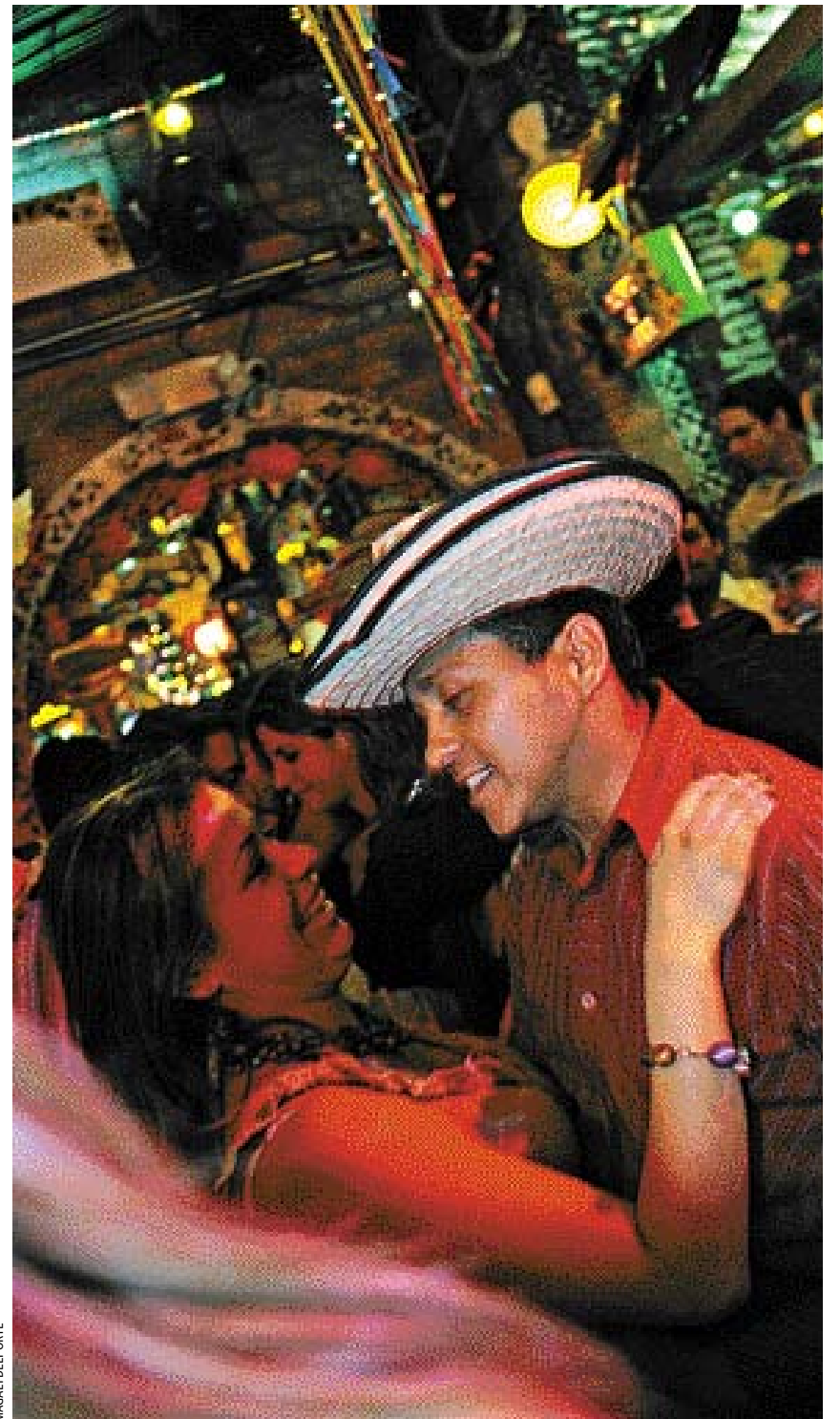
Businessman Francisco Diaz (bottom right) is also confident in the continued growth of the economy. Chief executive of the building materials and ceramics conglomerate Grupo Corona, he believes growth could reach 8%, "if we polish our programmes a little and recharge our batteries".

Reform must continue and investment in employees is a key factor, as well as reincorporating more people back into the formal economy, he says. As part of its investment in people, Grupo Corona has brought back three dozen Colombians who were studying overseas in universities such as Oxford, London Business School, Harvard and Columbia – "and we have spread them throughout our organisation," says Diaz.

"It is not only a business in which we can compete internationally, but also a business that is giving back to the community."

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# Hidden treasures

Were it not for its instability, Colombia, with its natural wonders and rich heritage, might already be a firm favourite on the tourist trail. As it is, the country's secrets offer rich rewards for the enlightened traveller, says Jeremy Lennard

**A**sk people to rattle off a few words they associate with Colombia, and you're likely to hear "cocaine", "violence", "kidnapping", "guns" and "lawlessness". If you're lucky, you might get "coffee", "Gabriel García Márquez" and "El Pibe" – Carlos Valderrama – Colombian football's golden boy with the equally golden, afro locks.

Most likely absent will be any mention of a land of astonishing natural beauty and diversity. Colombia is home to snowcapped volcanos, lush subtropics and coffee plantations, cloud forests and vast tracts of rainforest which, on the all-but-deserted west coast of Chocó, meet the Pacific surf across broad sweeps of black sand peppered with bright red burrowing crabs. Nor will you hear tell of narrow cobbled streets and balconies creaking under the weight of bougainvillea in the Caribbean resort of Cartagena de las Indias – the finest colonial city in the Americas. Founded in 1533 by Pedro de Heredia as Spain's gateway to Latin America, it grew rich on plundered gold and treasure. The sturdy fortifications built to protect it from pirate attack still stand today.

Add to the mix the high-altitude buzz of the capital Bogotá – its cosmopolitan cafes, bars and innumerable salsa clubs sit amid pollution and poverty on a high plain 2,640m above sea level, up in the eastern branch of the Andes – a Pre-Columbian heritage still visible in the statues and tombs of San Agustín and the dazzling display of art in the capital's gold museum, and a welcoming and gregarious people from ethnic backgrounds as varied as their surroundings, and Colombia should feature high on any traveller's list of dream destinations.

Pablo Escobar's violent reign as head of the Medellín drug cartel ended in 1993, when he was shot dead by a police marksman as he fled across the rooftops from a raid, but his impact on Colombia's image has been far more enduring. Much has

changed in the past 20 years, and under the controversial law-and-order policies of the current president, Alvaro Uribe, security has improved in some areas. The country's largest guerrilla army has been driven off some of the territory it once controlled, and many paramilitary groups disarmed under a deal cut with Uribe's government. Travel is relatively safe in the coffee zone, Cartagena and parts of the Caribbean coast, in Bogotá and on the high plain to its north.

The steep, verdant mountainsides of the coffee-growing provinces of Quindío, Risaralda and Caldas offer spectacular horseback treks between grand haciendas, where life has changed little since the introduction of coffee, bananas and bamboo in the 19th century. There can be few better starts to a day than sitting on the veranda with a breakfast of corn pancakes, scrambled eggs and a cup of the local brew, watching hummingbirds flit from one hibiscus flower to another – and few better ways to spend the rest of it than riding through startlingly beautiful countryside to a hot thermal pool at the foot of a 120m waterfall.

On the Caribbean coast, Cartagena and the wild coastal woodlands and coral reefs of the Tairona national park are also relatively safe destinations, but the salt flats

and flamingo lagoons of the desert province of La Guajira beyond the park represent an adventure into a more lawless land.

Despite the security crackdown, the guerrillas are still a force to be reckoned with in some rural areas. Some paramilitary groups have morphed and re-emerged and other new ones have sprung up. Local knowledge and access to up-to-date information from reliable contacts are a prerequisite in setting up almost any overland travel. Bear in mind, too, that little English is spoken outside the cities, and that good Spanish and a degree of cultural awareness can be invaluable in any sticky situations that may arise.

The foreign office currently advises against any travel in four of the country's 31 departments and against all but essential travel in parts of a further 14. It also warns that "the security situation is constantly changing and that you could be at serious risk" in parts of the country not listed. Guide books such as Footprint and the Lonely Planet are less scary in tone, but they still advise travelling whenever possible by air, and if overland journeys are to be made, that they should be on major roads in the hours of daylight. They also warn of endemic street crime – there were still more than 160 armed robberies of individuals a month in Cartagena last year – and all manner of alarming ruses to separate you from your belongings in major urban areas. Tour companies such as Journey Latin America tie their own advice closely to that of the foreign office.

But even without access to the country's most spectacular wilderness, there is plenty in Colombia to take your breath away. And for a country with so much to offer, it has very few foreign visitors. The tourism industry is in its infancy and many areas have little or no tourist infrastructure. To many that is very much part of the country's allure – take a bit of courage and plenty of care and you will be rewarded with myriad delights virtually all to yourself.



Clockwise from top left: Plaza de Bolívar, Bogotá; Andres Carnes club, also in the capital; Villa de Maria guesthouse near Pereira. Above: traditional Colombian fare

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