COLOMBIA

Cartagena, Colombia

On the verge of securing peace

After a decade of economic growth and social progress, the long-awaited bilateral ceasefire between the government and the nation's largest rebel group has set the ground for a new wealth of opportunities for Colombia

In spite of continued armed conflict, Colombia's economy has shown remarkable resilience over the past decade, with the International Monetary Fund forecasting in October that GDP would grow by 2.7% in 2017.

Factors such as sound macroeconomic policies, independent institutions and a stable financial system have made for a robust nation, able to navigate its way through 10 years of consistent growth and reduced unemployment. The annual GDP growth averaged 4.8% from 2004 to 2014, according to the World Bank, and in 2015 the unemployment rate hit a record low of 8.9%. As a consequence of the 2014-15 oil crisis, GDP and foreign investment did indeed suffer, and the Santos administration was obliged to put in place a number of austerity measures and tax reforms. Nevertheless, Colombia's economy remained strong, and the country's GDP growth rate made it one of the best-performing large economies in the region in 2015.

For the most part, 2016 has been marked by the ongoing peace process between Colombia's oldest and largest rebel group, the FARC (Fuerzas Armadas Revolucionarias de Colombia), and the Colombian government. Despite decades of internal conflict and drug-related security challenges, Colombia has managed to maintain strong democratic institutions characterized by peaceful, transparent elections and the protection of civil liberties.

Demographically speaking, the growth of Colombia's middle class has been one major change in the country's makeup in the last 15 years, doubling from 16% to around 32% of the population. This increase is supporting the integration of Colombia's small and midsize cities—home to populations with newly acquired purchasing power—into the economy. The ripple effects have been particularly obvious in the booming retail sector. Just a few years ago, the oil and mining industries were the drivers of growth of Colombia. Over time, this role has shifted toward the services sector—including not only retail but also industry, real estate and construction, and a flourishing tourism sector.

Middle classes keeping retail sector busy

The Global Retail Development Index 2016—the annual study by strategic consultancy A.T. Kearney that ranks the top 30 developing countries for retail expansion worldwide—put Colombia in second place among Latin American countries. In recent years, both existing and nascent retail brands have proliferated in Colombia. Trends observed include a steep and steady growth in e-commerce; an increase in smaller, independently owned retail formats (mom-and-pop shops); an ever greater impact of mobile technologies; and an increasingly demanding and sophisticated shopper. According to Carlos Mario Giraldo Moreno, CEO of the country's largest retail company by market share, Grupo Éxito, Colombia is a laboratory for all kinds of formats, from premium to mid-market and discount. "The good thing about

Andrés Felipe Duque Martínez
CEO
Redeban Multicolor

Carlos Mario Giraldo Moreno
CEO
Grupo Éxito

Colombia is that there is space for all those formats, because we are a growing country with thousands of people whose earnings are increasing in a huge emerging market," he says. "We recently launched our cash-and-carry brand in Colombia, called Surtimayorista."

Grupo Éxito is one of the largest private businesses in Colombia and the leading retail company in not only Colombia but also South America, with around 2,600 stores on the continent. It is present in Colombia (under the Grupo Éxito brand), Brazil (with Grupo Pão de Açúcar), Uruguay (with Grupo Disco) and Argentina (with Libertad). Giraldo Moreno sheds some light on the mechanism behind its success: "We want Grupo Éxito to be a 'lovebrand.' Compared to other cultures, Colombians are very emotional. … We want our brands to be close to the habits of our customers, to mirror the soul of their countries."

Éxito is also one of the largest employers in the country. "We are present in more than 100 cities and have around 8 million customers in Colombia," says Giraldo Moreno. "It is fair to say that what happens to Colombia will happen to Grupo Éxito and that Grupo Éxito is a good indicator of how things are going in the country." The company also plays an active role in Colombia's social development; its Éxito Foundation distributes nourishment to 28,600 children and 9,600 pregnant women every year, supporting Colombia's goal of zero malnutrition by 2025.

Another leading retail company is Grupo Olímpica. It is the second-largest in the country and an exception to the general rule that few local companies are able to put up with the increasingly competitive standards of the industry. Indeed, over the years international brands have progressively owned and integrated local retail players. Olímpica, though, has resisted and is today the only retail company 100% owned by Colombians.

President Antonio Char Chaljub explains that Olímpica has survived the entry of large multinationals by consistently offering high-quality products at lower prices, something that has been possible thanks to strict efficiency policies. Despite the fierce competition, Olímpica has managed to consistently increase both its operating income (up 12.2% between 2014 and 2015) and market share (from 19.5% to 20.9% between 2014 and 2015).

The crux of the challenge for local retailers is competing against big multinationals whose profitability does not depend exclusively on the performance of Colombia. "All of our business is in Colombia, which can sometimes lead to operational disadvantages," says Char Chaljub. Unlike in other countries, the Colombian retail market has always been very competitive, even before the entry of international players in the 1990s.

"I believe that efficiency has been one of the keys to our success," Char Chaljub continues.

Olímpica's expansion plan has never been so ambitious. "We believe that now is the right moment to undertake an aggressive expansion plan," confirms Char Chaljub. The plan is to end 2016 with 25 new outlets and reach Colombia's 100 largest cities. "Over the following years we also plan on tapping into smaller cities," Char Chaljub continues. "There are 1,137 municipalities in Colombia. The middle class keeps growing, and our target market grows with it. Following what happened in Europe a number of years ago, in Colombia we're seeing an increasing number of large retail stores placed on the outskirts of the cities. That's where the market is heading, both in the large and medium-size cities—and that's precisely the store format we feel most comfortable with."

Medium-size cities in Colombia are growing at faster rates than the large ones, and thus they'll be at the core of Olímpica's expansion strategy. Copservir is one robust Colombian company with a successful business model apt for both small and big cities. By 2018, it plans to have 1,000 drugstores and mini-markets. Andrés Hernández Böhmer, the president of the company, says its mission is "to bring health and beauty to all Colombians." In 2015 Copservir was ranked as the 14th Best Place to Work in Colombia.

A financial system well intact

The development of Colombia can't be understood without reference to the soundness of its macroeconomic indicators and the robustness of its banking system. In fact, the latter is so strong and advanced that many foreign banks have found it difficult to penetrate. Fundamental to Colombia's financial panorama is Grupo Aval, which owns four different banks and a number of subsidiaries. Grupo Aval is present in 12 different countries and has more than 14 million clients. Owner Luis Carlos Sarmiento Angulo is

Luis Carlos Sarmiento Gutiérrez
President, Grupo Aval

one of Colombia's most influential businessmen and philanthropists. His son, Luis Carlos Sarmiento Gutiérrez, is the company's president and a well-respected authority in his field.

Grupo Aval has been a major contributor to the country's development by increasing banking penetration, offering both consumer and commercial loans to a vast majority of the population. Grupo Aval is, in addition, the largest pension fund manager in Colombia. A phenomenal company that is the market leader in all the businesses in which it operates, it is profitable and with very healthy assets. Many say that few families have shown more love for Colombia than the Sarmientos.

In a bid to widen the spectrum of people who can use its services, Grupo Aval is interested in improving financial inclusion, one of the government's key objectives for 2014-18. Currently, around 65% of Colombia's population has a bank account. "However," Sarmiento Gutiérrez points out, "when we measure the total loan portfolio of the financial sector as a percentage of the gross national product, it only comes out to 40% to 45%, which is low when compared to the most developed Latin American countries, and very low when compared to developed countries. Our aim should be to achieve 100% penetration in both indicators." The company's emphasis continues to be on deepening the financial penetration of the Colombian population, offering commercial loan products to contribute to the development of the country and consumer loan products to help expand Colombia's middle class. Looking ahead, Grupo Aval would like to become a regional player, with Peru, Chile, Argentina and Mexico as top targets.

Enabling more Colombians to accept electronic payments is another way to support financial inclusion, and the company Redeban uses high innovation and technology to do so. Colombia has one of the most extended uses of cash in the world, with only 12% of transactions being carried out electronically. As a result, a promising market has emerged for the electronic transaction payment businesses. Redeban CEO Andrés Felipe Duque Martínez says, "We aim to double the penetration of electronic payments over the next three years, to 2020. The more electronic transactions there are in Colombia, the better for us."

Ample room for the construction sector

As with most Latin American countries, with the exception of Peru, the greatest rate of informal employment in Colombia lies in the construction industry (68.6%, according to the International Labour Organization). In October 2015, CAMACOL (Colombian Chamber of Construction) predicted that Colombia's construction sector would grow by 9.7% in 2016. To date, this growth has been spurred largely by the real estate sector. However, major new infrastructure projects have given rise to new investments that could significantly boost output, and the government plans to invest up to $100 billion in transport infrastructure by 2021.

Stability in Colombia over the past 10 to 15 years has meant a change in the cycles of the construction sector. As Francisco Alejandro Martínez Restrepo, president of Arquitectura y Concreto—one of the companies embodying the sophistication of Colombia's construction and real estate sectors—explains, while these cycles previously lasted around seven or eight years, "the industry has experienced over a decade of uninterrupted growth." Some say that the current cycle has lasted so long because of the depreciation of the Colombian peso.

For now, real estate is finding a positive growth partner in tourism, developing together at a steady pace on Colombia's Caribbean coast, especially in Cartagena, where Arquitectura y Concreto is developing one of its signature projects: Calablanca. Arquitectura y Concreto is Colombia's largest construction company according to built area. With offices in Colombia's major cities, the company has developed more than 370 projects in the country and partnered with some of the biggest players nationwide, including Grupo Éxito, Grupo Aval and Grupo Argos. Over time, it has turned its hand to becoming an expert in constructing a wide range of developments, from hospitals to high-end residential towers and shopping malls.

Arquitectura y Concreto has a targeted approach, pinpointing specific needs in the market such as middle-class residential housing and shopping centers. It is also committed to delivering what it promises to clients. The erection of the two largest shopping centers in Medellín is already underway. In addition they see great opportunities in the health sector. As Martínez Restrepo affirms, "Colombia has outstanding and cost-effective medical institutions capable of attracting international patients."

A further attribute is the country's reputation for being able to provide high-quality, highly complex medical treatments at affordable costs, which is gradually positioning Colombia as a hub for medical tourism. Thanks to

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Colombia works to improve profitability of coffee farmers. www.federaciondecafeteros.org

companies such as Laboratorios Delta, foreigners will be able to receive innovative treatments for killer diseases such as lung cancer in Colombia. A leading logistics operator that imports highly sophisticated medicines and distributes to more than 15 countries in South America and the Caribbean, Laboratorios Delta is Colombia's sole authorized dealer of the groundbreaking therapeutic vaccine CIMAvax. CIMAvax has also attracted attention from the U.S., which is interested in licensing it.

In Colombia 5,000 people are diagnosed with lung cancer every year, explains José Alejandro Castaño Ospina, president of Laboratorios Delta: "Instead of patients having to wait for the vaccine to be licensed in their respective territories—a relatively lengthy process—they'll first be able to receive the treatment in Colombia." CIMAvax extends the life expectancy of the patient by five years in 23% of cases. Survival over 84 months was 18% for those vaccinated patients, with a high quality of life during that period.

Colombian companies going cross-border

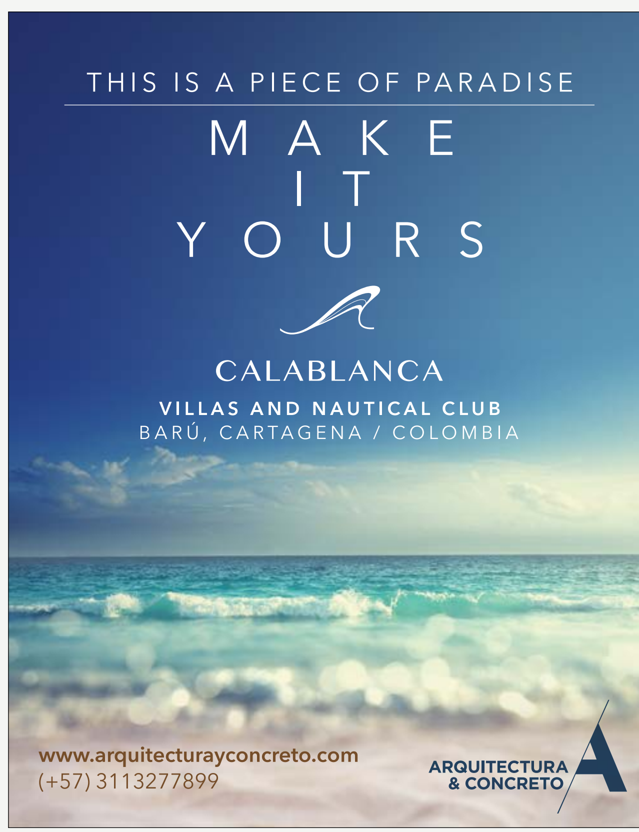
In the past decade, Colombia's companies have naturally grown to the rhythm of the country's economy. And today, Colombia boasts some of the most international companies in Latin America.

Improvements to regulatory frameworks have only supported expansion beyond borders, because of lending stability. This is clear, for instance, in the energy sector, and EEB (Empresa de Energía de Bogotá) has taken advantage. According to *AméricaEconomía*, EEB is the 52nd most global Latin American business. President Astrid Álvarez Hernández is confident that "by 2025, Grupo de Energía de Bogotá will be the number one company by profit in the Colombian market with a presence in six Latin American countries. We also intend to increase our presence in Central America, a region with favorable demographics and a lot of potential in terms of interconnecting market development and the business of low emission generation."

Although Colombian *multilatinas* are spreading the Colombia brand all over the continent, it hasn't always been so. Perhaps the first institution that tried to commercialize Colombian products outside of Colombia on a large scale was the FNC—Federación Nacional de Cafeteros de Colombia (Colombian Coffee Growers Federation). Thirty years ago, the FNC was responsible for 80% of foreign earnings in Colombia. Today this figure has dropped to 6%, but, socially speaking, the FNC remains important. "In a way, the FNC could be understood as a state within the state, because in the past we helped build roads, schools and hospitals, just like a government," says its CEO, Roberto Vélez Vallejo. In addition, the FNC works to improve the conditions of Colombian coffee growers too. Indeed, making agriculture a profitable business is extremely important because it brings more opportunities to the rural population.

Much hinging on peace process

The struggles of the coffee sector are, however, also a faithful representation of one of Colombia's greatest problems: that of ensuring opportunities for everyone, and especially the rural population. It is a challenge closely tied to the internal conflict. The FARC, the largest guerrilla group in the country, was created by individuals who felt neglected by the Colombian government, with the goal of creating a society in which the needs of the rural population would be addressed. Peace talks between the FARC and the government have been ongoing and, with the government determined



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to ratify the second version of the Peace Agreement presented on Nov. 24, ending hostilities will play a central role in the agenda of the government over the coming months.

For the Colombian population, the peace process brings hope and fear in equal portions. Leading media companies such as Caracol have the responsibility of providing Colombian society with a large amount of balanced, unbiased information. Its president, Gonzalo Córdoba Mallarino, is adamant that the positive side of Colombia has to be projected inside and outside the country. "On the news, you see conflicts in the Middle East, hunger in Africa, division in Europe and polarization in the U.S. In a world where failure stories abound, Colombia is a success story," he asserts.

Some studies suggest that, without the underlying conflict, Colombia's economy would be between 15% and 20% richer. Indeed, peace is closely linked with opportunities, not only economic but also social. It is imperative that the country's leading institutions fully comprehend their ability to help overcome over 50 years of internal conflict by instilling values and bringing education to remote areas.

The rector at Universidad Santo Tomás, Fray Juan Ubaldo López Salamanca, emphasizes how universities can play a role by creating opportunities for everybody. "When it comes to the peace agreements, society is a little divided," he says. "As a Catholic university, we aim to do three things: humanize, evangelize and serve." Founded in 1580 by the Dominican Order (Order of Preachers), Universidad Santo Tomás is the oldest university in Colombia and the fifth-oldest on the continent. Most of its students come from middle-income families, and 7,000 of its 33,000 students receive some kind of financial compensation.

Universidad Santo Tomás was one of the first universities to implement correspondence courses in Colombia, and today it has 23 CAUs (remote support centers for its long-distance education community) that allow it to bring education, and thus future possibilities, to the remotest areas of the country. "In order to enable reconciliation, universities need to reach out to the rural population and contribute to the healing of the minds and bodies of those that have been affected by the conflict," he states. Facing matters head-on, the university has created a chair for peace, a Victimology Institute, and almost 20 years ago implemented a Social Communication for Peace Department.

Looking ahead, the university will keep developing in all the cities where it is present, spreading the values of justice, sustainability, peace and interest in the common good. Internationalization is also an essential part of its 2016-27 development plan, specifically increasing the mobility of its students across the globe, thereby opening their horizons. "On an institutional level, I would like to put the university on the map, both nationally and internationally. It is a gradual process that started with the exceptional work of my predecessors," says López Salamanca. The Dominican Order was founded in 1216 and is celebrating an important 800th anniversary this year. "Our order will continue doing important things throughout the world and preaching through education," López Salamanca adds.

Peace is expected to attract a new wave of tourism

Resolving the peace process will benefit the tourism sector, improving Colombia's international image. As one of the most biodiverse countries in the world, with an important cultural heritage, and as the only South American country with coastlines on both the Pacific Ocean and the Caribbean Sea, Colombia undoubtedly has the potential for becoming a major tourist destination.

Grupo GHL operates more than 65 hotels in 13 countries, some of them under their own GHL brand, and others under brands such as Sheraton, Hyatt, Wyndham, Radisson and Sonesta. Previously, international hotel

Fray Juan Ubaldo López Salamanca, O.P.
Rector
Universidad Santo Tomás

brands were hesitant about coming to Colombia; the market was complex, and the country had a suboptimal reputation. In this context, GHL was the pioneer to bring international franchises to Bogotá. "Still today, all our operations in Colombia are backed by Colombian investors, just like in every other country, such as Ecuador and Peru. In the Colombian hotel industry foreign investment remains rare, but I'm confident that will change in the future," says Jorge Londoño Riani, president of Grupo GHL.

After Bogotá, Cartagena receives the most tourists to Colombia. It is the fifth-largest city in the country and has a diverse cultural offering. Home to the most important port in the country and one of the most significant in Latin America, Cartagena has a solid and balanced economic structure. Cartagena's mayor, Manuel Vicente Duque Vásquez, says, "Cartagena is a magical city, highly appreciated for its beauty and for the warmth of its people. We have a strong cultural heritage and world-class cuisine. Overall, the city is very safe too—an attribute not all Colombian cities can boast. We are working on several projects to double the number of tourists over the coming years."

The city of Cartagena is currently negotiating with various international hotel chains (Sheraton, Four Seasons, Melià and Hyatt among them) to increase the number of hotel rooms in Cartagena. The city is also working to improve tourism infrastructure. "We have plans for Barú, a beautiful, virgin island just 10 minutes from Cartagena with enormous potential," reveals Duque Vásquez. Improved air connections with Europe are also a priority. "The U.S. is one of our most important sources of tourism to the city, which is why we have direct flights to New York, Miami and Atlanta." However, the 30,000 tourists arriving from Europe currently need to come through Bogotá. "We want to change that by establishing direct flights," he says.

Manuel Vicente Duque Vásquez
Mayor, Cartagena

Often dubbed the Oscars for tourism, the 2016 World Travel Awards declared Cartagena the leading destination in Colombia. "I believe that those recognitions are the result of many years of sound initiatives on our part," adds Duque Vásquez. "All our efforts have the objective of attracting more tourists and offering them a great experience. This award fills us with pride, and at the same time it obliges us to keep working on improving the sector." Cartagena's tourism sector is certainly poised for further growth. However, Duque Vásquez knows that there are obstacles to overcome in the city too. With social inequality as the backbone of his mandate, he is concerned about fighting poverty and working for those displaced by the war.

Cartagena's strong construction and logistics sectors complement its robust tourism sector. All three areas are expected to be important growth drivers in the city. The public and private sectors are cooperating to attract and retain investments in the city. As Duque Vásquez says, "peace will bring tourists and investors to the country, which in turn will bring jobs and opportunities. It will be a virtuous circle, but we need to plant the seed first." He points out that "in any case, the peace process has positioned the country on the map, and that's already very positive." Thanks in no small part to Duque Vásquez's vision, Cartagena is working hard to increase its capacity to host tourists, to be more equitable and to capitalize on its nickname, the City of Peace.

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