

LATIN AMERICAN PRIVATE CAPITAL & ESG DEAL CASE



DATE OF INVESTMENT September 2018
TRANSACTION SIZE Undisclosed
PARTICIPATION STAKE 77.6%

Ashmore

COMPANY NAME

Elecnorte
<https://www.elecnorte.com/>

INDUSTRY/SECTOR Energy Transmission

LOCATION Colombia

DESCRIPTION

Elecnorte is a Colombian company that has been awarded a 25-year concession that includes the design, construction, operation and maintenance of two electric power transmission lines and substations in the Caribbean region of La Guajira, in the northern part of Colombia. The concession involves the construction of 110kV in transmission lines, one between Riohacha and Maicao and another between Riohacha and Cuestecitas, as well as the refurbishment of three existing substations at Riohacha, Maicao and Cuestecitas.

INVESTOR PROFILE

Ashmore is a specialist Emerging Markets investment manager with over twenty years of experience in these markets. Ashmore listed as a public company in 2006 and has offices and activity in ten countries across both developed and emerging markets. Ashmore Colombia is a subsidiary of Ashmore Group dedicated to supporting the firm's operations in the Andean region.

FUND NAME Ashmore Andean Fund II +
Fondo Ashmore Andino II

FUND SIZE USD248m

TOTAL AUM USD742.5m¹

Ashmore's involvement in the Electrical Reinforcement of La Guajira 110Kv concession in Colombia improved energy access in a region marked by income inequality. This project included constructing transmission lines and refurbishing substations to enhance the electrical grid's reliability. Ashmore focused on community engagement, used existing infrastructure to minimize environmental impact, and collaborated with local suppliers. The project increased energy transportation capacity, reduced power cuts, and benefited over 700,000 users while creating jobs and supporting environmental and social initiatives. Importantly, it lays the groundwork for future renewable energy projects, contributing to energy diversification in the region.

OPPORTUNITY

Colombia's high degree of income inequality influences access to energy. This is most evident for the Caribbean department of La Guajira, a coastal desert region in northern Colombia where 42% of the population belongs to indigenous groups and 67% of the population live under the poverty line.²

In 2013, the Colombian Energy Planning National Authority (UPME) launched a 15-year reference plan to achieve an adequate supply of energy based on the country's existing infrastructure and projections of electricity demand. As part of that plan, UPME identified a gap in the energy transmission capacity that affected reliability and quality of service in much of the Caribbean region. In 2016, UPME sought to strengthen the energy network in the Caribbean through Plan 5 Caribe, a framework that, among other things, increased energy subsidies for lower-income families, mobilized additional resources for energy transmission projects in the region, and called for more private investors to participate in energy projects.

One of the concessions within UPME's Plan 5 Caribe framework was the Electrical Reinforcement of La Guajira 110Kv, which was identified as an urgent project by the national government. The 25-year concession involved the construction of two 110kV transmission lines, one of about 76.5 km length between Riohacha and Maicao and another of about 62 km length between Riohacha and Cuestecitas, and the refurbishment of three existing substations at Riohacha, Maicao and Cuestecitas. The project would improve the reliability of the electrical grid in a region primarily populated by small municipalities, remote ranches and indigenous villages. The concession went through an open bidding process and was awarded to Elecnorte in September 2018, with Ashmore Andean Fund II + Fondo Ashmore Andino II acting as the project's main sponsors.

¹ Latin America-focused AUM.

² DANE, 2021.

LATIN AMERICAN PRIVATE CAPITAL & ESG DEAL CASE

EXECUTION

Ashmore began working on the concession by hiring a management team, contracting an engineering and construction firm and sourcing additional financing through agreements with the IFC and local bank Davivienda. Before construction could begin, the company held prior consultations with 154 communities over eight months to build trust and obtain environmental licensing. To complete this process, Elecnorte hired a team of local experts and translators who worked with local representatives, community leaders and national authorities to design and implement specific consultation methodologies appropriate to the characteristics and preferences of each community.

Throughout these conversations, Elecnorte worked to understand local needs and mitigate environmental impact caused by the construction. To take advantage of existing infrastructure, the project used existing access roads with limited improvements and drones to install wires with minimal impact on vegetation. Since La Guajira is a region with a significant presence of indigenous communities, the route of the transmission lines closely follows existing highways to minimize disrupting settlements and protected areas. Additionally, all construction materials were largely sourced from existing and licensed suppliers in the region to avoid the usage of new quarries.

By the time of completion, energy transportation capacity was increased in the region. The transmission lines increased the reliability of energy service in La Guajira, while also laying the foundation to evacuate future renewable energy from solar and wind farms that are planned in the region. In May 2022, Ashmore exited Elecnorte through a strategic sale to Grupo Energía Bogotá, resulting in a 46% IRR in local currency.

ESG IN FOCUS

The Elecnorte project was able to successfully raise levels of reliability, continuity and quality of the National Interconnected Energy System Supply between Albania (Cuestecita), Riohacha and Maicao. More than 700,000 users have benefited from this service. The project reduced power cuts by 72.24% in an area of Colombia with extremely high levels of poverty and inequality. Elecnorte allowed the generation of more than 1,100 direct jobs in the area of influence, as well as social and property compensation for the communities present of more than USD 13.5m and investment in environmental projects of USD5.5m.

The final impact on vegetation was only 13% of the initial estimates, yet the calculated reforestation to compensate for the initial projection was carried out in full, with more than 500 epiphytic plants relocated to a conservation area. In order to better support communities, Elecnorte joined the Alimercambio project operated by the Baylor Foundation, facilitating the exchange of recyclable disposable materials for food.

Finally, the region where Elecnorte was built has the highest wind potential in Colombia and therefore will allow the interconnection of new renewable energy projects. These transmission lines will allow the interconnection of more than 1.8 GW of renewable energy parks to be built in the department of La Guajira, continuing to achieve the goal of diversifying the country's energy grid beyond hydroelectric power.

