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COLOMBIAN

PRESIDENTIAL ELECTIONS:

MAPPING THE SECOND-ROUND
STRATEGIES.



From Vali Consultores, a government and public affairs firm, we present the following report on the Colombian presidential election that took place on May 29th where an analysis of the national overview and the changes in the voting trends of Colombians is addressed. Likewise, we present an outlook on governance and an analysis of the implications that an eventual government will have on the first 100 days in terms of economy, health, technology, mining-energy policy, infrastructure, and agriculture on the two candidates who will face each other again on June 19th, Gustavo Petro (Pacto Histórico) and Rodolfo Hernández (Liga de Gobernantes Anticorrupción).

Through this report, we seek to provide clarity on the outlook for the next few days, as well as to outline the political scenarios for the next four years.

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NATIONAL OVERVIEW AND SHIFTS IN VOTING TENDENCIES .

On May 29th, the presidential election first round in Colombia for the 2022-2026 term took place. With a turnout of almost 55% of the population eligible to vote, the first-round winner was the Pacto Histórico candidate, **Gustavo Petro with 8,527,768(40.32%) votes**; followed by the movement Liga de Gobernantes Anticorrupción candidate **Rodolfo Hernández, with 5,953,209(28.15%) votes**. Next, **Federico Gutiérrez** from Coalición Equipo por Colombia with **5,058,010 (23.91%) votes** and, from the Coalición Centro Esperanza candidate **Sergio Fajardo with 888,585 (4.20%) votes**. It is important to note that the vast majority of Petro's vote was in the Colombian peripheral regions whilst Hernández gained important electoral support from the country's inner regions. The electoral contest was permeated by a strong opinion vote and the second round between Petro and Hernández will be held on June 19th.

NATIONAL RESULTS.

The first presidential round dynamics reflected the sense of indignation and dissatisfaction with both the traditional political elites, clientelism, and corruption associated with political parties. In this sense, what the results of the elections showed was the desire for change, although this aspect was not picked up by a single candidacy, both Gustavo Petro and Rodolfo Hernández, managed to capitalize on this element. Petro as an alternative leader, and Hernández as a political outsider.

Although the sense of indignation was the election day protagonist, it is important to mention that the left, represented by Gustavo Petro, did not catch all the sectors that expressed dissatisfaction with how the government has been developing in the country. On the contrary, the results obtained by Hernández show that the desire for change is not accompanied by an ideological dye, which means it is not exclusively related to the figure of Gustavo Petro. The ideas promoted by Rodolfo Hernández manage to convince sectors that have traditionally voted for conservative ideas and that reflect a desire for change in the management and administration of resources rather than a transformation of the institutional apparatus.

In a second aspect, the results of the first round show a punishment to the traditional parties at the polls, evidenced in two independent candidacies that did not gather the support of the collectivities that currently make up the government.



Only in a single district (out of 32) did the Coalición Equipo por Colombia (some government party members were supporting this candidacy) manage to position itself, which shows erosion of the traditional party images, which in turn, significantly diminish their possible influence looking forward to the second presidential round.

This implies that the change sought by the Colombian electorate is significantly distant from the ideas and visions that the political parties have promoted, which may translate into a low influence of the collectivities in the electorate for the decision to be made in June 19th. On the contrary, their support or adherence to the different campaigns could be counterproductive given their negative image considering that a power reconfiguration is taking place, understanding that the two candidacies that advance to the second round are not directly related to the political parties or the so-called traditional actors.

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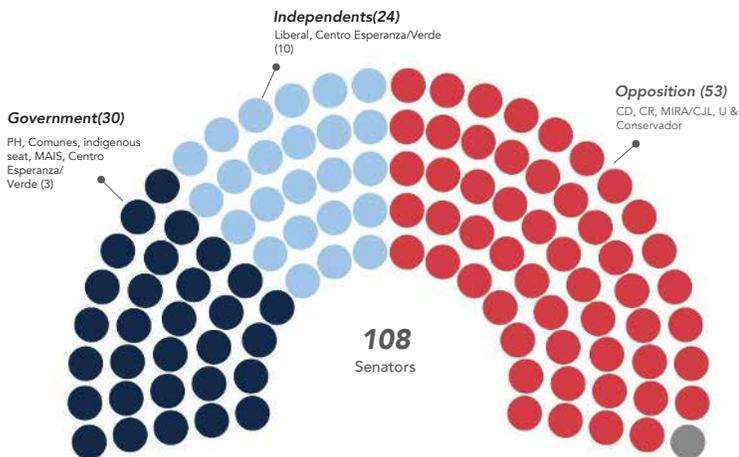
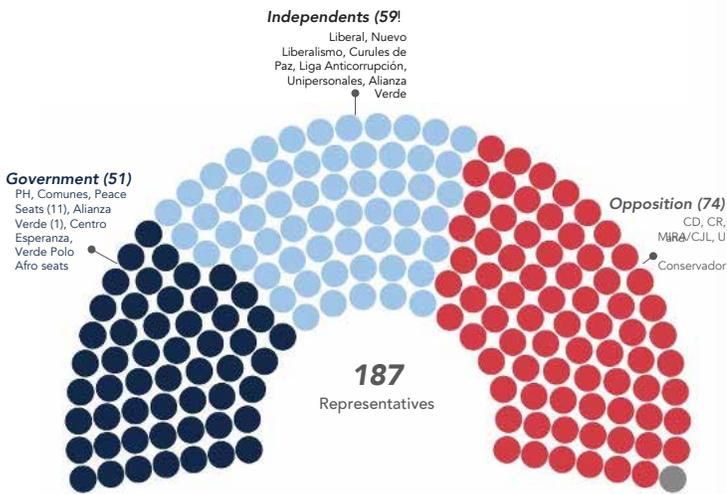
GOVERNANCE SCENARIOS AND ALLIES .

GUSTAVO *Petro*

The governance capacity scenario for Gustavo Petro is the clearest among the candidates who passed to the second round since he has some initial probable allies: Pacto Histórico, Peace Seats (given by the Havana Peace Agreement)¹, and indigenous constituencies, which in the Senate are close to 31 votes while in the House of Representatives they add up to 52 seats. In neither of the two scenarios would Gustavo Petro obtain the necessary majorities to execute his government plan, so he would be forced to generate consensus so that the relationship between the executive and the legislative does not turn into a deadlock in which the agenda does not move forward and the reforms that Pacto Histórico intends to promote do not materialize.



¹Following the signing of the peace agreement between the Colombian State and the FARC guerrilla, the armed conflict victims were granted the possibility to participate in the legislative elections in their own electoral districts. Through the issuance of Legislative Act 02 of 2021, the House of Representatives will have, for the periods 2022-2026 and 2026-2030, 16 peace seats representing the victims most affected regions during the conflict.



Furthermore, some parties that make up the Senate and the House of Representatives that have a significant number of seats, such as Partido Liberal, La U, and Cambio Radical, are not directly defined by ideological and/or programmatic aspects but by regional tendencies and interests. Considering this, Gustavo Petro could reach a consensus with members of these collectivities to obtain support within Congress through negotiation on resource allocation for the regions, as well as the promotion of programs and projects that would allow him to obtain simple majorities for ordinary bills approval. This implies that the structural reforms he intends to promote would be directly conditioned by the positions that the aforementioned parties decide to take.

Likewise, if elected president, Gustavo Petro will face a strong opposition scenario during his four-year term with a Congress that will exercise constant political accountability so the tension between both powers might rise, as well as general difficulties for the legislative agenda development in an eventual Pacto Histórico government. Finally, the discipline and cohesion of the collective that supports Gustavo Petro is not guaranteed since the diversity of political figures and interests within could generate tensions leading up to a rupture, weakening the executive branch governance capacity.

RODOLFO Hernández

Initially, Hernández would have the most uncertain outlook in the legislature, either positively or negatively. Regarding the issues he has mentioned he would promote as president, the main one has to do with an anti-corruption agenda.

In the initial scenario in Congress, the former Bucaramanga mayor would have the support of the two representatives of his movement 'Liga de Gobernantes Anticorrupción', far from having majorities in the legislature. Thus, negotiations, dialogues, and programmatic alliances with a good part of Congress will become relevant to establish a common agenda within the premises.

However, with the speeches and statements made after the pre-counting of votes, Rodolfo Hernández counts with the support of Federico Gutiérrez, and with the support of traditional sectors (Centro Democrático, Cambio Radical, Partido de La U, MIRA/Colombia Justa Libres), although they have not been officially accepted by Hernández. Nonetheless, Hernández could count on 53 votes in the Senate, and 74 in the House of Representatives coming from the aforementioned parties.

Considering his anti-corruption agenda, Coalición Centro Esperanza-Partido Verde could play a relevant role in the management of issues within the Congress, mainly in the Senate, where it has 13 senators, of which some have been supporting its candidacy symbolically or directly. Likewise, this party and coalition have had a banner in the fight against corruption since the Anti-Corruption referendum it promoted in 2018.



Furthermore, it is relevant to consider the way he governed as mayor of Bucaramanga (2015-2019), where he also arrived without clear support. During those four years, 12 of the 19 councilors declared themselves in opposition to his government, while the remaining six did not support the former mayor's initiatives. This led to the stagnation of several projects, which ended up affecting the city. Added to this there was a tense relationship with the city councilors, based on a confrontational treatment, as well as with the media.

Finally, as he has indicated in some media, Hernández reaffirmed the pressure he would exert on Congress to achieve his initiative approvals. In it, he stated that if his bills are not approved, he will expose the congressmen who have voted negatively under a concept of a 'wall of truth'. This will generate a scenario of constant tension with the legislative branch, replicating his relationship with the Council of Bucaramanga within Congress.

FIRST 100 DAYS: IMPLICATIONS OF THE CANDIDATES' PROPOSALS BY SECTOR

The first 100 days of the new president will be essential to understand the path the new government intends concerning the country's productive sectors. The electoral contest tends to generate some uncertainty in economic terms because, beyond their proposals, the information regarding how they will be implemented is very limited; the uncertainty increases considering the two campaigns that went to the second round. On the one hand, Gustavo Petro represents an alternative sector that intends to carry out structural reforms to the way the country has been managed. On the other hand, Rodolfo Hernández is a candidate who is not incorporated in traditional politics, so it is very difficult to project his way of acting.

Furthermore, how they intend to govern is very different from each other. Petro will be highly dependent on the relationship with Congress in which he will have to manage and create a consensus, whilst Hernández could govern via presidential decrees as he has constantly stated. Nonetheless, the latter will have to consider his relationship with congress, especially with initiatives related to international agreements and budget reforms. In this sense, this next section presents a brief analysis of the candidates' proposals and their possible effect on the country's most important economic sectors in the first 100 days of government.



PETRO

Historically, markets react negatively by "default" to the management of alternative and leftist governments in Latin America. This could cause: 1) Devaluation of the peso (COP), although it is not clear how far the currency will fall; 2. Increase in interest rates, which would increase the risk of investment in Colombia.

On the other hand, the main factor of uncertainty has to do with the proposal to decree an economic emergency, advancing a series of measures in a period of up to 90 days. This generates a series of fears among investors since it would mean that some controversial measures (hydrocarbons, health, agriculture) could be executed without the endorsement of the legislative or judicial power.

HERNÁNDEZ

The candidate's economic proposal is focused on the fight against corruption; however, he does not propose a concrete strategy that could increase state resources; the national approach of his proposal prevents concrete benefits projections for the regions. On the other hand, he proposes the interest rates reduction of the Central Bank (currently at 5%), although this decision in the short term may help to alleviate the pockets of Colombians, in the long term it will not solve the problem of inflation that currently exists due to the increase in demand and the decrease in supply.

Finally, throughout the campaign, Hernández repeatedly stated that he would not carry out a tax reform, however, it is not clear which are the financing sources to implement the policies in the different sectors. On the other hand, it has been indicated that Hernández could decree a State of Internal Commotion (type of State of Emergency) during the first 90 days of his government, to implement policies to fight corruption. Within the State of Commotion, the candidate intends to cut public spending by merging ministries and reducing the Presidential transportation details, however these cuts in expenses do not guarantee the correct use of the newly available resources, nonetheless, this would allow the execution of his program without the endorsement of the legislative or judicial power.



PETRO

His proposals focus on the elimination of intermediation in the system, which would also mean a 'regionalization' of the health service, through the strengthening of Health Providing Facilities (Institutos de Prestación de Salud- IPS), especially territorial HPF. In other words, Petro intends to nationalize the Health System. These types of initiatives must be presented in Congress which will require four debates in a single legislative year and a qualified majority, i.e., ^{2/3} of the total number of members of the corresponding Committee and/or floor, for their approval. In this regard, it is important to highlight that Gustavo Petro does not have, at least initially, the necessary majority to approve this type of initiative.

Furthermore, to eliminate intermediation, it will be necessary to strengthen the municipal and departmental health secretariats, especially their surveillance and control tasks. This will be done to guarantee the quality of the service, the adequate allocation, and the expenditure of resources, and to avoid corruption at the base of the system, which is one of the main criticisms, and which ends up harming patients.

HERNÁNDEZ

A large part of the health proposals are oriented toward the reduction of vertical integration headed by the Health Providing Entities (Entidades Prestadoras de Salud-EPS) This process is in line with the campaign postulates where portfolio solutions are solved by correcting processes in the administration. Considering the proposals published so far by Hernández, there is no implication of a change in the basis on which the health system functions, beyond the unification of regimes (as the OECD recommends), which will be difficult to achieve given its current governance landscape. On the contrary, what is intended is to increase the effectiveness of care by improving the administrative levels of providers and the bodies that regulate their financing.



PETRO

In his government plan proposals, he divides it into three main pillars, (1) Enablers, (2) Open and Transparent Digital Government, and (3) Digital Economy, in this sense, he proposes to provide Internet access to all Colombians in 2026. He also proposes to develop and implement agile, flexible, and modern regulatory and normative frameworks that allow the use of technology, and reduce ethical, social, and economic risks.

A differentiating factor of the candidate proposal is the work in strengthening relations with the countries of the Pacific Alliance, in the generation of a single regional digital market to consolidate relations with other regions of the world. This aspect shows the importance of establishing diplomatic ties in the region that allow economic growth and sheds light on the country's position in a globalized market. However, it is important to highlight that the candidate will prioritize strengthening the position of national ICT companies against multinationals to generate equitable taxation system, which is one of the main criticisms, and which ends up harming patients.

HERNÁNDEZ

The candidate emphasizes the importance of facilitating social control of government actions through Digital Government, to generate more citizens' trust in the institutions. He seeks to make a government with a direct bond with the people, open to transparency and participation. In this sense, the technology sector becomes a strategic ally for the candidate because of the advantages that citizen control can bring to his administration, considering the levels of governance he could reach.

In the same line, he proposes to strengthen the capacities in the use of ICT in public entities, to maximize the opportunities in the digital environment. He believes that putting an end to the technological backwardness in the public sector will contribute to reducing the sources of information concealment and, therefore, corruption. This space is once again gaining relevance as a practical tool to capitalize on its interests.



PETRO

Petro has argued in favor of ending exploration in the sector, which means a significant reduction of income for the country considering that Colombia is highly dependent on this industry. This decision would especially affect regions that depend on this income. On the other hand, job security would be affected considering that the mine closure plan does not propose a viable economic diversification, nor the implementation of labor policies, such as compensation and early retirement plans or labor alternatives to replace the jobs that would be eliminated in the sector.

Petro would need the congress to continue with his government program in the sector however, due to the paradigm shift he proposes (banning fracking; stopping the granting of new licenses for hydrocarbon exploration and open-pit mining, and the gradual dismantling of the extractivist economy) where the vast majority of regions depend on income from the hydrocarbon and mineral economy he could encounter significant challenges and confrontations during his term in office.

HERNÁNDEZ

The candidate proposes an increase in foreign investment and an increase in mining exploration and exploitation areas. In this sense, the possibility of increasing private investment means that there may be bigger opportunities for employment generation in the sector as well as income for the nation. On the other hand, it is important to mention that the candidate has spoken ambiguously about fracking; in some interventions, he has shown himself in favor of continuing with the already regulated pilots, while in other statements he has commented that he is against them. Likewise, Hernández comes from an oil-producing department (region) so he knows the benefits that royalties can bring through hydrocarbons and other mineral exploitation.

Since his proposals suggest a mining-energy policy in favor of mining exploration and exploitation, he could find specific support in the more traditional parties, especially those that operate under regional dynamics (Partido de la U and Cambio Radical). Opposition to their proposals could be more at the level of discussion in public opinion rather than in real brakes within the Congress. This situation is due to the fact that the parties that may be against these measures (Coalición Centro Esperanza, Pacto Histórico) do not raise the necessary numbers to stop such initiatives.



PETRO

As part of its proposals for infrastructure projects, he has established that the sector should prioritize government contracting for the development of initiatives. The argument that supports the proposal revolves around recognizing that infrastructure is an investment that generates fixed and long-term returns, so the public sector should be the most important stakeholder in these economic activities to align them with the country's economic development processes. Additionally, the Pacto Histórico candidate has mentioned the need to compensate populations affected by large projects of this type.

Moreover, Petro has recognized the budgetary limitations of the country's treasury to comply with the social spending required by the proposals of his government program. In this situation and considering the desire for the State to be a central actor in the infrastructure sector, one possible consequence would be that private actors wishing to carry out their initiatives would have to face a price increase for the acquisition of buildable land, its eventual lease, and even the necessary inputs to carry out their processes.

HERNÁNDEZ

His government program has emphasized that the infrastructure sector is a transversal to the education, basic sanitation, tourism, sports and recreation, and commerce sectors. The latter is key to the extent that it activates river and port transportation to increase the volume of cargo transported to have an impact on cost reduction.

In another of Hernández proposals, the infrastructure sector is directly linked with the transportation sector. In this sense, he emphasizes the importance of strengthening the territorial entities and the roads that connect them to strengthen their development. To this end, it proposes the consolidation of a corporate governance system in sector entities such as the National Infrastructure Agency (Agencia Nacional de Infraestructura-ANI) and the National Roads Institute (Instituto Nacional de Vías-INVIAS). In this sense, his message may be striking for Representatives of the prioritized regions because it guarantees concrete actions that favor them.



PETRO

Among Gustavo Petro's proposals on agricultural issues, he highlights the water and agrarian reform, through which he seeks to close the inequality gap in land ownership and use. In the same vein, he proposes the strengthening of the Land Fund, the Development

Plans with a Territorial Approach, and other instruments created by the Final Peace Agreement signed in 2016 with FARC (Fuerzas Armadas Revolucionarias de Colombia, now Comunes Political Party); the renegotiation of Colombia's Free Trade Agreements; the reduction of food imports; and the creation of a new tariff policy on agro-industrial goods and inputs. All this is to strengthen production chains and generate added value through processing and effective marketing. It will be very difficult for the candidate to implement the structural reforms he proposes in the first 100 days since he suggests a paradigmatic shift in the country's agrarian policy. In this sense, he will be forced to generate consensus within the legislature with an emphasis on parties with regional strength and whose agenda includes the countryside as a priority.

The modification of the free trade agreements opens a different door of discussion since to achieve this it is necessary to restart negotiations with the countries and ratify the agreement through Congress. This may bring a degree of uncertainty, especially for domestic producers who have benefited from the reduction of tariffs on agricultural inputs. In a context where inflation is on the rise due to the shortage of fertilizers and the global logistics crisis, these measures may go against the country's food security since, in the short term, Colombia is going to be highly dependent on agricultural imports for crop production.

HERNÁNDEZ

For the candidate, land distribution and countryside industrialization are fundamental pillars of his possible government program. In this sense, the candidate proposes a series of incentives for the urban unemployed to return to the countryside to work in unproductive lands, while at the same time he proposes to strengthen the national industry through the revision of Free Trade Agreements.

Much like Petro, Hernández needs to consolidate significant support in Congress to implement his government program. However, unlike Petro, Hernández's program is focused on rural employment while increasing domestic production. With unemployment and inflation figures so high, initiatives aimed at reducing these indicators may be well received by a broad congressional bench. However, the candidate's agricultural initiatives, while ambitious, are unstructured as no clear roadmap is evident from the candidate's proposal.



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