Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 20-Mar-2020| Report No: PIDC28713

Public Disclosure Authorized

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Colombia	P173424	Sustainable and Competitive Infrastructure DPL Series (P173424)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
LATIN AMERICA AND CARIBBEAN	Feb 15, 2021	Energy & Extractives	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance	Ministry of Transport, Ministry of Mines and Energy		

Proposed Development Objective(s)

The Program Development Objective of this DPL is to strengthen Colombia's policy framework on low-carbon development strategies related to green multimodal transport and urban mobility, clean energy transition and competitiveness, improving fiscal management and leveraging long-term private financing for green infrastructure.

Financing (in US$, Millions)

SUMMARY

Total Financing	300.00

DETAILS

Total World Bank Group Financing	300.00
World Bank Lending	300.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **The infrastructure sector in Colombia has undergone a transformation process during the last ten years but significant challenges remain ahead.** Colombia has become the second country with the highest number of infrastructure projects under construction in Latin America and has been ranked the most competitive country in the world in terms of

regulation to finance infrastructure projects through the scheme of PPP.[1] However, Colombia still places 108 out of 144 countries in terms of infrastructure quality[2] and total infrastructure investment remains below 4 percent of Gross Domestic Product (GDP). Colombia's infrastructure needs are estimated at USD 85,000 million.[3] Therefore, ramping up infrastructure investments is key to realize Colombia's NDP 2018-2022 objective of achieving sustainable, stronger and inclusive growth, while consolidating peace and responding to the large migration flow. Infrastructure is the backbone of any country, generating jobs, increasing international trade, improving the quality of life for the poor and boosting economic growth and competitiveness while reducing inequalities. However, innovative financial instruments are required to make the added value of sustainability accessible for investors. The Government of Colombia (GoC) has included a strong competitiveness and environmentally sustainable development agenda in the recently approved NDP 2018 – 2022**.**[4]

2. **Public policy has a central role to play in addressing the sustainable infrastructure challenge in Colombia and sustainable infrastructure has been one of the priorities under the NDP 2018-2022.** To increase the attractiveness of sustainable infrastructure investments, favorable legal binding frameworks are needed as they would increase the positive impacts of infrastructure on the economy, the society and the environment. Under the "Pact for Sustainability" of the 2018-2022 NDP, the GoC is already advancing on the next generation of policies aimed at strengthening the regulatory institutional framework to further consolidate the deployment of sustainable and competitive infrastructure, such as: (i) reaching a sustainable urban-regional mobility for equity, competitiveness and quality of life; (ii) boosting non-conventional renewable energies and energy efficiency; and (iv) developing new financial instruments, economic and market conditions. The proposed operation seeks to support and find synergies among all these reforms. The NDP 2018-2022 includes a 'Pact on Transport and Logistics for Competitiveness and Regional Integration', aiming to increase competitiveness of transport services, enhance multimodality, and increase public transportation in Colombian cities. Similarly, in the energy sector, the NDP 2018-2022 includes the 'Pact for the Quality and Efficiency of Public Services: Water and Energy for Promoting Competitiveness and Well-Being of All', that identify the following key areas for improvement in the Colombian energy sector: increase competition in energy markets, diversify primary sources of generation, facilitate the massive entry of non-conventional renewable energies, enabling techniques to accommodate innovation, eliminate investment barriers and transactions on distributed energy resources, redesign subsidy schemes, and increase energy access coverage. The NDP 2018-2022 also identifies the need to expand the PPP framework further into alternative infrastructure and social sectors through financial innovations and new funding sources.

3. **This Program Document proposes a Sustainable[5] and Competitive Infrastructure Development Policy Loan (DPL) in the amount of USD 300 million for the Government of Colombia (GoC); the first of a series of two programmatic DPLs**. The policy program supported by this DPL series aims to strengthen Colombia's policy framework on low-carbon infrastructure development strategies related to green multimodal transport and urban mobility, clean energy transition and competitiveness, as well as improving fiscal management and leveraging private financing for green infrastructure.

Relationship to CPF

4. **The proposed DPL is aligned with the Country Partnership Framework (CPF) 2016-2021 for Colombia,[6] and**

[1] Procuring Infrastructure PPP 2018", that measures 135 countries and the development of projects under the PPP scheme.
[2] Source: World Economic Forum, Executive Opinion Survey. 2014- 2015 Global Competitiveness Index
[3] "Colombia's NDP 2018-2022 - *https://colaboracion.dnp.gov.co/CDT/Prensa/PND-Pacto-por-Colombia-pacto-por-la-equidad-2018-2022.pdf*
[4] NDP 2018-2022 "Pact for Colombia, Pact for Equity" https://colaboracion.dnp.gov.co/CDT/Prensa/BasesPND2018-2022n.pdf
[5] Sustainable in the context of this operation refers not only to environmental concerns but also the wider economic and social considerations. Sustainable infrastructure refers to infrastructure that is designed, built, and operated in ways that do not diminish the social, economic and ecological processes required to maintain human equity, diversity, and the functionality of natural systems.
[6] http://documentos.bancomundial.org/curated/es/940691468184792587/pdf/101552-CPF-P155964-R2016-0053-IFC-R2016-0054-

supports Pillar 1 – Fostering balanced territorial development and Pillar 3 – Supporting fiscal sustainability and productivity, specifically by: (i) strengthening the public management capacity to support territorial development through the promotion of better road infrastructure to link regions and the electrification of income-generation activities; (ii) deepening financial intermediation for productive purposes through private capital market resource mobilization to address Colombia's large infrastructure gap and enhancement of the existing PPP framework; (iii) improving fiscal management in support of fiscal consolidation; and (iv) improving infrastructure services (such as transport and energy) to develop competitive cities. The proposed DPL also complements the Bank's long-term partnership with the GoC both through lending operations and advisory and analytical work, which includes several lending operations in support of the National Urban Transport Program, and more recently the Bogota Metro Line 1 Project, as well as the Clean Energy Development Project. In terms of analytical and advisory work, and throughout the implementation of these lending operations, the Bank is supporting areas such as financial and operational sustainability of mass transit, funding, tariff and subsidy transport policies, promotion of non-motorized transit, innovative financial schemes to allow the participation of clean technologies in the power market, electromobility, energy access, energy efficiency, efficient demand side management, and a model for the mobilization of private sector financing in the 4G Toll Road Program. Lessons learned and financing models from that experience would be applied in this DPL.

C. Proposed Development Objective(s)

5. The Program Development Objective of this DPL is to strengthen Colombia's policy framework on low-carbon development strategies related to green multimodal transport and urban mobility, clean energy transition and competitiveness, improving fiscal management and leveraging long-term private financing for green infrastructure.

Key Results

6. On Pillar 1, the proposed operation expects to increase the number of Specialized Logistics Infrastructures, renewed cargo fleet, newly-acquired electric or low-emissions buses as well as the number of cities using new funding sources in support of urban mobility. As for Pillar 2 main expected results are an increase on the MW of NCRE, carbon pricing revenues, MW of energy storage capacity installed, MW of distributed energy resources and number of new households with access to electricity. Finally, in Pillar 3 the proposed operation expects to increase the number of PPP projects under the new framework, the number of projects tendered under the new unsolicited proposal framework, and resources from a fund that enables alternative sources of funding for infrastructure.

D. Concept Description

7. **This Program Document proposes a Sustainable[7] and Competitive Infrastructure Development Policy Loan (DPL) in the amount of USD 300 million for the Government of Colombia (the first of a series of two programmatic DPLs) and is structured around three core pillars.** The pillars of the proposed DPL are fully aligned with 'Pact on Transport and Logistics for Competitiveness and Regional Integration' and 'Pact for the Quality and Efficiency of Public Services: Water and Energy for Promoting Competitiveness and Well-Being of All', embodied in the Colombian NDP 2018-2022.

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[7] Sustainable in the context of this operation refers not only to environmental concerns but also the wider economic and social considerations. Sustainable infrastructure refers to infrastructure that is designed, built, and operated in ways that do not diminish the social, economic and ecological processes required to maintain human equity, diversity, and the functionality of natural systems.

8. **T**he program supported by the DPL series is organized around three pillars:

- **Pillar 1: Green Multimodal Transport and Urban Mobility.** This pillar supports three main Government priorities: (i) strengthen the institutional and governance framework of the transport sector, with the aim to promote multimodal transport and private sector participation; (ii) increase logistics and transport performance through the modernization and greening of road-based transport; and (iii) enhance the efficiency, affordability, quality, safety, and environmental sustainability of urban mobility through the preparation and implementation of the second generation National Urban Transport Program.
- **Pillar 2: Energy Transition and Competitiveness.** This pillar supports a comprehensive policy framework in the energy sector that can: (i) Enable the diversification of the electricity matrix and increase competitiveness through higher share of non-conventional renewable energy; (ii) promote digitalization, decentralization and efficient management of demand; and (iii) improve electricity access and subsidies design.
- **Pillar 3: Fiscal management and long-term private financing for sustainable and green infrastructure.** Four GoC policy and regulatory priorities are being supported: i) a strategy to strengthening contingent liability management and availability payment framework and capacities so government support to PPPs is more effective and efficient; ii) strengthening and expanding the institutional, regulatory and contractual PPP framework achieved in the transport sector ("Pact for Transport") to other sectors; iii) developing the institutional frameworks enabling the effective management and deployment of new funding sources; iv) addressing regulatory bottlenecks preventing a greater role for private sector financiers in infrastructure. This approach would be critical to support the funding and financing of projects in pillars 1 and 2.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

9. **The prior actions supported by this operation are likely to have an overall positive effect on poverty and neutral on distributional terms in the foreseeable future.** At this stage, all prior actions were preliminarily screened for likely effects on poverty and inequality in preparation for a deeper analysis as more details about the prior actions are known. A prospective mapping of effects on poverty and inequality is initially presented in Table 6. Most prior actions impact positively the poor and vulnerable through improved economic efficiency (from reduced transport costs and time for individuals, and reduced operational costs for the transport sector), reduced (residential) energy prices, and improved mobility. Other benefits in the form of reduced emissions, improved road safety and improved social inclusion are more likely to benefit whole populations and communities. Furthermore, improved mobility is to be expected both within cities but also across departments, an indication that diverse population groups in both urban and rural areas and across departments will all likely benefit. We also find plausible that women and the youth may benefit from concrete prior actions by increasing labor market supply and reducing unsafe spaces in the community, respectively.

10. **A few prior actions are not expected to have a direct impact on poverty and inequality. This is the case among prior actions seeking institutional reforms, improving regulatory frameworks, and reducing financial risks for future PPP investments.** Their poverty and distributional impact will ultimately depend on the actual investments to be carried out, which remain unknown at this stage and cannot be determined a priori. Finally, we find suggestive arguments in terms of negative distributional effects only for one prior action, as it will likely increase the returns on private pensions. In Colombia (and elsewhere), pensions are a regressive source of income, benefitting disproportionally those in the upper income ladder with better paid and formal jobs. The extent of this negative effect is unlikely to be large and Colombia counts with multiple progressive compensatory mechanisms to address this effect

Environmental, Forests, and Other Natural Resource Aspects

11. **Per World Bank OP 8.60, an environmental and social general analysis has been carried out to assess whether the proposed Sustainable and Competitive Infrastructure DPL series overview are likely to cause significant adverse or positive effects on people**, the environment, forests, and other natural resources. The assessment was based on secondary data review of the project. The DPL will support policies aimed at strengthening the institutional, governance and regulatory reforms on (i) green multimodal transport and mobility, (ii) clean energy transition and competitiveness, and (iii) reinforcing the corporate objectives of fiscal management and mobilizing private financing for development. The environmental analysis found that the Prior Actions supported by this DPL series are not likely to have significant negative effects on the environment, forests and other natural resources. Conversely, it promotes the implementation of new policies strengthening the sustainable development, implying significant positive impacts on air quality, reduction of greenhouse gases emissions, and environmental area solidification within the Ministry of Transport. The social analysis also indicates that the proposed activities are not likely to have significant negative effects on the population. The areas that involve social risk, and the recommended in each of those cases, are identified as part of the analysis.

12. **Moreover, the proposed Prior Actions from Pillars 1 and 2 have important positive effects on environment, forests, and natural resources**, as they are designed to promote the generation and use of Non-Conventional Renewable Energy (NCRE) as a source of power for transport and energy sectors at the national level. Some of the main positive effects include: the reduction of fossil fuels as source of power, the reduction of greenhouse gas emissions, the improvement of air quality, the reduction of the potential for natural resource pollution by decreasing their exploitation for fossil fuel production, and the proactive adaptation to climate change. Prior actions from Policy Area 3 will provide for the opportunity to invest in infrastructure for sustainable development, protection of ecosystems, and human health. In order to enhance these positive effects, it is recommended that, in coordination with the Ministry of Environment and Sustainable development, the Borrower develop environmental guidelines aiming to correctly assess and manage the potential environmental impacts related to the introduction of new technologies in both the Energy and Transport Sectors. Additionally, the Borrower should incorporate lessons learned from previous national infrastructure projects based on the available information.

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APPROVAL

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