



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 26-Sep-2022 | Report No: PIDC34961



## BASIC INFORMATION

### A. Basic Project Data

Country Colombia	Project ID P180033	Project Name Colombia Green and Resilient DPO (P180033)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Dec 16, 2022	Practice Area (Lead) Environment, Natural Resources & the Blue Economy	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance and Public Credit	Implementing Agency Department of National Planning		

### Proposed Development Objective(s)

The development objective is to accelerate climate action by (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; and (iii) building resilience and adaptation to climate change.

### Financing (in US\$, Millions)

#### SUMMARY

<b>Total Financing</b>	500.00
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#### DETAILS

<b>Total World Bank Group Financing</b>	500.00
World Bank Lending	500.00

#### Decision

The review did authorize the preparation to continue

### B. Introduction and Context

#### Country Context

1. Colombia is highly exposed to climate-related hydrometeorological hazards, which have already affected growth and poverty, and whose impacts on development are expected to be accentuated in the future. The country



ranks 28<sup>th</sup> out of 182 countries in climate risk<sup>1</sup>, and 92<sup>nd</sup> out of 182 on the Notre Dame-Global Adaptation Index<sup>2</sup> (ND-GAIN) and has one of the highest rates of disasters caused by natural and climate-induced hazards in Latin America<sup>3</sup>. Disaster and climate risks represent by far Colombia's largest contingent liability, estimated to have a potential impact of up to 4.4 percent of GDP<sup>4</sup>. These climate-related characteristics are already affecting Colombia's development: The La Niña event of 2010–2011 caused estimated damages of US\$6 billion (COP11.2 trillion) and economic losses of US\$1.1 billion (COP2 trillion).<sup>5</sup> The latest El Niño event, in 2015, was the longest since 1950, lasting 17 months and causing record high temperatures and economic impacts of about 0.6 percent of GDP.<sup>6</sup> The economic impacts of hydrometeorological events are expected to increase under future climate change, which is conservatively expected to depress real GDP annually between 0.5 and 0.9 percentage points by 2050.

**2. Recognizing the challenge climate change represents to sustainable growth, Colombia has set itself ambitious adaptation and mitigation targets and anchored them in its legal framework.** Colombia increased the mitigation target in its updated Nationally Determined Contribution (NDC) to the Paris Agreement on Climate Change to 51 percent by 2030 with respect to a business-as-usual scenario<sup>7</sup>, and a net zero target by 2050. This translates into an absolute reduction of 44 percent from 2018 levels, exceeding the ambition of regional peers. In addition, the NDC adaptation component was substantially expanded from 10 to 30 measures, defining specific adaptation priorities, and identifying six key sectors of the economy (transport, energy, agriculture, housing, health, commerce, tourism, and industry) that will include climate change considerations in their planning instruments and will be implementing adaptation actions. The Climate Action Law (Law 2169 of 2021) makes the NDC commitments legally binding<sup>8</sup> by establishing specific goals and minimum measures to achieve carbon neutrality and climate resilience. Implementing this transition is expected to not only achieve mitigation commitments and increase resiliency to climate shocks, but will also help develop local industries, reduce exposure to external shocks, and spur the creation of green jobs. This would also help Colombia move into a sustainable development path, opening opportunities for the production and export of goods aligned with international markets requiring low-carbon products, which would not only benefit the country as a whole, but also populations that might be negatively affected by the global energy transition. On the energy side, the transition will help Colombia diversify its mining exports, reduce the volatility of energy prices, and increase productivity by reducing energy intensity.

**3. The macroeconomic policy framework is adequate for the purpose of the operation.** Colombia has solid fundamentals and macroeconomic policy institutions founded on a fully-fledged inflation targeting regime, a flexible exchange rate, and a rules-based fiscal policy. Also, Colombia has ample reserves, and the precautionary credit line provided by the IMF provides ample liquidity buffers to respond to external shocks. Finally, institutions and commitment to fiscal prudence remain strong. The changes to the fiscal rule and the institution of a fiscal council approved in 2021 greatly strengthen the fiscal framework and institutions.

<sup>1</sup>Germanwatch (2021): Global Climate Risk Index 2021.

<sup>2</sup>University of Notre Dame (2021): ND-GAIN Country Index. The ND-GAIN Country Index summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. The Index is composed of two key dimensions of adaptation: i. vulnerability, which measures a country's exposure, sensitivity, and capacity to adapt to the negative effects of climate change; and ii. readiness, which measures a country's ability to leverage investments and convert them to adaptation actions.

<sup>3</sup> Colombia ranks second in the Latin America region in the hazard and exposure category of the European Commission (2022): INFORM Risk Index.

<sup>4</sup> Ministry of Finance and Public Credit (2021): Medium-Term Fiscal Framework.

<sup>5</sup> Inter-American Development Bank and Economic Commission for Latin America and the Caribbean (2012): *Valoración de daños y pérdidas. Ola invernal en Colombia 2010-2011*.

<sup>6</sup> National Planning Department, Ministry of Environment and Sustainable Development and National Unit for Disaster Risk Management (2018): *Documento CONPES No. 39947. Estrategias de actuación y coordinación para reducir las afectaciones ante la eventual ocurrencia de un fenómeno de variabilidad climática: El Niño 2018-2019*.

<sup>7</sup> Government of Colombia (2020): Colombia updated NDC. Equivalent to emitting 169.4 MtCO<sub>2</sub>e by 2030.

<sup>8</sup> The goals and measures defined in the NDC are considered irreversible minimums under the principle of progression.



## Relationship to CPF

4. **The proposed DPL supports the latest World Bank Group’s FY16-21 Country Partnership Framework, discussed by the Board on February 23, 2016,<sup>9</sup> the most recent Performance and Learning Review (April 23, 2019).<sup>10</sup>** The operation supports Country Partnership Framework (CPF) Objectives 2 (enhancing capacity for natural resource management), 7 (deepened financial intermediation for productive purposes, including the energy and agriculture pillars), and 8 (improved infrastructure services and enhanced urban planning to develop competitive cities), as well as the cross-cutting peace pillar. The operation supports the adjustments to the CPF made in the Performance and Learning Review, in particular the Performance and Learning Review’s addition of a climate change lens to all pillars of the CPF. Similarly, it is consistent with the findings of the 2022 update of the Systematic Country Diagnostic (Report No. 171460-CO), including its findings on the centrality of curbing land use change and advancing a low-carbon energy transition, increasing the sustainability and resilience of agriculture, and the importance of improving cadaster management.

### C. Proposed Development Objective(s)

The development objective is to (i) advance the low-carbon energy transition; (ii) promote sustainable land use; and (iii) build resilience and adaptation to climate change.

### Key Results

**The overall result will be to support Colombia’s green and resilient developing by (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; and (iii) building resilience and adaptation to climate change.** Key results under Pillar 1 are reducing the carbon footprint of the energy sector, increasing the renewable energy capacity installed, supporting the development of a green hydrogen industry, and increasing the efficiency of the public transport fleet. Pillar 2 targets results that include a reduction in land degradation, an increase in the uptake of sustainable livestock systems, and improvements in the rollout of the multipurpose cadaster. Finally, key results under Pillar 3 are an improved planning and response capacity to natural hazards and improved integration of disaster risk management with climate adaptation, and the strengthening of the agricultural insurance program, which is key to promoting farmers’ and livestock producers’ resilience to shocks.

### D. Concept Description

5. **The program builds on a strong commitment to addressing climate change that has spanned administrations, and which is enshrined in Colombia’s legal framework.** Through a comprehensive policy and legal climate change framework,<sup>11</sup> Colombia has adopted substantial national and international commitments, established an institutional architecture for climate change management, and created economy-wide mitigation instruments such as the carbon tax and provisions for an emissions trading system. The updated NDC, submitted to the United Nations Framework Convention on Climate Change on December 30, 2020, commits the government to an ambitious 51 percent reduction of GHG emissions by 2030 with respect to a business-as-usual scenario<sup>12</sup> and a net zero target by 2050, while expanding the

<sup>9</sup> Report No. 101552-CO.

<sup>10</sup> Report No. 135458-CO.

<sup>11</sup> Key elements include the National Policy on Climate Change, the National Climate Change Adaptation Plan, The Low-Carbon Development Strategy, the National Plan for Risk and Disaster Management, and the National Climate Change Law (Law 1931-2018), among others.

<sup>12</sup> Equivalent to emitting 169.4 MtCO<sub>2e</sub> by 2030, or an absolute reduction of 44 percent from 2018 levels.



adaptation portfolio from 10 to 30 measures. The Climate Action Law (2169-2021) enshrines these targets in law. In addition, the Ministry of Finance and Public Credit is part of the Coalition of Finance Ministers for Climate Action, and Colombia's central bank is a member of the Network for Greening the Financial System.

**6. The proposed DPL supports policy reforms that aim to set Colombia's development trajectory on a more sustainable and resilient pathway by: (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; and (iii) building resilience and adaptation to climate change.** The Program highlights policy reforms in sectors that are critical to Colombia's climate mitigation and adaptation agendas, and which are expected to be taken further by the current administration. Pillar 1 contributes to implementing the NDC's mitigation priorities in the energy, and transport sectors. The Pillar will do this by (i) advancing critical regulation and securing the resources to support of Colombia's "Energy Transition Law", including to consolidate adoption of non-conventional renewable energy (NCRE), energy efficiency and low-carbon hydrogen; (ii) accelerating the modernization of the power sector to increase its resilience further to withstand shocks and climate change impacts; and (iii) increasing the efficiency of urban and rural mobility by increasing the use of public transport. Pillar 2 contributes to implementing mitigation priorities in the land and land use sector. The pillar will do this by (i) defining sustainable agricultural activities in páramos, (ii) promoting sustainable livestock systems, and (iii) improving the conditions for an accelerated roll-out of the multipurpose cadaster. Pillar 3 contributes to implementing NDC adaptation actions, including integrating disaster risk management and climate adaptation, and adaptation in the agriculture sector. It does so by (i) improving disaster risk reduction, preparedness, and response, and (ii) building resilience among agricultural producers through the introduction of agricultural insurance.

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

### Poverty and Social Impacts

**7. This DPF supports actions that are expected to have positive effects on poverty reduction and distributional outcomes over the medium to long term, by supporting mitigation and adaptation measures that reduce the potential of climate change to increase poverty and exacerbate inequalities.** If unaddressed, climate change is expected to have disproportionate negative effects on the poor and vulnerable groups, and to exacerbate the already-high inequalities that exist in Colombia. A one-time severe climate-related hydrometeorological shock (characterized by heavy precipitation, floods and landslides) can increase poverty, particularly in already poor regions, by 3 percentage points, and extreme poverty by 4 percentage points.<sup>13</sup> Climate-related shocks have already been increasing in frequency in Colombia. Moreover, estimates of the long-term impact of climate change indicate that households in the lower two quintiles of the income distribution would suffer income losses from climate change shocks that are on average between 1.5 and 1.6 times higher (as a percent of the pre-shock income) than those suffered by the top quintile. Rural households are estimated to suffer from income losses that are on average between 1.8 and 1.9 times higher than urban households.<sup>14</sup>

### Environmental, Forests, and Other Natural Resource Aspects

**8. The Prior Actions supported through the Colombia Green and Resilient DPL are likely, in aggregate, to have a positive impact on Colombia's environment, forests, or other natural resources.** Future investments under two of the policy areas supported by the operation (Prior Actions 2 and 3) may result in potential negative environmental effects,

<sup>13</sup> World Bank (forthcoming) Adaptive Social Protection in Colombia: What is the distributional impact of shocks and how can the social protection system better respond? An application of the Social Protection Stress Test Tool. Poverty and Equity Global Practice and Social Protection and Jobs Global Practice.

<sup>14</sup> World Bank (2021). Building an Equitable Society in Colombia.



however the national legal framework incorporates the necessary mitigation measures for their adequate management

### CONTACT POINT

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### APPROVAL

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#### Approved By

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