

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

February 6, 2017
Report No.: 112855

Operation Name	Second Sustainable Development and Green Growth Policy Loan
Region	LATIN AMERICA AND CARIBBEAN
Country	Colombia
Sector	Multisector
Operation ID	P161642
Lending Instrument	Development Policy Lending
Borrower(s)	MINISTERIO DE HACIENDA
Implementing Agency	Ministry of Finance and Public Credit (MFPC) and National Planning Department (DNP)
Date PID Prepared	February 6, 2017
Estimated Date of Appraisal	August 30, 2017
Estimated Date of Board Approval	November 16, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision	<i>The corporate review recommended the restructuring of the DPL programmatic series from three phases (DPL1, DPL2 and DPL3) to two phases (DPL1 and DPL2). Subject to the Client's agreement to this recommendation, DPL 2 will be strengthened and its timeline revised</i>

I. Key development issues and rationale for Bank involvement

1. Colombia's dependence on its unique endowment of natural wealth underscores the importance of ensuring green growth. The country faces critical environmental challenges from air and water pollution in urban areas, forest and land degradation in rural areas, and a growing vulnerability to natural disasters and the effects of climate change. Indicators suggest that Colombia's economic growth may not be sustainable because of the country's low adjusted net savings, a key measure of growth sustainability. Colombia's adjusted net saving rate fluctuates around zero, well below the Organization for Economic Co-operation and Development (OECD) and regional averages.

2. Sound macroeconomic and structural policies, coupled with favorable external conditions, enabled a strong broad-based growth and poverty reduction. Between 2004 and 2014, average annual growth reached 4.8 percent, making Colombia one of the strongest performers in Latin America. Its sound macroeconomic management, based on a combination of an inflation targeting regime, floating exchange rate, and strong track record of fiscal discipline, helped the country weather the global financial crisis of 2008-9, and, together with strong oil prices, enabled a remarkable bounce back between 2009 and 2013. Extreme poverty fell from 17.7 percent in 2002 to 8.1 percent in 2014, while total poverty fell from 49.7 percent in 2002 to 29.5 percent in 2014. Although inequality remains high, the income of the bottom 40 percent of

Colombians, between 2008 and 2014, grew at an average rate of 6.1 percent, significantly faster than the national average rate over that period (4.2 percent).

3. There is a need for greener growth in key economic sectors - notably transport, energy, industry, and agriculture -which contribute to environmental degradation in Colombia. Pressures on natural resources exerted by industries - mainly extractive, extensive livestock farming, urbanization, and motorization -have created levels of environmental degradation that impose significant and rising economic costs. Environmental health problems, such as urban air pollution, indoor air pollution from burning solid fuels for household cooking, and inadequate access to improved water sources and sanitation impose high costs in terms of human illness and death. It is estimated that more than 15,000 deaths were attributable to these pollution factors, in 2013, with an estimated cost of COP 14.1 trillion, equivalent to 2 percent of GDP. The combined natural resources losses and pollution damages were estimated to be about 3.7 percent of GDP in 2007.

4. Green growth is a central element of the NDP 2014–2018, and as such it requires integrating environmental considerations in key sector policies. The GoC has long recognized the importance of enhancing the efficiency of production activities, conserving natural resources, improving environmental health, and enhancing resilience to natural disasters and climate change. To this end, the GoC has designed a set of policy and institutional measures that transform the role of public sector investments and changes the incentives that drive private sector investment decisions.

5. Important outcomes have been achieved so far through the Government program, including the setting up of a “Green Growth Mission”. The NDP 2014-2018 required the GoC to formulate a long-term green growth policy for the country (article 170) that goes beyond the timeframe of the NDP. To do so, DNP is carrying out a Green Growth Mission, which has gathered a task force of experts to make robust policy recommendations, so that the GoC can adopt the GG Policy. The GG Mission is a two-year process, which will define the inputs and policy guidelines to steer economic development during 2017-30. The GG Mission will comprise three phases: (i) diagnosis; (ii) roadmap; and (iii) policy formulation. The diagnosis has been completed and has produced a macroeconomic analysis and a GG potential assessment of the country to determine the critical issues for policy development. The GG Mission launched on February 1, 2017, will propose a series of cross-sectoral, as well as sectoral policy measures, including economic and regulatory instruments, to orient the decision-making process within the GoC

6. The proposed DPL is closely aligned with the objectives of the World Bank Group’s Colombia Country Partnership Framework (CPF) FY2016-2021, discussed by the Executive Directors on April 7, 2016 (Report No. 101552-CO). The CPF supports the NDP 2014-2018 through a portfolio of financial, knowledge, and convening services. This DPL contributes directly to Pillar 1 of the CPF (Fostering Balanced Territorial Development), as green growth and environmental sustainability are key dimensions for territorial development. The CPF takes into account territorial heterogeneity and specificity to support GoC’s vision for green growth policy for the next 15-20 years (GG Mission). WBG support to GoC’s green growth strategy will be adjusted to the specifics of the different regions and include a rich program of policy support, investment and knowledge activities. At the national level, this programmatic DPF series is promoting policy and institutional actions to support various dimensions of green growth,

including renewable energy, sustainable transport, environmental health, and disaster risk management, among others.

II. Proposed Objective(s)

7. In line with priorities set by the government in the National Development Plan (NDP), this Second Programmatic Sustainable Development and Green Growth DPL continues to support the overarching Green Growth strategy through (i) establishing a set of policy and institutional measures for green growth in transport, energy, environmental health, and disaster risk management; and, (ii) improving environmental quality by reducing particulate matter (PM_{2.5}) in the air; strengthening regulatory instruments for reducing water pollution; and increasing capacity for solid waste disposal and enhancing waste recycling.

III. Preliminary Description

The proposed Development Policy Loan (DPL2) is the second in a series of three single-tranche programmatic DPLs. It is under consideration the conversion of the programmatic series in a two single-tranche, which focus on green growth areas that have been identified as critical under the NDP 2014-2018. The policy and institutional measures are grouped into two pillars: (a) Pillar 1 seeks to establish a set of policy and institutional measures for green growth in transport, energy, environmental health and disaster risk management; and (b) Pillar 2 seeks to improve environmental quality by reducing PM_{2.5} in air; strengthening regulatory instruments for reducing water pollution; and increasing capacity for solid waste disposal and enhancing waste recycling.

9. The selection of prior actions reflects a combination of factors, notably GoC's momentum in advancing its green growth agenda, harmonization of donor support, and GoC's commitment to deliver sustainable reform and results through a cohesive program of policy and institutional actions. The inclusion of the green growth strategy in the NDP 2014-2018 and its approval by law provided additional momentum for action by GoC. The GoC has provided political leadership and demonstrated institutional capacity in moving the green growth agenda forward in such areas as energy, transport, environment, and disaster risk management. The Green Growth Mission to prepare the Green Growth policy that will set the green growth policy agenda beyond the NDP is another key step towards the clean, efficient, and resilient vision for growth sought by Colombia.

10. Proposed prior actions at concept stage include the following:

- Prior action 1: The government has established incentives and a regulatory framework for clean energy transportation which, inter alia, (i) defines incentives for the use of bicycles and for increasing the number of trips using bicycles; (ii) regulates the use of tricycles and three-wheeled motorcycles for public transportation; and, (iii) regulates the licensing, registry, and technical and safety specifications applicable to motorcycles and tricycles.
- Prior action 2: The government has defined the institutional nature of FENOGE as a trust account within the Ministry of Mines and Energy and the criteria for the allocation and

use of funds to support initiatives and projects on alternative energy and energy efficiency.

- Prior action 3: The GoC has adopted a risk management policy to reduce environmental health risks and accidents in the use of chemical substances that defines, inter alia, (i) a program on management of chemical substances for industrial uses; (ii) a prevention program on major accidents; (iii) measures to strengthen risk management capacities; and, (iv) a funding scheme for the financial sustainability of the programs.
- Prior action 4: The government has established the regulatory and operational framework for the Disaster Risk Management National Fund (FNGRD) to support project implementation by national and regional entities.
- Prior action 5: The government has set measures to limit air pollution emissions from the refractory ceramics industry, brick-manufacture sector, and cremation services.
- Prior Action 6: The government has improved water regulation and planning, by (i) adopting new technical definitions and amending the definitions concerning coastal and internal waters as they relate to the discharge of wastewater in soil and water; and (ii) establishing environmental criteria, inter alia, for the environmental assessment of wastewater discharge, groundwater planning, and the characterization of environmental flows.
- Prior Action 7: The government has set measures for the selection of alternative techniques for waste treatment to reduce reliance on sanitary landfills.
- Prior action 8: The government has established the operational framework for the reuse of solid waste and the timeline for the compliance of waste pickers as formal suppliers in the reuse activity.
- Prior action 9: The government has issued regulations for the extra charge of the final disposal of non-recyclable solid waste to minimize the amount of solid waste disposed in sanitary landfills.

10. The operation builds on a solid and diverse body of analytical and technical work conducted by the Bank, GoC, and other financial and technical partners over the past years. The Bank has conducted an in-depth analysis of the broad range of existing research, reviews, and other recent information generated by the GoC and other sources. More importantly, the design of this DPL has benefited from a growing knowledge base on environmental sustainability and green growth. The Policy Note on Environmental Sustainability/Green Growth in Colombia (P147717) has been a key Advisory Services and Analytics (ASA) work that supports the analytical basis for this DPL.

11. Mitigation and adaptation to climate change are fundamental parts of Colombia's Green Growth strategy and play an important role in the programmatic DPL. Prior actions of Pillar 1 in the transport sector will lead to an increase of public and non-motorized transport in eight major

cities of Colombia with the subsequent benefits in terms of GHG emissions reduction. In the energy sector, a trust account of the Ministry of Mines and Energy will finance initiatives and projects on alternative energy and energy efficiency also resulting in lower GHG emissions. Policy actions of Pillar 2 advance reforms to improve air quality and to foster waste recycling, which will also contribute to emissions reduction. On the climate change adaptation side, policy actions by UNGRD, within Pillar 1, will mainstream DRM measures in agriculture, housing, and transport programs and projects, which represent substantive measures to increase Colombia's climate resilience in key sectors.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

12. To assess the distributional impact of the policy reforms supported by this DPL series on the well-being of the poor and vulnerable, the World Bank is updating the poverty and social impact analysis (PSIA) undertaken for DPL 1. In this context, the policies supported by DPL2 are not expected to have significant direct distributional impacts but indirect positive effects through diverse mechanisms, such as the reduction of pollution and the general improvement of health. A preliminary assessment of the first prior action that promotes the use of bicycles and regulating tricycles found no evidence of direct impacts in poverty or inequality. However, the analysis suggests some mixed indirect effects though the more intensive use of bicycles and the regulation of motorcycles that improve health and safety, with larger relative impacts in lower-income households. Nevertheless, regulating the provision of public transportation using motorcycles and tricycles could generate negative effects in labor markets, especially for low-skilled workers employed in these activities. In addition, the promotion of alternative energy projects through the FENOGE and the development of a risk management policy on chemical substances are not expected to have a direct impact on poverty or inequality. On the contrary, it could have positive indirect effects in health and wellbeing by reducing the risks of environmental damages due to mishandling of chemical substances. Finally, the implementation of the Disaster Risk Management National Fund is expected to have positive distributional effects, since the population in the bottom 40 of the income distribution is more likely to be exposed to negative shocks due to natural disasters or are expected to have lower capacity to cope with these shocks.

13. Prior actions in the second pillar -aimed at improving the quality of air and water, as well as improving the management of solid waste and residuals - are not expected to have direct impacts on poverty or shared prosperity. However, while the stricter regulations for emissions in refractory ceramics and cremation services industries could help reduce the incidence of illnesses associated with air pollution. In addition, prior actions regulating the discharge standards for wastewater in soil and water bodies would improve the general welfare of the population, although indirectly. Finally, prior actions promoting the use of alternative technologies on sanitary landfills and on the registry of waste pickers are not expected to have significant direct impacts on welfare.

Environment Aspects

14. As part of the preparation of DPL2, in line with OP 8.60, the Bank is updating the policy strategic environmental analysis (PSEA) undertaken for DPL 1 to evaluate the effects of the policies on the country's environment, forests, and other natural resources. For those policies with likely significant effects, the PSEA will assess Colombia's systems for reducing such adverse effects and enhancing positive effects, drawing on relevant country-level or sectoral environmental analysis. The PSEA will also assess if there were significant gaps in the analysis or shortcomings in these systems and will be framed in the context of the environmental priorities of Colombia that have informed the dialogue between the Bank and the GoC since the last decade.

15. At concept stage the prior actions supported by DPL2 suggest that the operation is expected to have significant positive impacts on the environment and natural resources. The operation will help to mainstream environmental considerations in Colombia's key sectors, such as environment, water, sanitation, transport, and disaster risk management, and in the country's overall approach to development. The overall net effect of the policy actions supported by this DPL is expected to be positive. Related indicative triggers reinforce this positive effect. The significance of effectively implementing these policy actions would translate into a reduction in the health costs associated with air, water, and soil pollution, as well as with natural disasters - Colombia's environmental priorities. Although a few potential negative environmental effects could be associated with some of the policy actions, none of these are expected to be significant.

V. Tentative financing

Source:		(\$m.)
Borrower		0.00
International Bank for Reconstruction and Development		500.00
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	500.00

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