# Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 13-Feb-2023| Report No: PIDC35528

## BASIC INFORMATION

### A. Basic Project Data

| Country | Project ID | Project Name | Parent Project ID (if any) |
|---|---|---|---|
| Colombia | P180566 | Equitable and Green Path Development Policy Financing (P180566) | |
| **Region** | **Estimated Board Date** | **Practice Area (Lead)** | **Financing Instrument** |
| LATIN AMERICA AND CARIBBEAN | Jun 22, 2023 | Poverty and Equity | Development Policy Financing |
| **Borrower(s)** | **Implementing Agency** | | |
| Republic of Colombia | National Planning Department (DNP) | | |

**Proposed Development Objective(s)**

The development objective of the proposed operation is to support measures that promote (i) more equitable and green fiscal policies, (ii) productive and social inclusion for vulnerable groups, and (iii) inclusive and green private sector development.

**Financing (in US$, Millions)**

**SUMMARY**

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| **Total Financing** | 500.00 |

**DETAILS**

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| **Total World Bank Group Financing** | 500.00 |
| World Bank Lending | 500.00 |

Decision

The review did authorize the preparation to continue

### B. Introduction and Context

Country Context

1. **Inequalities in Colombia are high and persistent**. Income inequality in Colombia is one of the highest in the world, the highest among Organization of Economic Cooperation and Development (OECD) countries and the second highest among 18 Latin America and Caribbean (LAC) countries. Inequality further increased with the COVID-19 shock,

with the Gini coefficient going from 0.517 in 2018 (before the rising trend began) to a peak of 0.544 in 2020. While the economic recovery in 2021 reverted income inequality, it remains very high (at 0.523). Moreover, the recovery did not reach all groups: while the national poverty rate dropped to 39.3 percent in 2021, down from 42.5 in 2020, rural poverty increased, the poverty rate went down only marginally for Venezuelan migrants and it stayed the same for afro Colombians and indigenous people, groups with significantly higher poverty rates pre-pandemic. There are also large disparities in other development outcomes that limit social mobility for these groups: for instance, learning-adjusted years of education – a component of the Human Capital index - are significantly lower for ethnic groups than for others, and for children living in certain regions (World Bank 2021). Finally, climate-related shocks, which are increasing in frequency and intensity, exacerbate inequalities as they affect poorer areas and poorer households the most (forthcoming, World Bank) and, over the long run, the negative effects of climate change are expected to impact less well-off groups (women, informal, and rural workers) disproportionally more than other groups (World Bank (WB), 2021) and, eventually, derail progress towards reducing inequality. Tackling inequities can increase the country's growth potential through a greater skilled and more productive labor force[1], and tighter social cohesion.

2. **Colombia's economy has been growing robustly since 2021, and the macroeconomic policy institutional framework remains strong, but policy action is needed to foster inclusive growth.** In Q3 of 2022 real GDP was 11.2 percent above its level in Q4 of 2019, which is equivalent to an annual average growth of 3.9 percent between Q4 of 2019 and Q3 of 2022. Macroeconomic policies continue to be guided by a credible inflation-targeting regime, a flexible exchange rate, and rule-based fiscal policies, which are solid foundations for macroeconomic stability. A strong macroeconomic framework is critical to protect the poor. At the same time, the economy is now overheating, the current account deficit remains high, and a sustainable reduction of the general government's debt-to-GDP ratio requires a cautious management of fiscal policy. Prospects for reducing poverty only out of growth are narrowing and actions are needed to promote and productive and social inclusion. Finally, over the long run, climate change poses challenges to Colombia's development ambitions, by increasing the risk of damages to physical capital and infrastructure, disruption to electricity generation, reduced labor productivity and losses of human capital, losses of agricultural production, and exacerbation of inequality and poverty, especially in already poor regions.

### Relationship to CPF

3. **The proposed operation is aligned with the Country Partnership Framework (CPF) for Colombia (FY16-21) its most recent Performance and Learning Review (FY16-21), and the twin goals are at the core of all measures supported by this DPF.** Beyond the alignment with the corporate goals, the DPF supports all three Pillars of the CPF: (i) Fostering Balanced Territorial Development and (ii) Enhancing Social Inclusion and Mobility through Improved Service Delivery, both in line with actions in Pillar II and III of this DPF; and (iii) Supporting Fiscal Sustainability and Productivity, in line with measures supported in Pillar I and III of this DPF. The operation is also in line with two of the four main development challenges identified in the Colombia Systematic Country Diagnostic (2021): Equity and Climate, which will inform the upcoming CPF. Finally, it is aligned with the World Bank's Gender Strategy (FY16-23).

## C. Proposed Development Objective(s)

4. **The development objective of the proposed operation is to support measures that promote (i) more equitable and green fiscal policies, (ii) productive and social inclusion for vulnerable groups, and (iii) inclusive and green private**

[1] For example, closing gender gaps in labor force participation and education would increase Colombia's GDP per capita by an estimated 14 percent by 2050 (Devadas and Kim 2020).

**sector development.** The DPF supports reforms structured around three pillars:

**Pillar I:** Promoting more equitable and green fiscal policies measures that increase progressivity of income taxation and expand taxes that promote decarbonization and healthier lifestyles.

**Pillar II:** Promoting productive and social inclusion of vulnerable groups aims at reducing gaps in access to opportunities for groups in the society, by promoting their access to assets (for example education, land and credit) and to services (care services, transport services).

**Pillar III:** Promoting an inclusive and green private sector development, opens opportunities for access to the financial sector among women, lower income households and currently excluded groups, and a private sector better aligned to climate objectives, as emphasized in the NDP 2022-2026.

Key Results

5. The proposed program is expected to narrow gaps in income and in access to opportunities and promote green and inclusive private sector development.

## D. Concept Description

6. **The proposed Equitable and Green Path Development Policy Financing (P180566) (DPF) is the first in a series of two single-tranche programmatic operations in the amount of US$500 million for the Republic of Colombia and supports the Government of Colombia (GoC)'s policies to promote inclusive and green growth.** The development objective of the proposed operation is to support measures that promote (i) more equitable and green fiscal policies, (ii) productive and social inclusion for vulnerable groups, and (iii) inclusive and green private sector development. The program supports reforms towards a more progressive fiscal tax system, and one that is better aligned with the objective of sustainability and better health. It also recognizes that not all groups in society have the same opportunities and that targeted actions are needed to close the barriers they face. The program also supports measures that aim at narrowing inequalities in the productive capacity of the less well-off in society, with groups defined by gender, ethnicity, location and migratory status, and that tackle climate change. Finally, the program promotes financial inclusion and a financial sector better aligned with climate objectives. This proposed program directly supports the Government's objectives and its content is fully complementary to and consistent with the policy plan envisaged for the coming years.

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

Poverty and Social Impacts

7. **With reducing inequalities at the core of this operation, the supported prior actions are expected to have significant positive effects on distributional outcomes over the short to long term**. All Pillars are expected to have positive distributional impacts in the short through long terms. With the strong analytical foundations that exist, including an ongoing and updated model on the distributional impact of fiscal policies, the Colombia Equity Flagship and the upcoming CCDR, Annex 5 will further detail the diagnostic of impact of the prior actions. Pillar I advances the agenda of a more progressive fiscal system. Microsimulations show an increased progressivity of the PIT from the reform and a reduction in income inequality. For example, the Kakwani progressivity index is estimated to increase from 0.435 to 0.445, and the Gini at the disposable income to decrease 0.34 percent linked to this reform (World Bank, forthcoming). It also promotes the goals of sustainability and better living standards in the design of the fiscal system, through increases

to carbon taxation[2], and introduction of healthy taxes the benefits of which tend to benefit the poorer given their consumption patterns.[3] The new regime SIMPLE is expected to have positive distributional impacts, through a simplified tax regime that can lower the tax administration burden for smaller firms. Pillar II aims at promoting productive and social inclusion of vulnerable groups. It opens opportunities for groups defined by gender, ethnicity, migratory status, and location, by addressing barriers for a more productive participation in society. The evidence (including that in WB 2021) shows how these groups fare worse than the average in access to economic opportunities. Specifically, the measures aim at increasing their assets (human capital, land and physical assets) and their opportunities to participate in the economy and earn an income (for example, through increased access to care and transport). Pillar III increases access to financial assets for the excluded groups, including women and low-income households, through a more inclusive and greener private sector, including through open finance and by strengthening synergies to tackle climate change.

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

8. **Prior Actions 3, 6, 10 and 11 under Pillars 2 and 3, respectively, are expected to have significant positive effects on the environment and climate change and support the country's actions toward its NDC commitment**. These Prior Actions promote and incentivize investments to reduce greenhouse gas (GHG) emissions contributing to climate change mitigation by embedding planning approaches that reduce carbon pollutants, improving energy efficiency and reducing fossil fuel consumption. Positive environmental and health benefits, as well as positive climate co-co-benefits, will be achieved through the reduction of GHG include the reduction of black carbon and other particulate matter, such as nitrogen oxides and sulfur oxides, among other primary and secondary pollutants. Policy measures to improve inclusiveness in cadaster and land administration supported in Prior Action 6 under Pillar 2 are expected to have positive effects on the environment. The participatory cadaster supported under this Prior Action will enable ethnic and peasant communities to secure land rights, which can reduce land use conflict and environmental degradation. There are no significant negative impacts to Colombia's environment, forests or other natural resources expected to arise from the policies supported under this operation. Any potential negative effects on the environment resulting from these PAs will be managed through the nation's environmental framework.

9. **Colombia has a comprehensive environmental regulatory and planning framework for environmental management.** The Ministry of Environment and Sustainable Development (MADS) is the national regulatory entity in charge of formulating, implementing, and enforcing environmental policies and regulations to ensure environmental protection and sustainable development. Through the Decree 1076 of 2015, the MADS sets out the activities subject to environmental licensing. Together with the National Environmental Licensing Authority (ANLA by the acronyms in Spanish) and the Regional Autonomous Corporations (CARs by the acronyms in Spanish), they are responsible for the environmental licensing and permitting process for projects/investments at the national and regional level. The MADS, ANLA and CARs have the adequate institutional capacity to manage environmental management and related licensing/permitting processes.

[2] The gasoline carbon tax, assuming full pass-through to consumers, would be progressive in absolute terms (share of the tax paid increases with income). It would increase the share that the tax represents of the income of the poorest (first decile), although remains very low (from 0.28% of their income to 0.37%).
[3] Health-related taxes cannot be assessed in monetary terms only, as they are expected to have positive health effects. Nevertheless, assuming consumption patterns remain, it is slightly regressive and the share of the tax over the incomes of the poorest is 0.79%. A brief of international experiences and evidence on sugary drinks taxes can be found here: https://openknowledge.worldbank.org/bitstream/handle/10986/35186/Taxes-on-Sugar-Sweetened-Beverages-International-Evidence-and-Experiences.pdf?sequence=1&isAllowed=y

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## APPROVAL

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### Approved By

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