

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

May 19, 2015
Report No.: 96941

Operation Name	First Sustainable Development and Green Growth Development Policy Operation
Region	Latin America and Caribbean
Country	Colombia
Sector	Pub admin-transport(10%); Gen pub admin sector(60%); Sanitation(10%); Solid waste mgmt(10%); Wastewtr Treat/Disp(10%)
Operation ID	P150475
Lending Instrument	Development Policy Operation
Borrower(s)	Republic of Colombia
Implementing Agency	Ministry of Finance and Public Credit and National Planning Department
Date PID Prepared	May 5, 2015
Estimated Date of Appraisal	
Estimated Date of Board Approval	October 6, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision <i>{Optional}</i>	

I. Key development issues and rationale for Bank involvement

The GoC has designed a reform program in order to facilitate the implementation of the green growth agenda which is a central element of the National Development Plan (NDP) 2014-2018 “*Everyone For a New Country*”. The NDP is supported by three pillars: Peace, Equity and Education; based on a multi-sectoral and inter-regional dialogue; and aligned with Colombia’s accession process to the OECD. The NDP’s vision of green growth calls for sustainable development that promotes economic and social welfare in the long term, ensures the provision of adequate goods and ecosystem services to meet the country’s needs and allows the natural environment to recover from the impacts of economic activities. The programmatic DPO will support green growth reforms articulated in the NDP and the GoC’s related public policies.

The policies supported by the DPO are anchored in existing sector strategies and fully aligned with the Government’s priorities. The prior actions support the Government of Colombia’s efforts to reduce pollution and its adverse impacts on health. For example, the Ministry of Environment (MADS) has updated regulations relating to fuel quality, notably diesel, to reduce toxic emissions to the environment from diesel use. MADS has updated quality standards for discharge of industrial and municipal wastewaters, incorporating measurable and verifiable criteria and parameters to improve monitoring and control procedures.

Government reforms to reduce air pollution associated with transport, include adoption of public transport solutions in urban, metropolitan, and regional areas which are integrated in the cities' systems and implementation of actions to increase and regulate the use of non-motorized transport. This policy would bring significant savings and reduce the dominance of cars as a mode of transportation in the country. The adoption of this scheme would reinforce the use of non-motorized transport modes and/or sustainable transportation in urban centers. Finally, the Government will consolidate the financing options for adaptation and resilience by including the Adaptation Fund within the National Disasters Risk Management System to formulate and implement integrated projects to reduce natural disaster risks and adapt to climate change.

Colombia is expected to continue outperforming the regional average with stable growth and sound macroeconomic indicators, but it could still be affected by adverse changes in the external environment. The country's economy is exposed to external risks such as a continued decline in oil prices cutting export and fiscal receipts and a rise in U.S interest rates increasing capital outflows. However, financial risks are diminished by the fact that most of the loans are agreed on fixed interest rates and low bank exposure to mortgage loans. On the other hand, large infrastructure projects currently under preparation can potentially lead to unforeseen public liabilities and pose additional fiscal risks. Nonetheless, contingent liability risks have been legally addressed in the new institutional framework for PPP's in 2012, and are smaller now than in the past.

Colombia has a robust macroeconomic framework that helps in weathering the main risks. The macroeconomic framework rests on three mutually reinforcing pillars: (i) a responsible fiscal policy based on a credible medium-term fiscal framework, supported by a Fiscal Rule, (ii) a monetary policy based on an inflation-targeting regime complemented by a floating exchange rate with moderate interventions, and (iii) sound macro and micro prudential policies combined with a robust financial system. In addition, the debt sustainability analysis indicates that public debt is expected to follow a declining path in the baseline case and in the alternative scenarios. The baseline scenario is largely based on the government's consolidation plans supported by the medium term fiscal framework. Because a large share of central Government debt is in local currency and on fixed terms, shocks to the interest (one standard deviation shock) and exchange rates (20 percent devaluation) have only a modest impact on the debt trajectory.

On the whole, and notwithstanding the economic risks to the near-term outlook, Colombia's macroeconomic policy framework is deemed adequate for development policy lending. Medium-term fiscal policy remains prudent, with proposed fiscal adjustments already well underway. Monetary and exchange rate policies are also supportive of macroeconomic and financial stability, though downside risks remain significant. A sharper-than-expected decline in commodity prices would tighten the fiscal position; and, a large income shock could reverse social gains and erode efforts to reduce poverty. Nevertheless, Colombia's economy is well positioned to weather these shocks. At the same time, the country could benefit from positive shocks that are not accounted in the baseline scenario, those include a faster than expected implementation of the peace agreement or an acceleration of the infrastructure investment program.

II. Proposed Objective(s)

In line with priorities set by the Government in the NDP, this First Programmatic Sustainable Development and Green Growth DPO would support the green growth reform through (i) establishing enabling legal, policy and institutional conditions for green growth; (ii) improving environmental quality for good health; and (iii) strengthening of the legal and financial framework for climate change.

III. Preliminary Description

Pillar 1 supports the Government's objective to set a green growth policy framework under the proposed NDP. Policy planning requires close attention to current policy choices as these will shape the type of growth trajectories for decades to come. The costs of environmental degradation for Colombia confirms that improvements in environmental health conditions and the reduction of vulnerability to climate change are Colombia's major green growth challenges. The DPO's Pillar 1 is focused on the green growth policy area.

- The GoC seeks to create enabling legal, policy and institutional conditions for green growth, among other, through (a) adopting a long term policy for green growth that defines the objectives and goals of sustainable economic growth; (b) removing market mechanisms that have adverse effects and creating market instruments with beneficial effects on the environment; and, (iii) defining sectoral plans for adaptation to climate change and sectoral action plans for mitigation of climate change. As a first step, the GoC has adopted by law a green growth strategy in the NDP.

Pillar 2 supports the Government's objectives to improve improving environmental quality for good health. Specifically:

- The GoC seeks to reduce air pollution. As a first step it has issued a regulation to update the diesel quality parameters and will support public transport solutions (including the regulation of use of non – motorized means of transport).
- The GoC seeks to reduce water pollution and protect freshwater sources from excessive demand. As a first step it has established discharge norms for treated wastewater and developed norms to enable reuse of treated wastewater by key sectors.
- The GoC seeks to reduce land pollution. As a first step has established the requirements for municipalities to formulate Integrated Solid Waste Management Plans and will establish economic incentives to minimize the amount of usable solid waste disposed in landfills.

Pillar 3 supports the Government's objectives to strengthen resilient growth by reducing vulnerability and promoting adaptation to climate change. Through this pillar, the Government recognizes the importance of improving the framework for disaster risk management which was underscored in some catastrophic events. As a first step, the Government will strengthen the institutional and financial capacity of national agencies, municipalities and departments for climate change adaptation.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The Bank is preparing a Poverty and Social Impact Analysis (PSIA), applying methodologies developed by the Bank to assess the distributional impact of policy reforms on the well-being of different stakeholder groups, with particular focus on the poor and vulnerable. The PSIA will constitute an ex ante analysis of the likely impacts of policy reforms supported by the DPO and will help answer two main questions: (i) Which groups will be affected, how, and to what extent over the short and long term? and, (ii) What will be the distributional impacts on the well-being of social groups?. The PSIA will provide recommendations to incorporate social and distributional considerations in the proposed programmatic DPO. It is envisaged that the PSIA will help the Government of Colombia to ensure that the policies supported by the operation will benefit the most vulnerable groups.

In principle, the specific policy reforms supported by this development policy operation are expected to have significant and positive poverty alleviation and social development impacts in Colombia. The environmental problems associated with the highest economic costs and health damages in Colombia are urban and indoor air pollution, inadequate water supply, sanitation and hygiene, and natural disasters (such as flooding and landslides). In general, improvements in environmental sustainability are expected to benefit the poor, who are often disproportionately affected by the adverse impacts of poor environmental quality. Indoor air pollution, for example, impacts the health of women and children living in poor, rural households. Water and air pollution result in ill health, especially of the poor, and environmental degradation adversely affect livelihoods as well as increase the vulnerability of the poor to natural disasters. Therefore, it is expected that, as a whole, the policy and reforms supported by the DPO will enhance environmental and health conditions that allow for more productive workdays and improved wellbeing for the poor.

Environment Aspects

The Bank is carrying out analytical environmental work to evaluate potential significant effects on the country's environment, forests, and other natural resources of the prior actions supported by this operation.

In principle, this operation is expected to have significant positive impacts on the environment and natural resources. It plays an important role in helping to mainstream environmental considerations in key sectors (e.g., environment, water, sanitation, transport, and disaster risk management) in Colombia and in the country's overall approach to development. All actions supported by the proposed operation aim to enhance environmental stewardship and are likely to lead to net positive environmental outcomes.

V. Tentative financing

Source:	(\$m.)
Borrower	0

International Bank for Reconstruction and Development		700
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	700

VI. Contact point

World Bank

Contact: Marcelo Hector Acerbi

Title: Senior Environmental Specialist

Tel: (202) 458-2131

Fax:

Email: macerbi@worldbank.org

Borrower

Contact: Lina Mondragon

Title: Subdirector Técnico

Tel: 5713812196

Email: lmondrag@minhacienda.gov.co

VII. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>