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Colombia Green and Resilient DPO 2 (P181080)

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$750 MILLION TO THE

REPUBLIC OF COLOMBIA

FOR THE

COLOMBIA GREEN AND RESILIENT DEVELOPMENT POLICY OPERATION 2

March 1, 2024

Energy and Extractives Global Practice
Latin America and Caribbean Region

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Republic of Colombia
GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as February 28, 2024)

COP 3,935.59 = US\$1.00

ABBREVIATIONS AND ACRONYMS

| | |
|---------|--|
| ANH | National Hydrocarbon Agency (<i>Agencia Nacional de Hidrocarburos</i>) |
| ANLA | National Environmental Licensing Agency (<i>Autoridad Nacional de Licencias Ambientales</i>) |
| CAD | Current Account Deficit |
| CAT DDO | Catastrophe Deferred Drawdown Option |
| CCE | Public Procurement Agency (<i>Colombia Compra Eficiente</i>) |
| CONPES | National Council for Economic and Social Policy (<i>Consejo Nacional de Política Económica y Social</i>) |
| CREG | Energy and Gas Regulatory Commission (<i>Comisión de Regulación de Energía y Gas</i>) |
| DIMAR | General Maritime Directorate (<i>Dirección General Marítima</i>) |
| DNP | National Planning Department (<i>Departamento Nacional de Planeación</i>) |
| DPL | Development Policy Loan |
| ECFC | National Irrigation and Drainage Plan for the Rural Producers, Family and Community Economy (<i>Plan Nacional de Riego y Drenaje para la Economía Campesina, Familiar y Comunitaria</i>) |
| FDI | Foreign Direct Investment |
| FDN | <i>National Development Financing Agency (Financiera de Desarrollo Nacional)</i> |
| FONAT | National Land Improvement Fund (<i>Fondo Nacional de Adecuación de Tierras</i>) |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| GoC | Government of Colombia |
| GRS | Grievance Redress Service |
| IMF | International Monetary Fund |
| LTS | Long-Term Strategy |
| MADS | Ministry of Environment and Sustainable Development (<i>Ministerio de Ambiente y Desarrollo Sostenible</i>) |
| MD | Ministry of Defense (<i>Ministerio de Defensa</i>) |
| MFD | Maximizing Finance for Development |
| MHCP | Ministry of Finance (<i>Ministerio de Hacienda y Crédito Público</i>) |
| MME | Ministry of Mines and Energy (<i>Ministerio de Minas y Energía</i>) |
| NAP | National Adaptation Plan |
| NCRE | Non-Conventional Renewable Energy |
| NDC | Nationally Determined Contribution |
| ND-GAIN | Notre Dame-Global Adaptation Index |
| NDP | National Development Plan |
| OIT | Original Indicative Trigger |
| OSW | Off-Shore Wind |
| PCE | Private Capital Enabled |
| PES | Payment for Environmental Services |
| PFM | Public Financial Management |
| PV | Photovoltaic |
| SAT | Territory Administration System (<i>Sistema de Administración del Territorio</i>) |
| SBD | Standard Bidding Document |
| TA | Technical Assistance |
| UPME | Mining and Energy Planning Unit (<i>Unidad de Planeación Minero-Energética</i>) |
| WB | World Bank |
| WBG | World Bank Group |

| | |
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REPUBLIC OF COLOMBIA

COLOMBIA GREEN AND RESILIENT DPO2

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

| | | |
|------------|--------------|-------------------------------------|
| Project ID | Programmatic | If programmatic, position in series |
| P181080 | Yes | 2nd in a series of 2 |

Proposed Development Objective(s)

Accelerate climate action by: (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; (iii) building resilience and adaptation to climate change; and (iv) expanding climate finance.

Organizations

Borrower: REPUBLIC OF COLOMBIA

Implementing Agency: Ministry of Finance and Public Credit, National Planning Department

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

| | |
|------------------------|---------------|
| Total Financing | 750.00 |
|------------------------|---------------|

DETAILS

| | |
|--|--------|
| International Bank for Reconstruction and Development (IBRD) | 750.00 |
|--|--------|

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate



Results

| Indicator Name | Baseline | Target |
|---|----------------|---------------------------|
| Results indicator #1: Annual emissions in the electricity sector (MtCO ₂ e/yr) (linked to PA1 of DPL1 and DPL2) | 9.28 (2021) | 6.5 (2024) |
| Results indicator #2: | | |
| a) Increase in private investment that has accessed fiscal incentives for energy efficiency (US\$) (PCE monetary) (linked to PA2 of DPL1) | 0 (2022) | 360,000,000 (2024) |
| b) Increase in private investment that has accessed fiscal incentives for low-carbon hydrogen and non-conventional renewable energy project development (US\$) (PCE monetary) (linked to PA2 of DPL1) | 0 (2022) | 300,000,000 (2024) |
| c) New renewable energy capacity installed (MW) (PCE non-monetary) (linked to PA2 of DPL2) | 0 (2023) | 2,000 (2025) |
| Results indicator #3: | | |
| a) Potential offshore wind electricity generation capacity that has obtained a temporary leasing permit to explore an area (MW) (linked to PA3 of DPL1 and DPL2) | 0 (2022) | 200 (2024) |
| b) Increase in geothermal electricity generation capacity constructed or under exploration (MW) (PCE non-monetary) (linked to PA3 of DPL1) | 0 (2022) | 50 (2024) |
| Results indicator #4: | | |
| a) Electric buses registered in the Single National Transport Registry, RUNT (number) (linked to PA4 of DPL1) | 616 (2021) | 1,590 ¹ (2024) |
| b) Kilometers of brownfield railway under structuring for PPP tendering (number) (PCE non-monetary) (linked to PA4 of DPL2) | 0 (2023) | 498 (2024) |
| Results indicator #5: | | |
| a) <i>Páramos</i> with sustainable production systems under implementation (number) (linked to PA5 of DPL1) | 0 (2021) | 4 (2024) |
| b) Regulation developed for granting forestry concessions to rural producers as per article 55 of law 2294 of 2023 (number) (linked to PA5 of DPL2) | 0 (2023) | 1 (2024) |
| c) Rural producers' organizations trained in the access procedures to use forestry concessions (number) (linked to PA5 of DPL2) | 0 (2023) | 10 (2025) |
| d) Hectares impacted by transformation of traditional livestock systems into sustainable livestock systems (number) (linked to PA6 of DPL1) | 147,000 (2022) | 167,000 (2024) |
| Results indicator #6: | | |
| a) Model of processes, inter-institutional agreements, standards, data infrastructures, and technologies required for the proper functioning of the SAT defined (number) (Linked to PA6a of DPL2) | 0 (2023) | 1 (2024) |
| b) Territorial entities using geographic and cadastral information following the new standards, reporting information by sex and tenure type (number) (linked to PA7 of DPL1 and PA6b of DPL2) | 82(2022) | 322(2024) |
| Results indicator #7: | | |
| a) Municipalities of categories 5 and 6 exposed to hydro- | 0 (2022) | 100 (2024) |

¹ The target for this indicator was slightly reduced from 1,622 in DPL 1 (P180033), to reflect updated information pertaining ongoing procurement processes.



| | | |
|--|------------|------------|
| meteorological risks with community maps (number) (linked to PA8 of DPL1) | | |
| b) Ecosystem-based adaptation interventions for disaster risk reduction at the community level under implementation (number) (linked to PA8 of DPL1) | 0 (2022) | 16 (2024) |
| c) Sites in vulnerable coastal areas where ecosystem-based adaptation interventions have been conducted (number) (linked to PA8 of DPL1) | 0 (2022) | 4 (2024) |
| Results indicator #8: | | |
| a) Area provided with improved irrigation and drainage services in small existing irrigation districts (ha) (linked to PA7 of DPL2) | 418 (2023) | 934 (2024) |
| b) Water User associations/ small districts strengthened (number) (linked to PA7 of DPL2) | 105 (2023) | 213 (2024) |
| Results indicator #9: | | |
| Agricultural pilot insurance schemes (traditional and parametric) financed that provide coverage to small farmers (number) (linked to PA9 of DPL1) | 0 (2021) | 3 (2024) |
| Results indicator #10: | | |
| Fund resources executed (US\$, millions) (linked to PA8 of DPL2) | 0 (2023) | 60 (2025) |



IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE REPUBLIC OF COLOMBIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Colombia Green and Resilient Development Policy Loan (DPL) in the amount of US\$750 million is the second in a series of two operations aiming to accelerate climate action by (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; (iii) building resilience and adaptation to climate change; and (iv) expanding climate finance.** The first DPL in the series (DPL1) of US\$1 billion was approved on December 20, 2022. The program supported by this second DPL (DPL2) focuses on cementing the country's transition toward a green and resilient development model. The Program Development Objective (PDO) is strongly aligned with the government's policy agenda. In particular, the latest National Development Plan (NDP) for 2022–2026 prioritizes transformation to a greener productive profile of the national economy, energy transition, and climate action as development cornerstones.

2. **Colombia's economy had a strong post-Covid-19 recovery but slowed down in 2023, resurfacing the pattern of insufficient economic growth that has characterized the country's development process.** The economy expanded by a cumulative 19.1 percent in 2021–2022, and real gross domestic product (GDP) was 10.4 percent above its pre-pandemic peak (Q3 of 2019, seasonally adjusted), but economic activity has since decelerated, and growth prospects are limited by long-standing constraints. Although Colombia has historically enjoyed a stable macroeconomic environment, currently underpinned by a credible inflation-targeting regime, a flexible exchange rate, and rule-based fiscal policies, growth has been insufficient to ensure convergence to higher-income economies and close domestic development gaps. Low productivity lies at the core of insufficient economic growth, compounded by high inequality and weak institutions that add to the country's challenges.

3. **The country's development challenges are compounded by the expected effects of climate change, as Colombia is highly exposed to climate hazards.** The country ranks 28 out of 182 countries on climate risk² and 92 out of 182 on the Notre Dame-Global Adaptation Index³ (ND-GAIN). It has one of the highest rates of disasters caused by natural and climate-induced hazards in Latin America.⁴ The country is also at a high risk of geophysical hazards, including earthquakes and volcanos,⁵ which between 1980 and 2020 represented, respectively, 10 and 6 percent of the average annual number of natural hazards incidents.⁶ Floods and landslides are the most prevalent hazards,⁷ and the frequency of floods has more than doubled since the 1970s.⁸ Disaster and climate risks represent by far Colombia's largest contingent liability, estimated at up to 4.4 percent of GDP.⁹ Exposure to climate risks is widespread: 47 percent of the territory faces 'high' or 'very high' climate risks. Climate-related hazards disrupt access to basic services, road connectivity, education, and health care, affecting growth, productivity, and well-being. Moreover, rising temperatures and changing precipitation patterns have reduced water availability, decreased agricultural productivity, and increased vulnerability to droughts¹⁰, with current impacts of water insecurity losses ranging from 1.6 to 2.3 percent of GDP including impacts on agricultural crop yields¹¹ and posing risks to electricity generation given the high share of hydroelectric production.¹² The economic impacts of

² Germanwatch (2021): Global Climate Risk Index 2021.

³ 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: (a) vulnerability, which measures exposure, sensitivity, and capacity to adapt to the effects of climate change, and (b) readiness, which measures ability to leverage investments and convert them to adaptation actions.

⁴ European Commission (2022): INFORM Risk Index. Colombia ranks second in the Latin America region in the hazard and exposure category.

⁵ World Bank (2023): ThinkHazard!

⁶ World Bank (2021): Climate Risk Country Profile: Colombia.

⁷ Ibid.

⁸ Guha-Sapir, D., R. Below, and Ph. Hoyois. 2021. EM-DAT. The CRED/OFDA International Disaster Database. *Université Catholique de Louvain*.

⁹ Ministry of Finance and Public Credit (2021): Medium-Term Fiscal Framework.

¹⁰ As evidenced with the drought and wildfire crisis of early 2024.

¹¹ Including due to lack of irrigation infrastructure in the case of droughts (currently, only about 6 percent of potentially irrigable land is connected to some sort of irrigation system) and reduction in agricultural income due to floods.

¹² World Bank. 2021. *Colombia Turning the Tide: Water Security for Recovery and Sustainable Growth*.



climate change are expected to depress real GDP annually between 1.5 and 2.5 percent by 2050¹³ and exacerbate poverty and inequality.

4. **Recognizing the challenge that climate change poses to its development pathway, Colombia has set ambitious climate goals and a consistent policy agenda.** Colombia's Nationally Determined Contribution (NDC) targets a reduction of 51 percent in greenhouse gas (GHG) emissions by 2030 relative to a business-as-usual scenario, an ambition level that exceeds that of its regional peers. The country is one of eight Latin American countries to have developed a Long-Term Climate Strategy aiming for a net zero and resilient economy by 2050. Moreover, the NDC and 2050 net zero GHG emissions targets, as well as key adaptation measures across seven sectors, have been enshrined in Law 2169-2021. Finally, development planning has consistently included climate and environmental actions: The latest three NDPs have identified environmental sustainability as a cornerstone of economic development, adopting a consistent approach around reducing the environmental footprint of productive activities, managing biodiversity and water, adapting to climate change, and promoting low-carbon development.¹⁴

5. **Achieving Colombia's climate goals will require decisive policy actions across key sectors including energy, transport, and land use and management while strengthening climate resilience and climate finance.** The main sources of emissions in 2018 were land-use change and deforestation (40 percent), energy (31 percent), and agriculture (19 percent). The transport sector is the largest contributor to energy emissions, accounting for 12.5 percent of total emissions and consuming 40 percent of the country's energy.¹⁵ Despite its immense potential, non-conventional renewable energy (NCRE) resources remain underdeveloped, representing a great opportunity to decarbonize the transport sector and diversify the energy matrix. Moreover, deforestation containment, forest management, improved agricultural productivity, and more efficient land administration remain critical to reduce emissions from the agriculture, forestry, and land use sector. Importantly, additional climate investment needs in the country have been estimated to be five to seven times higher¹⁶ than what has been mobilized so far, which, in a context of tight macro fiscal space, necessitates strengthening the climate finance framework.

6. **In this context, ambitious climate action would help address pre-existing development challenges.** Climate action is needed to navigate the transition from a climate-vulnerable to a climate-resilient economy, transform into a low-carbon economy, and manage the consequences of a changing world that will demand less of its primary exports, oil and coal, and more green products, as discussed in-depth in the Country Climate and Development Report (CCDR). Tackling such challenges will require swift and far-reaching reforms across a wide spectrum of issues, including transformation of transport and energy systems, sustainable land management, and increased climate resilience, while improving productivity, facilitating innovation, and fostering export diversification away from fossil fuel products. Moreover, the implementation of such an ambitious agenda poses the challenge of increasing the mobilization of public and private funds, requiring continuous innovation across the climate finance spectrum. This agenda is complementary to the country's long-standing development challenges. It fosters structural transformation by developing new industries. It reduces vulnerability to price shocks by diversifying the economy. It opens new export opportunities in high-income markets that demand climate-friendly practices. And it generates jobs: the CCDR estimates that such an agenda would result in net job gains of approximately 347,000 jobs until 2030 for the economy as a whole. Nevertheless, workers and communities in fossil-fuel related sectors and departments could face income insecurity if mitigation measures and transition support mechanisms are not put in place. The CPF program will continue to support government authorities in the context of the National Development Plan to promote territorial development consistent with decarbonization goals, which will require both strong and focalized income support, and training programs to match displaced workers with new jobs in the green economy.

¹³ World Bank. 2023. *Colombia Country Climate and Development Report*.

¹⁴ Ibid.

¹⁵ 96 percent of transport energy is generated from fossil fuels.

¹⁶ World Bank. 2023. *Colombia Country Climate and Development Report*.



2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

7. **The strong post-pandemic economic growth is cooling down.** After growing 7.3 percent in 2022, led by repressed consumption and the lagged effects of fiscal and monetary stimuli, GDP is estimated to have expanded 1.2 in 2023, amid a tight monetary stance, low execution of capital expenditure, and uncertainty related to the government's reform agenda and policy direction in the mining and energy sectors. Investment is the main drag of economic activity on the demand side, with construction, manufacturing, and commerce as the low performing sectors. Employment closed the year 7.6 percent above the 2019 average and the unemployment rate remains at one digit, but about 564,000 jobs were lost between August and December following the slowdown of economic activity. Underemployment has further deteriorated to 11 percent above pre-pandemic levels.

8. **The Central Bank started an easing cycle in November 2023, accumulating a 50bps reduction of the monetary policy interest rate to 12.75 percent by January, as economic activity weakened, and inflation declined.** Inflation moderated from 13.3 percent in 2023Q1 to 9.3 percent in December 2023 supported by falling food prices and the appreciation of the peso. Inflation expectations for 2024 at 5.4 percent remain above the central bank target band in the face of still increasing prices of services, high indexation, and prospects of rising transport prices. High domestic interest rates, greater global financial liquidity, and less policy uncertainty benefited the peso, which appreciated 20 percent relative to its low in early November 2022. Credit is contracting at a 6.6 percent (y-o-y) annual rate, the financial sector remains resilient, and banks' soundness indicators are stable with capital adequacy ratio at 17.4 percent.

9. **Economic deceleration helped narrow the current account deficit (CAD) from a record 6.2 percent of GDP in 2022 to an estimated 3.3 percent of GDP in 2023.** Imports are estimated to have fallen 13.6 percent, while exports are estimated to have contracted 5.6 percent as growing volumes (especially of services) partially offset lower international prices. Primary payments also fell but remain high at an estimated 6.7 percent of GDP. Foreign Direct Investment (FDI) edged up to a nine-year high (USD 13.1 billion), driven by the recovery of inflows to oil and mining activities, while portfolio investment posted net outflows of USD 4.3 billion. The Central Bank kicked off in November a reserves accumulation program (worth USD 1.5 billion), to strength buffers in the face of an eventual reduction in the size of the IMF's Flexible Credit Line. By end-2022, the solid international reserves position reached USD 59.6 billion, the equivalent to 8.6 months of next year's imports.

10. **A tax reform in 2022 and a continuous reductions of energy subsidies were the main drivers in the reduction of the general government's deficit from 6.5 percent of GDP in 2022 to an estimated 3.9 percent in 2023.** The tax reform is estimated to have increased revenues by 1 percent of GDP in 2023, leading to an improvement of the central government position from -5.3 percent of GDP in 2022 to -4.2 percent. In addition, gasoline prices increased a cumulative 57 percent between October 2022 and December 2023 (reducing fuel subsidies by around 1.2 percent of GDP in 2023). Financing conditions also improved, with long-term bond issuances denominated in COP and USD oversubscribed up to 6.1 and 4 times, respectively. EMBIG spreads declined from 470 bps in October 2022 to 320bps in December 2023, but they remain above pre-pandemic levels. Still, interest payments remain high at 4.3 percent of GDP. The peso appreciation also helped to reduce the general government debt-to-GDP ratio in 2023 to an estimated 60.6 after reaching 67 percent in 2020 following the COVID-19 pandemic shock.



Table 1. Colombia: Key Macroeconomic Indicators, 2020–2027*

| | 2020 | 2021 | 2022 | Est. 2023 | Proj. 2024 | Proj. 2025 | Proj. 2026 | Proj. 2027 |
|--|---------|-----------|-----------|--------------|---------------|---------------|---------------|---------------|
| Real sector (percent change) | | | | | | | | |
| Real GDP | -7.3 | 11.0 | 7.3 | 1.2 | 1.8 | 3.0 | 3.0 | 3.1 |
| Contributions: | | | | | | | | |
| Private Consumption | -3.4 | 10.4 | 7.0 | 0.9 | 1.2 | 2.2 | 2.1 | 2.3 |
| Government Consumption | -0.1 | 1.7 | 0.1 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Investment | -5.2 | 3.1 | 2.1 | -1.4 | 0.0 | 0.8 | 0.8 | 0.8 |
| Exports | -3.4 | 2.0 | 2.0 | 0.5 | 0.5 | 0.7 | 0.8 | 0.8 |
| Imports | 4.6 | -5.3 | -5.0 | 3.4 | -1.9 | -0.9 | -0.9 | -0.9 |
| Imports | -19.9 | 26.7 | 22.3 | -13.2 | 8.6 | 3.7 | 3.8 | 3.9 |
| Exports | -22.7 | 15.9 | 14.8 | 3.7 | 3.5 | 4.9 | 5.1 | 5.1 |
| Unemployment rate (nat. def. -- percent) | 16.5 | 13.8 | 11.2 | 10.2 | - | - | - | - |
| GDP deflator | 1.5 | 7.7 | 14.3 | 7.6 | 5.7 | 3.6 | 3.0 | 3.1 |
| CPI (average) | 2.5 | 3.5 | 10.2 | 11.5 | 6.4 | 3.8 | 3.0 | 3.0 |
| Fiscal accounts (Central Gov. --percent of GDP) | | | | | | | | |
| Revenues** | 15.3 | 16.1 | 16.3 | 19.3 | 19.6 | 19.5 | 19.7 | 19.6 |
| Expenditures | 23.1 | 23.1 | 21.6 | 23.6 | 24.6 | 23.6 | 23.5 | 23.2 |
| Fiscal balance | -7.8 | -7.0 | -5.3 | -4.3 | -5.1 | -4.1 | -3.8 | -3.5 |
| Gross debt | 65.1 | 63.0 | 61.1 | 57.7 | 57.6 | 58.5 | 59.3 | 59.7 |
| Fiscal accounts (General Gov. --percent of GDP) | | | | | | | | |
| Revenues | 26.0 | 26.6 | 27.7 | 30.8 | 30.5 | 30.2 | 29.8 | 29.5 |
| Expenditures | 33.3 | 33.7 | 34.2 | 34.7 | 34.3 | 33.4 | 33.0 | 32.3 |
| Fiscal balance | -7.2 | -7.1 | -6.5 | -3.9 | -3.8 | -3.2 | -3.2 | -2.8 |
| Gross debt*** | 67.3 | 65.7 | 64.9 | 60.6 | 58.7 | 57.9 | 57.8 | 57.3 |
| Selected monetary accounts (percent change) | | | | | | | | |
| Base money | 20.5 | 9.6 | 6.4 | ... | ... | ... | ... | ... |
| Credit to private sector | 2.2 | 10.9 | 17.5 | ... | ... | ... | ... | ... |
| Policy interest rate (end-of-period) | 1.75 | 2.5 | 12.0 | ... | ... | ... | ... | ... |
| External sector (percent of GDP) | | | | | | | | |
| Current account balance | -3.4 | -5.6 | -6.2 | -3.3 | -3.4 | -3.3 | -3.3 | -3.3 |
| Exports GNFS | 14.1 | 16.0 | 21.3 | 19.0 | 18.0 | 17.3 | 16.8 | 16.7 |
| Imports GNFS | 19.0 | 22.3 | 26.1 | 21.3 | 20.4 | 19.8 | 19.4 | 19.2 |
| Foreign direct investment (net) | -2.1 | -2.0 | -4.0 | -3.6 | -2.7 | -2.4 | -2.4 | -2.4 |
| Gross reserves (US\$ billion, eop) | 59.0 | 58.6 | 57.3 | 58.8 | 59.3 | 60.1 | 60.7 | 61.5 |
| In months of next year's imports | 12.3 | 7.8 | 8.2 | 8.9 | 8.8 | 8.6 | 8.4 | 8.1 |
| As % of short-term external debt | 267 | 238 | 193 | ... | ... | ... | ... | ... |
| External debt | 57.1 | 53.9 | 53.5 | ... | ... | ... | ... | ... |
| Terms of trade (% change) | -15.5 | 19.7 | 22.2 | ... | ... | ... | ... | ... |
| Exchange rate (COP/US\$, average) | 3,693 | 3,746 | 4,256 | ... | ... | ... | ... | ... |
| Memo items | | | | | | | | |
| Nominal GDP (US\$ million, current) | 270,151 | 318,354 | 343,622 | 363,655 | 387,392 | 409,293 | 429,791 | 452,529 |
| Nominal GDP (COP billion, current) | 997,742 | 1,192,586 | 1,462,522 | 1,592,670 | 1,713,600 | 1,828,578 | 1,939,358 | 2,062,382 |
| Oil production (hundred thousand barrels/day) | 781 | 736 | 754 | 775 | 782 | 790 | 790 | 790 |
| Oil price (crude oil average, US\$/barrel) | 41 | 69 | 97 | 82 | 79 | 78 | 80 | 77 |

* Estimates and projections presented in this section have been elaborated based on information available up to January, 2024.

** In 2019 includes extraordinary Ecopetrol dividend.

*** Gross debt is unconsolidated debt and it includes Ecopetrol.

Source: Colombian authorities and WB staff estimates and projections.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

11. **GDP growth is projected to increase to 1.8 percent in 2024 and reach its potential (3.1 percent) by 2027, as interest rates normalize, and policy uncertainty subsides.** Following the slowdown in economic activity during 2023, GDP growth is expected to gradually increase between 2024 and 2027 as the negative output gap closes, supported by a pick-up of private consumption and rise in investment, as inflation and interest rates recede, budget execution normalizes, and policy uncertainty abates. Inflation is projected to remain above its 4 percent upper target bound in 2024, falling within the target band in 2025, with the Central Bank progressively easing monetary tightening. The current account deficit is projected to decline to 3.3 percent of GDP over the medium term as domestic demand growth (especially from 2025) and primary income payments stabilize.

12. **The fiscal deficit of the general government is projected to decline to 3.8 percent in 2024 despite a higher deficit at the central government level.** Yields from the 2022 tax reform (though diminished by a Constitutional Court's ruling), the continued reduction of fuel subsidies supported by this operation, and a stronger tax administration¹⁷ are projected

¹⁷ Measures to strengthen tax administration include more precise rules for the taxation of foreign entities in digital activities with a significant economic presence in Colombia, issuing binding tax invoices for those who did not file income tax return on time, an expansion of DIAN staff, and lower thresholds defining tax offenses.



to partially offset higher social spending, intergovernmental transfers, and interest payments at the central government level. Further spending adjustments might be required to comply with the fiscal rule if revenues underperform, and the government committed to do so if necessary. At the general government level, the spending rise is offset by the usual decline in execution levels by local governments in their first year in office. For 2025, a decline in interest payments, the continued reduction in fuel subsidies and lower capital expenditures (in a context of limited fiscal space and current spending inflexibility) are estimated to drive a decline in spending.

13. **Debt sustainability analysis indicates that, in the baseline scenario, general government debt is sustainable, falling to 55.9 percent of GDP by 2029 (Figure 1).** Debt service is projected to increase above 0.09 percent of GDP, from 0.05 percent in the last five years average. However, the debt service-to-GDP ratio is expected to decline after peaking in 2027. Standard sensitivity analyses show that a one-standard-deviation shock to the exchange rate would increase public debt levels by about 1.4 percent of GDP relative to the baseline. Meanwhile, a one-standard-deviation lower economic growth¹⁸ would increase public debt levels to a peak of 70.4 percent of GDP in 2026, to later gradually decline to 69.2 percent of GDP by 2029.¹⁹ A combined macro-financial shock would cause public debt to reach 77.2 percent of GDP in 2029.²⁰ However, the fiscal rule, which increases the floor on the structural primary balance if the debt-to-GDP ratio increases, creates an automatic fiscal policy response mechanism in case shocks were to raise the debt-to-GDP ratio.

14. **External Debt is expected to fall gradually to 50.3 percent by 2027 from an estimated 55.1 percent of GDP in December 2023.** This will be mainly supported by higher GDP growth despite financing requirements will remain above 14 percent of GDP until 2028, due to high principal payments (especially of the public sector). Colombia's fiscal rule and a diversified foreign investor base mitigates refinancing risks. In stress tests, an exchange rate shock²¹ or a combined macro-financial shock²² would increase external debt but maintaining a declining trajectory over the medium term.

15. **The risk profile is tilted to the downside.** Risks to the economic growth outlook include higher inflation pressures, exacerbated by the effects of El Niño on food and utility prices, persistent inflation inertia, and increasing transport prices; and continued high currency volatility. Uncertainty around the reform agenda could increase fiscal pressures and lead to delays in private sector investment. This is mitigated by the fact that the government has reiterated its commitment to the fiscal rule, which has been complied with since its inception in 2011, including by the current administration. Finally, the impact of climate change on growth, external and fiscal sustainability, and the most vulnerable is a continuous source of concern, as Colombia is very exposed to physical and transition risks. The country's ambitious NDC commitments and policy reform priorities, as reflected in measures supported by this DPL, are important mitigating factors.

16. **The macroeconomic policy framework is adequate for this operation.** Colombia has solid fundamentals and strong macroeconomic policy institutions founded on inflation targeting, a flexible exchange rate, and rules-based fiscal policy. The authorities have taken measures to revert macroeconomic imbalances, including a prompt monetary policy response to rising inflation. Fiscal reforms in 2021 and 2022, the institution of an autonomous fiscal council, and the strengthening of the fiscal rule (with the introduction of a debt anchor) provide a solid framework for reducing the deficit and debt-to-GDP ratios and re-building fiscal buffers. FDI remains strong and Colombia has ample foreign exchange reserves. Long average maturity (10 years) and duration (6.2 years) of central government debt mitigate the transmission of shocks to debt and debt service payments. Proactive supervision and adequate capital and liquidity buffers are expected to allow the financial system to absorb potential shocks from financial stress abroad and increases in risky credit portfolio.

¹⁸ Equivalent to a decline in output of 1.7 percent in 2025 and 2026.

¹⁹ A primary balance shock (which considers a deterioration of half of the 10-year historical standard deviation) would shift the debt trajectory up by 2 percent of GDP by the end of the forecasting horizon.

²⁰ Standard shocks applied to interest rate, exchange rate and GDP growth rate simultaneously.

²¹ One-time real depreciation of 30 percent occurs in 2025.

²² Permanent 1/4 standard deviation applied to real interest rate, growth rate, and current account balance.

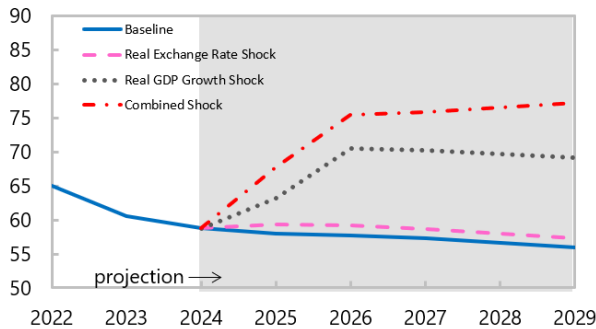


Table 2. Balance of Payments Financing Requirements and Sources, 2020–2027 (US\$, millions)*

| | 2020 | 2021 | 2022 | Est. 2023 | Proj. 2024 | Proj. 2025 | Proj. 2026 | Proj. 2027 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Financing requirements | 49,216 | 55,776 | 63,211 | 57,570 | 59,521 | 61,580 | 63,989 | 66,450 |
| Current account deficit | 9,267 | 17,951 | 21,333 | 12,143 | 13,318 | 13,639 | 14,342 | 15,033 |
| External debt amortization | 35,621 | 37,171 | 41,307 | 43,972 | 45,622 | 47,224 | 48,977 | 50,676 |
| Medium and long term | 14,601 | 15,117 | 19,219 | 19,675 | 20,110 | 20,437 | 20,850 | 21,143 |
| o/w Multilateral and Bilateral institutions | 825 | 974 | 1,153 | 1,181 | 1,207 | 1,226 | 1,251 | 1,269 |
| Short term | 22,932 | 22,054 | 22,088 | 24,297 | 25,512 | 26,787 | 28,127 | 29,533 |
| Gross reserve accumulation | 4,328 | 654 | 571 | 1,455 | 581 | 716 | 670 | 741 |
| Financing sources | 49,216 | 55,776 | 63,211 | 57,570 | 59,521 | 61,580 | 63,989 | 66,450 |
| FDI (net) | 5,725 | 6,381 | 13,799 | 13,010 | 10,512 | 9,833 | 10,364 | 10,707 |
| o/w inward (net) | 7,459 | 9,561 | 17,183 | 14,881 | 13,944 | 14,433 | 15,062 | 15,869 |
| External debt disbursements | 52,823 | 52,913 | 45,605 | 51,089 | 52,930 | 54,695 | 56,638 | 58,495 |
| Medium and long term | 30,769 | 30,825 | 21,308 | 25,578 | 26,143 | 26,568 | 27,105 | 27,486 |
| o/w Multilateral and Bilateral institutions | 10,300 | 4,942 | 3,081 | 5,371 | 5,490 | 5,579 | 5,692 | 5,772 |
| Short term | 22,054 | 22,088 | 24,297 | 25,512 | 26,787 | 28,127 | 29,533 | 31,010 |
| Other capital flows (net) | -9,333 | -3,518 | 3,807 | -6,529 | -3,921 | -2,948 | -3,013 | -2,752 |
| Memo items | | | | | | | | |
| Remittances (net) | 6,660 | 8,218 | 9,013 | 9,202 | 9,214 | 9,224 | 9,237 | 9,234 |
| Financing requirements (percent of GDP) | 18.2 | 17.5 | 18.4 | 15.8 | 15.4 | 15.0 | 14.9 | 14.7 |

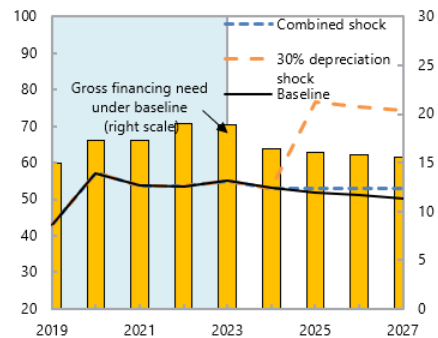
* Estimates and projections presented in this section have been elaborated based on information available up to January, 2024.
Source: Central Bank of Colombia and WB staff estimates and projections.

Figure 1. Debt Sustainability Analysis (General government debt, percent of GDP)



Source: WB staff projections.

Figure 2. External Debt Sustainability Analysis (External debt, percent of GDP)



Source: WB staff projections.



Table 3. Colombia: Key Fiscal Indicators for the Central Government, 2020–2027 (percent of GDP)*

| | 2020 | 2021 | 2022 | Est. | Proj. | Proj. | Proj. | Proj. |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | | 2023 | 2024 | 2025 | 2026 | 2027 |
| Total revenues ** | 15.3 | 16.1 | 16.3 | 19.3 | 19.6 | 19.5 | 19.7 | 19.6 |
| Tax revenues | 13.1 | 13.6 | 14.5 | 17.1 | 17.5 | 18.1 | 18.0 | 18.0 |
| Net income tax and profits | 6.2 | 6.8 | 6.6 | 8.5 | 9.0 | 9.5 | 9.4 | 9.4 |
| Value-added tax | 5.4 | 5.2 | 6.2 | 6.1 | 6.1 | 6.2 | 6.2 | 6.1 |
| International trade | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Financial transactions tax | 0.7 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Other taxes** | 0.5 | 0.4 | 0.4 | 1.2 | 1.1 | 1.2 | 1.3 | 1.2 |
| Non-tax revenues | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Capital revenues *** | 2.0 | 2.4 | 1.7 | 2.1 | 2.0 | 1.3 | 1.6 | 1.6 |
| o/w Ecopetrol dividends | 0.7 | 0.1 | 1.1 | 1.5 | 0.9 | 0.4 | 0.9 | 0.9 |
| Total expenditures | 23.1 | 23.1 | 21.6 | 23.6 | 24.6 | 23.6 | 23.5 | 23.2 |
| Current expenditures | 19.5 | 19.6 | 18.1 | 20.4 | 21.1 | 20.3 | 20.5 | 20.3 |
| Wages and salaries | 2.4 | 2.2 | 1.9 | 2.2 | 2.2 | 2.3 | 2.3 | 2.2 |
| Goods and services | 1.2 | 1.4 | 0.7 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| Interest | 2.8 | 3.3 | 4.3 | 4.3 | 4.5 | 4.0 | 4.2 | 4.4 |
| Current transfers **** | 13.6 | 13.1 | 11.2 | 13.3 | 13.8 | 13.4 | 13.5 | 13.1 |
| of which: transfers to FPEC | ... | ... | 1.2 | 1.6 | 0.9 | 0.0 | 0.0 | 0.0 |
| Other | -0.5 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital expenditures | 3.6 | 3.5 | 3.5 | 3.2 | 3.5 | 3.3 | 3.0 | 2.9 |
| Fixed capital formation | 2.2 | 2.4 | 2.7 | 2.1 | 2.3 | 2.2 | 2.0 | 2.0 |
| Capital transfers | 1.3 | 1.1 | 0.8 | 1.1 | 1.2 | 1.1 | 1.0 | 0.9 |
| Primary balance | -5.0 | -3.6 | -1.0 | 0.0 | -0.5 | -0.1 | 0.4 | 0.8 |
| Overall fiscal balance *** | -7.8 | -7.0 | -5.3 | -4.3 | -5.1 | -4.1 | -3.8 | -3.5 |
| Financing needs and end-year deposits | 13.7 | 10.2 | 8.9 | 7.5 | 11.2 | 8.0 | 7.1 | 8.4 |
| Overall fiscal deficit | 7.8 | 7.0 | 5.3 | 4.3 | 5.1 | 4.1 | 3.8 | 3.5 |
| Amortizations | 1.1 | 1.6 | 1.6 | 1.5 | 5.4 | 3.1 | 2.5 | 4.1 |
| Arrears, judicial claims and other | 1.5 | 0.7 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock of deposits at the end of the year | 3.3 | 0.9 | 1.6 | 1.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| Financing sources and previous year deposits | 13.7 | 10.2 | 8.9 | 7.5 | 11.2 | 8.0 | 7.1 | 8.4 |
| Domestic | 3.4 | 3.5 | 6.0 | 4.5 | 7.7 | 5.9 | 5.2 | 6.2 |
| Use of saving to capitalize FOME | 1.3 | 1.1 | ... | ... | ... | ... | ... | ... |
| "Titulos de Solidaridad" | 1.0 | ... | ... | ... | ... | ... | ... | ... |
| External | 5.9 | 3.9 | 2.2 | 1.6 | 2.0 | 1.4 | 1.2 | 1.5 |
| Stock of deposits at the end of the previous year | 2.1 | 2.7 | 0.7 | 1.5 | 1.5 | 0.8 | 0.8 | 0.8 |
| Memo items | | | | | | | | |
| Oil related revenues (in percent of GDP) | 1.0 | 0.5 | 1.7 | 2.6 | 1.1 | 0.8 | 1.2 | 1.2 |
| Gross debt (in percent of GDP) | 65.1 | 63.0 | 61.1 | 57.7 | 57.6 | 58.5 | 59.3 | 59.7 |
| Nominal GDP (COP billion, current) | 997,742 | 1,192,586 | 1,462,522 | 1,592,670 | 1,713,600 | 1,828,578 | 1,939,358 | 2,062,382 |

* Estimates and projections presented in this section have been elaborated based on information available up to January, 2024.

** It includes the surcharge on the oil and coal sector, wealth, health and carbon taxes, which will become effective starting in 2023.

*** In 2021, this includes privatization receipts from the sale of participation in ISA.

**** In 2022, it includes transfers to the Fuel Price Stabilization Fund.

Source: MHCP and WB staff estimates and projections.

2.3. IMF RELATIONS

17. **Colombia has access to a Flexible Credit Line and the IMF Board concluded the 2023 Article IV consultations on March 22, 2023.** The IMF Board noted that the economy is undergoing a necessary transition toward sustainable growth and commended the strength of policies and institutional policy frameworks. It welcomed the planned fiscal adjustment, as it strikes a balance between improving the deficit while using the progressive tax reform to increase social spending. It indicated that continued efforts to gradually remove distortive fuel subsidies remain important and commended the Central Bank's decisive monetary policy tightening consistent with its inflation-targeting framework. Colombia has had access to Flexible Credit Line arrangements since 2009, the last of which was last reviewed in April 2023. Starting in 2021, the government has been receiving technical assistance (TA) on strengthening macro-fiscal analysis and forecasting capacity and revenue administration. The IMF and World Bank (WB) technical teams hold periodic meetings on macroeconomic analysis, diagnostics, and forecasting. An Assessment Letter by the IMF was provided on January 30, 2024, reproduced in Annex 2.



3. GOVERNMENT PROGRAM

18. **The proposed DPL2 is aligned with the priorities of the national government, centered around an economic transformation toward a low-carbon development pathway.** The NDP 2023-2026 promotes inclusive and sustainable economic growth through the implementation of five pillars, including one that focuses on productive transformation, internationalization, and climate action that seeks to accelerate the implementation of the low-carbon development agenda. In this context, it has identified as key priorities (a) the containment of deforestation and the importance of biodiversity conservation, (b) the development of Non-Conventional Renewable Energy (NCRE), (c) the consolidation of the multipurpose cadaster and the transition toward a System of Territorial Administration, and (d) the importance of expanding climate finance to support sustainable development.²³

19. **Moreover, the country has taken policy and regulatory actions to address climate mitigation and resilience aspects in the energy, transport, and land use sectors while improving the enabling environment for climate finance.** Relevant examples include enactment of the Energy Transition Law (Law 2099 of 2021) and adoption of the National Policy for Energy Transition (CONPES²⁴ document No. 4075), the Climate Action Law (Law 2169 of 2021), the Deforestation Control and Forest Management Policy (CONPES document No. 40121), and the National Policy for Logistics (CONPES document No. 3982). Moreover, the Government of Colombia (GoC) launched the Roadmap for Low-Carbon Hydrogen (2021) and a roadmap for the development of the offshore wind (OSW) industry (2022), both of which have been integrated with clear actions into the current NDP, as well as the development of early recovery and climate adaptation strategies with a community approach, and climate change adaptation guidelines for resilience of settlements, buildings, and planning instruments. In addition, the country issued the National REDD+ Strategy (Integrated Strategy for Deforestation Control and Forest Management, 2018), expanded the multipurpose cadaster operation, unified the cadastral technical standards (IGAC Resolution No. 1040 of 2023), and developed procedures and forms for prior consultations with indigenous communities to expand the cadaster in their territories; accelerate rural reforms; develop a green taxonomy; and establish a green bond framework and issue a sovereign green bond in Colombian pesos.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

20. **The proposed DPL2 supports policy reforms to move Colombia's development trajectory to a more sustainable pathway, accelerating climate action by: (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; (iii) building resilience and adaptation to climate change; and (iv) expanding climate finance.** The Program is aligned with long-term national priorities and contributes to the provision of global public goods, particularly climate mitigation. Pillar 1 contributes to implementing the NDC's low-carbon development priorities in the energy and transport sectors. Pillar 2 contributes to the sustainable use of natural resources, improvement of land administration, and efficient use of water. Pillar 3 builds Colombia's resilience in the face of a changing climate, while Pillar 4 contributes to the strengthening of the climate finance framework through the creation of a more efficient financial vehicle to support climate action.

21. **The operation builds on the program achieved by DPL1 and reflects a strong ongoing government commitment.** While the original indicative triggers (OITs) in DPL1 were formulated broadly to account for uncertainties in the context of a national government transition, the policy reforms reflect consistency and important progress toward decarbonization and increased climate resilience with strong continuity in Pillars 1 and 2. In particular, six of the OITs (#1, #2, #3, #4, #5, and #7) identified in DPL1 have been upgraded to prior actions (PAs) for DPL2. In Pillar 1, PA2 was introduced to account for the substantive reforms to support NCRE. In Pillar 2, OIT #6 was dropped on account of newly identified technical gaps

²³ National Planning Department (2023): *Plan Nacional de Desarrollo 2022–2026. Colombia Potencia Mundial de la Vida*, section 4.A 'Naturaleza viva: revitalización con inclusión social', section 4.C 'Transición energética justa, segura, confiable y eficiente', section 1.5 'Consolidación del catastro multipropósito y tránsito hacia el Sistema de Administración del Territorio' and section 4.E 'Financiamiento del desarrollo como mecanismo habilitante para una economía productiva', respectively.

²⁴ CONPES is the acronym for National Council for Economic and Social Policy (*Consejo Nacional de Política Económica y Social*).



that need to be addressed before formulating the sustainable livestock policy, and PA7 was introduced to support the GoC's prioritization of water management in the latest NDP. Pillar 3, which remains an integral part of the operation, does not have PAs in DPL2 due to a strategic decision to allocate policy reforms relating to adaptation to natural disasters and climate change to the Catastrophe Deferred Drawdown Option (CAT DDO IV) (P181256) that is currently under preparation. Hence, the absence of new PAs should not be interpreted as evidence of a lack of continuity in the adaptation policy reform space, when in fact the country has made substantial progress on risk identification and reduction, emergency preparedness and response, and resilient recovery. Finally, Pillar 4 and PA8 were introduced with the goal of expanding the ambition of the reform program, going beyond mitigation and adaptation issues to address the pressing need to improve the efficiency of climate financing. For a detailed assessment of the linkages between the OITs and PAs across the first and second operations see annex 7.

22. The operation is aligned with the goals of the Paris Agreement. First, the DPL2 reform program is consistent with the country's climate commitments, including the NDC, Long-Term Strategy (LTS), and key findings of the CCDR²⁵. The operation supports NDC and LTS achievement by accelerating the low-carbon energy transition (NDC sectoral measures 4 and 19), protecting key ecosystems (NDC sectoral measures 26 and 31), and improving land administration and agricultural productivity, thereby directly contributing to the fulfillment of Colombia's GHG emission mitigation targets and enhancing climate resilience. In addition, the operation aligns with the CCDR recommendation of strengthening the climate finance framework. Second, on mitigation goals, none of the PAs included in the operation are likely to cause a significant increase in GHG emissions or any persistent barriers to transition to low-GHG emissions. In Pillar 1, all actions aim to reduce GHG emissions in the energy sector (PA1 to PA4).²⁶ Pillar 2's actions support sustainable landscapes and communities, with improvements in forest management (PA5), land administration (PA6), and water efficiency (PA7). Finally, Pillar 3 has no additional actions in DPL2, while Pillar 4 aims to increase climate financing and improve its efficiency. Therefore, all PAs of the proposed DPL2 are aligned with the mitigation goals of the Paris Agreement. Third, on adaptation and resilience goals, risks from climate hazards are not likely to have significant adverse effects on any of the PAs' contribution to the PDO, although the implementation of actions derived from PA7, namely the development of irrigation infrastructure, is exposed to some risk derived from hydrometeorological hazards. However, said risk will be reduced with measures to strengthen the climate resilience of irrigation infrastructure and promote the adoption of climate-smart agricultural practices, such as improving water management techniques, developing climate-proof infrastructure, introducing water-saving technologies, ensuring adequate hydrological supply, and promoting crop varieties and more resilient production models.²⁷ Overall, the adaptation risks are or have been reduced to an acceptable level. In conclusion, all PAs of the proposed DPL program are aligned with the adaptation and resilience goals of the Paris Agreement. A detailed review is presented in annex 6.

23. The design of the DPL2, responds to national priorities, builds on policy agendas promoted through previous DPLs and the lessons learned in that process. The WB's development policy lending portfolio in the country is closely aligned with the need to address key developmental bottlenecks that have evolved over time. In particular, the policy reform support has been focused on tackling inequality, promoting the sustainable transformation of the economy, and enhancing resilience in the face of climate vulnerabilities. To adequately respond to the scope of each challenge, the Bank has delivered substantial technical assistance packages and consistently supported key priorities with programmatic series. Broadly, the equitable and Green Path series focuses on productive and social inclusion, while the Green and Resilient series, complementarily, promotes productive transformation towards a low-carbon development pathway. Finally, the long-term support provided by DRM series since 2010, aims to improve climate hazards management and

²⁵ In addition, the operation also aligns with the Climate Action Law (Law 2169 of 2021) which enshrines all the NDC commitments into the national legislative framework, the National Adaptation Plan (NAP 2018) which outlines the roadmap to increase resilience, and the 2021 Comprehensive Climate Change Management Plan for the Energy and Mining Sector (PIGCCME by its Spanish) which outlines a sectoral decarbonization roadmap.

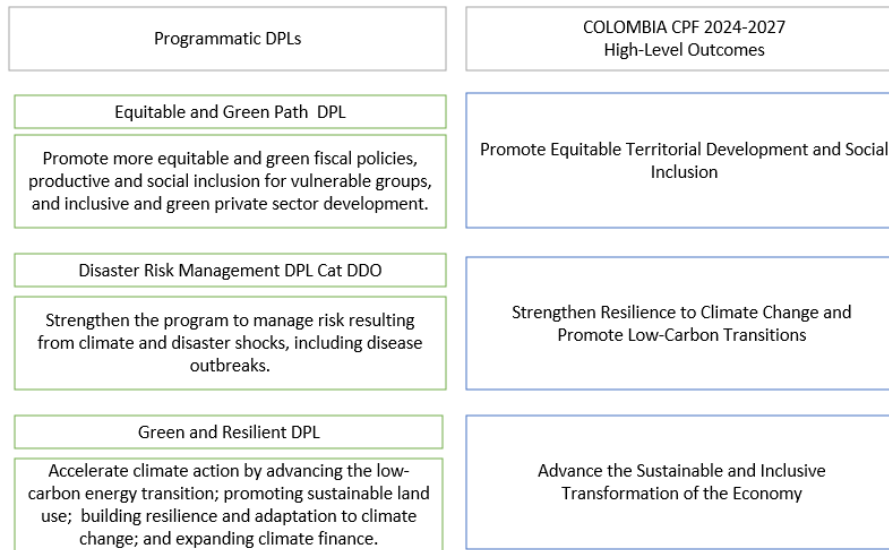
²⁶ PA1 enables the mobilization of capital to finance the energy transition, PA2 and PA3 promote the development of wind and photovoltaic (PV) resources as well as OSW and green hydrogen, and PA4 supports transport fleet modernization toward cleaner technologies and intermodal transport.

²⁷ In addition, implementing a precision irrigation system and TA in climate-smart agriculture will reduce the use of inputs (such as fertilizers, fungicides, and herbicides), reduce soil degradation for water erosion, and allow the recovery of degraded soils.



response. In sum, and while acknowledging that each instrument is complex and contributes to the development agenda from multiple perspectives, the three series set lays the groundwork for achieving the recently defined CPF high-level outcomes (figure 3). Moreover, the experience from preceding operations in said series suggests that (a) the WB’s ability to provide cross-sectoral support through a DPL is an effective tool to address the client’s cross-cutting challenges and (b) supporting specific policy actions through DPLs can help broaden the dialogue to related policy areas, increasing the effectiveness of WB support. Additionally, past DPL support has emphasized the value of responding quickly to government needs with flexibility while focusing on impact in close collaboration with counterparts. These lessons are reflected in the proposed DPL2, which supports a set of interlinked and cross-cutting policies based on strong policy dialogue, TA, and knowledge generated by the World Bank Group (WBG).

Figure 3. Colombia: Programmatic DPLs and CPF High-Level Outcomes



24. **The project embraces the Maximizing Finance for Development (MFD) approach** and contains several MFD-enabling activities that: (i) establish and define operational rules for a dedicated fund with a designated subaccount aimed at financing energy transition via catalyzation of private financing towards development of Non-Conventional Renewable Energy (NCRE) projects (PA1); (ii) enact regulations to minimize disincentives for the private sector to invest in NCRE projects and allow electricity retailers to directly contract energy from NCRE (PA2); (iii) clarify institutional structure for overseeing offshore wind (OSW) tenders and streamline temporary permitting process with the goal of accelerating privately-developed OSW projects (PA3), and (iv) improve the technical and economic regulatory frameworks, as well as the institutionality of the railway sector to promote private sector participation (via brownfield railway PPP) in infrastructure and service provision (PA4). Private Capital Enabled (PCE) from these actions will be measured by RI#2 a), b), c), RI#3b) and RI#4b).

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1. Advance the Low-Carbon Energy Transition

Prior Action 1: *To finance the energy transition process and reduce greenhouse gas emissions, the Republic of Colombia, has created the fund “Colombia Potencia Mundial de la Vida” and defined its operational rules, including the establishment of the energy transition sub-account, for the efficient administration of resources for the energy transition, as evidenced by Article 329 of Law 2294 of 2023 (National Development Plan law (NDP 2022-2026)), published in the Official Gazette on May 19, 2023; and by Decree No. 0049 of 2024, published on the Official Gazette on January 30, 2024.*



25. **Rationale.** The NDP 2022–2026 has supporting the energy transition and improving resilience against climate shocks among its five key objectives. This builds on the national Comprehensive Climate Change Management Plan for the Energy and Mining Sector,²⁸ the updated NDC,²⁹ and the Climate Action Law (2169-2021).³⁰ These policy changes reflect the growing appreciation of the government in recent years regarding the role of NCRE in diversifying the electricity generation mix and as a measure to enhance resilience against climate change-related events that have caused droughts and affected hydropower production, as well as in supporting deeper economy-wide decarbonization such as the use of renewable energy in green hydrogen production and green ammonia as fertilizers. On one hand, there are clear national and global benefits to Colombia’s energy transition. It helps develop local industries and support job creation; reduce exposure to shocks and energy price volatility; and increase productivity by reducing the energy intensity of economic activities, increasing competition by enabling the entry of new market actors, and opening new export opportunities in markets requiring low-carbon products. On the other hand, there remains a chronic lack of financing, incentives, and policy support for energy transition projects, especially, but not limited to, the limited deployment of NCRE and new technologies related to decarbonization.³¹ Such lack of incentives and support was highlighted as a barrier in the Policy for Energy Transition (CONPES 4075 document), which was supported by PA1 of DPL1 of this series.

26. **Substance.** The ‘*Colombia, Potencia Mundial de la Vida*’ Fund has been created as part of the government’s plan for implementation of the NDP 2022–2026. It designates a subaccount aimed specifically to finance energy transition by catalyzing financing toward development of NCRE projects and enabling infrastructure. The government foresaw, and included in the law, the need to efficiently utilize scarce public resources, that is, state budget, loans, and grants from development partners, as well as contributions from other public entities while optimizing the value of existing assets, thereby leveraging private capital.³² Funding channeled through the energy transition subaccount will serve to catalyze investments in innovative technologies to decarbonize the energy value chain and achieve the country’s climate goals in the medium term. The implementing decree defines the objectives, overarching principles for resource and fund management, and contracting mechanisms. Since the Fund is in its early design stage, WB TA is informing the design of the Fund’s operation, including the criteria for selection of projects and disbursement conditions.³³

27. **Expected impact.** The Fund, through its energy transition window, will provide a comprehensive framework for the government to direct resources to reduce the barriers for implementation of the country’s energy transition, helping catalyze private investments and reduce GHG emissions from the sector. Specifically, it is expected to channel state and non-state financing into frontier technologies such as offshore wind (OSW) and green hydrogen, among others, to meet the goals of diversifying and enhancing the climate resilience of the energy mix.³⁴ The additional investments catalyzed, and projects developed as a result of them, will contribute to lowering the annual emissions in the electricity sector from 9.28 to 6.5 MtCO₂e per year by the end of the Program, based on calculations by the national Energy and Mining Planning Agency (*Unidad de Planeación Minero-Energética*, UPME). Along with the Policy for Energy Transition approved in DPL1, which includes several other initiatives under implementation³⁵, this PA will contribute to RI 1: Annual emissions in the electricity sector, as it will support electricity sector investments that will help decarbonize the sector and thus lower overall annual emissions. The RI is also closely linked to the country’s own NDC targets and reflects the high level of

²⁸ Ministry of Mines and Energy. 2021. *Plan Integral de Gestión del Cambio Climático del Sector Minero Energético 2050*.

²⁹ GoC. 2020. Colombia updated NDC.

³⁰ Congress of Colombia. 2021. Climate Action Law 2169-2021.

³¹ This has been due to the dependence thus far on hydro resources as a cost-effective source of power and the reliance on fossil fuels for backup power generation, as well as regulatory barriers to NCRE deployment.

³² Administered by the MHCP, the fund will have a fiduciary committee and several subaccounts, each with a distinct sectoral committee for proper management and independent governance of the resources. For the projects with contribution of public funds, the General Directorate of Public Credit and the National Treasury of the MHCP will provide cash transfers to the public trust company to respond to the transfer requests to the final beneficiary.

³³ The World Bank has been providing advisory on the design and operationalization of the Fund and especially its energy transition window.

³⁴ In addition, the greater production and use of green hydrogen in the production of green agricultural products such as fertilizers will also help the country decarbonize the agricultural value chain, as the agriculture sector is the third largest emitter of GHG.

³⁵ This includes parallel programs that GoC is planning and implementing, such as unblocking the implementation of 6GW of NCRE in the following 2 years, the rural infrastructure and energy access investments, which seek to expand the deployment of renewable energy in vulnerable communities in efforts to both achieve the energy transition and improve the resiliency of electricity supply.



ambition and expectations of the GoC in this policy measure. This PA is MFD-E under the ‘legal and regulatory reforms’ category.

Prior Action 2: *To advance the low-carbon energy transition through market reforms, the Republic of Colombia, through the Energy and Gas Regulatory Commission (“CREG”), has: (a) established an updated methodology for determining the firm energy for the reliability charge of wind and solar photovoltaic sources, as evidenced by Resolution No. 101 006 of 2023 and Resolution No. 101 007 of 2023, published in the Official Gazette on March 16, 2023; and (b) adopted regulation allowing electricity retailers to hold tenders to exclusively contract electricity produced from non-conventional renewable energy generation, as evidenced by Resolution No. 101 008 of 2023, published in the Official Gazette on March 27, 2023.*

28. **Rationale.** The use of hydropower (with fossil fuels serving as backup for the dry years) has been perceived to be the most cost-effective electricity generation in Colombia. Although Colombia has started taking advantage of solar PV and wind generation, the current installed capacity from NCRE is still only 1 GW out of a total installed capacity of 18 GW (primarily from hydropower). To diversify its electricity generation matrix while maintaining a low-carbon electricity generation profile, the country needs to tap into domestically available NCRE sources. The intermittency of wind and solar PV has resulted in the consideration of said resources as unreliable and increased the financial sector and private developers’ risk perception of these projects. Meanwhile, the Colombian electricity market awards a reliability charge to generation technologies that increase the grid’s security³⁶ by providing electricity in times of high demand or low availability of other generation sources. Wind and solar PV have therefore only received minimal benefits from such reliability charges, effectively reducing the potential revenues from variable renewable energy projects. This has constituted a financial barrier for NCRE projects to raise finance and therefore for creating any potential economies of scale that could lower the cost. Lower revenues and higher costs create disincentives for companies to replace conventional sources of energy with non-conventional ones. A scale-up of NCRE development requires market reforms to create an enabling framework for investments by adequately valuing the reliability services that solar PV and wind projects can provide. Meanwhile, Article 296 of Law 1955 of 2019 has mandated that 10 percent of the annual energy purchases intended to serve end users shall come from NCRE sources. However, retail electricity service providers have so far been unable to directly purchase NCRE generation, preventing them from fulfilling the legal requirements aimed to accelerate the integration of NCRE in the electricity grid and, thus, stalling advances in Colombia’s decarbonization.

29. **Substance.** The Energy and Gas Regulatory Commission (*Comisión de Regulación de Energía y Gas*, CREG) has issued an updated framework and guidelines for the calculation of reliability charges for wind and solar PV³⁷ projects, enhancing the remuneration of the output and availability of energy from these plants, thus improving their bankability. The calculation methodology is underpinned by hourly, daily, monthly, and annual power output data, as well as the effective net capacity and historical data on periods of resource/generation unavailability. The regulations also include provisions for the audits of the declared parameters and periodic reporting to ensure accountability by the developers and support the power system operator (in charge of ensuring reliability of power services and grid balancing. In addition, CREG has issued a resolution explicitly allowing electricity retailers to hold tenders to exclusively contract electricity produced from NCRE, removing regulatory bottlenecks, and enabling them to contribute to decarbonization of the national electricity grid.

30. **Expected impact.** The updated regulations related to the renewable energy remuneration methodology serve to improve the bankability of NCRE projects by enhancing the business case for deploying wind and solar PV electricity generation projects, allowing the private sector to scale up investment and development of these projects. In addition, the resolution supporting electricity retailers’ direct purchase of NCRE enables private companies to directly purchase NCRE generation to achieve the 10 percent quota mandated by law. In the long run, such resolution would enable additional increases once the quota is raised, further supporting the sector and the country’s decarbonization goals.

³⁶ This means the ability of the grid to maintain a consistent supply of energy at a sustainable price.

³⁷ There are allegations of forced labor in the production of solar panels and components. DPL proceeds are not earmarked to any specific purpose, including the manufacture or procurement of solar panels or components.



Together these regulatory measures are expected to lead to an increase in generation capacity from NCRE projects, thus decarbonizing and improving the climate resilience of the country's electricity grid that is currently overly reliant on hydropower. This PA will contribute to RI 2(c): New renewable energy capacity contracted, considering that both actions will directly result in enhanced business case and increased deployment of NCRE generation. This PA is MFD-E under the 'legal and regulatory reforms' category.

Prior Action 3: *To accelerate the deployment of innovative non-conventional renewable energy sources and foster a clean energy transition, the Republic of Colombia has: (a) taken measures to streamline the competitive processes for granting temporary permits over maritime areas, and launched and published an offshore wind ("OSW") seabed temporary permit process, as evidenced by the Ministry of Mines and Energy ("MME") and the General Maritime Directorate ("DIMAR") joint Resolution No. 40712 of 2023, published in the Official Gazette on December 1, 2023; and the DIMAR Resolution No. 0951 of 2023 published on December 4, 2023, respectively; and (b) mandated the creation of a green hydrogen certification system, as evidenced by Article 235 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023.*

31. **Rationale.** In 2020, the GoC developed and started implementing a strategy³⁸ to bring more OSW online to increase energy security and support decarbonization.³⁹ The Policy for the Energy Transition (CONPES 4075) supported by DPL1 (a) identifies the promotion of renewable energy, energy efficiency, and low-carbon hydrogen industry development as one of its key strategies to ensure the security and reliability of energy supply and (b) designates the Ministry of Mines and Energy (MME) as the entity to structure the incentives and identification of projects and prioritize the resources for the implementation of those actions and strategy. Joint Resolution No. 40284 of 2022 between MME and the General Maritime Directorate (*Dirección General Marítima*, DIMAR) (supported under DPL1) set out the initial regulation for leasing temporary permits, long-term concessions for resource exploitation, the decommissioning process, obligations of public and private actors in the different project cycle stages, and a tentative timeline for launching the first leasing process for temporary seabed occupation permits for OSW electricity generation in the Caribbean region. There remains a need for clear licensing and tendering processes to incentivize OSW project development, deployment, scale-up, and cost reduction. Having passed this reform, the government still needed to designate the public agency in charge of managing the seabed leasing processes that will enable the installation of OSW projects, prepare tendering documents for the upcoming competitive leasing processes, and streamline licensing and application processes to improve the enabling environment for development of the industry. Regarding the green hydrogen industry, its development has been hampered by the lack of information and an established system that can allow buyers to reliably track the carbon content in hydrogen (or its derivatives) purchased and allow sellers to report on these amounts.

32. **Substance.** MME Resolution 40234 of 2023 designated the National Hydrocarbon Agency (*Agencia Nacional de Hidrocarburos*, ANH) to lead the relevant studies, diagnostics, policy recommendations, and structuring and implementation process, and ultimately oversee the tendering process for OSW projects.⁴⁰ The agreement between MME and ANH will be for two years but is expected to be extended in the medium term. MME Resolution 40712 clarifies technical and environmental evaluation processes for the development of OSW projects, thus improving the enabling environment for private sector-led development of the industry. In addition, Maritime Directorate Resolution 0951 has also launched the first OSW seabed leasing process, including its tendering documents, effectively launching the development of this renewable energy industry, and setting the precedent for several future leasing processes to come

³⁸ According to its Just Energy Transition Roadmap, it targets an addition of 7 GW of OSW capacity over 2030–2040 and 18 GW by 2052 according to the National Energy Plan. To support development of the OSW market, the government has provided for its guaranteed connection to the grid through (a) early planning of the necessary transmission infrastructure in the expansion plan (Resolution 40284 of 2022) and (b) prioritization of OSW projects in the allocation of transmission capacity to access the grid connection points (a modification to Resolution 40311 of 2020). In addition, the GoC through CREG has provided energy price assurance mechanisms to OSW projects through long-term certainty on the sale price of energy from NCRE projects (PA2) and has begun to catalyze additional financing for those projects (PA1).

³⁹ OSW has not been exploited so far in Colombia but is estimated to have a technical potential of at least 100 GW, of which 50 GW is considered to have the highest potential. Renewables Consulting Group. 2021. Colombia Offshore Wind Roadmap.

⁴⁰ ANH is selected for this process based on its extensive experience in offshore oil and gas licensing and permitting processes.



during the next 20 years. The leasing process will provide developers with a defined sea area where they can start the exploration stage, which includes wind surveys, non-invasive geophysical seabed surveys, and social and environmental studies needed to comply with Colombia's social and environmental regulations (with the final permit conditioned to the approval of the social and environmental impact studies). Meanwhile, to further support the development of hydrogen projects, the government has also mandated MME to create a green hydrogen certification system in Law 2294 of 2023 (NDP 2022-2026).⁴¹ Certified green hydrogen can be traced back to clearly identifiable and quantifiable sources, and therefore the certification system brings transparency to this emerging industry, facilitating its financing and further development.⁴²

33. **Expected impact.** The designation of the agency to lead the OSW tender process will facilitate cost-effective project development, contributing to the development of OSW electricity generation projects. This will, in turn, provide (a) mitigation benefits by adding low-carbon electricity into the system and (b) adaptation benefits by helping diversify the electricity generation matrix and providing additional flexibility and stability (helping mitigate the impact of droughts on hydroelectric generation).⁴³ In addition, the development of a green hydrogen certification mechanism will help decarbonize hard-to-abate industries and energy end uses, such as the petrochemical industry. It will also allow Colombia to certify the export of low-carbon products to international markets, allowing it to maintain or increase its access to markets with carbon border adjustment mechanisms. More concretely, this PA will contribute to RI 2(b): an increase of US\$300,000,000 in private investment that has accessed fiscal incentives for low-carbon hydrogen and NCRE project development and RI 3(a): 200 MW of potential OSW electricity generation capacity that has obtained a temporary leasing permit to explore an area. This PA is MFD-E under the 'legal and regulatory reforms' category.

Prior Action 4: *To bolster transport decarbonization through the electrification of urban transport, the support of public transport systems, and the expansion of multimodal transport, the Republic of Colombia has: (a) modified the "Fondo para la promoción de ascenso tecnológico" to include funding for the acquisition of low- and zero-carbon taxis and heavy trucks and increasing available financial resources by incorporating contributions from the national government; as evidenced by Article 253 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) submitted to Congress a draft railways law which aims to update the institutional, economic, financing, and management conditions for passengers and freight railway transportation, as evidenced by the letter from the Ministry of Transport to Congress, dated February 6, 2023.*

34. **Rationale.** The proposed PA aims to bolster transport decarbonization through the electrification of urban transport, support of public transport systems, and expansion of multimodal transport. Initially, the fund mainly supports public transport fleet acquisition (buses) to prevent a shift toward private, higher-carbon modes of transportation, improving the quality and accessibility of public transport systems, promoting the use of sustainable modes such as buses and bicycles, and implementing measures to reduce private car usage. This action is driven by the urgent need to address the environmental challenges posed by local pollutant and carbon emissions from the transportation sector, and in specific, the observed shift from public transport towards higher carbon private modes registered in mobility surveys throughout Colombia's largest urban agglomerations. Secondly, the railways law⁴⁴ supported by the PA plays a key role in the decarbonization of the freight sector in Colombia, as currently 96 percent of freight (excluding nonrenewable energetics) is mobilized by road, one of the most carbon-intensive freight modes. Colombia recognizes that transitioning to cleaner and more sustainable modes of transport is crucial for reducing local pollutants and GHG emissions and mitigating the impacts of climate change. By focusing on these energy transitions, the government aims to promote the

⁴¹ It is the only hydrogen that is substantially sustainable, with low to no carbon dioxide emissions throughout the production process.

⁴² IRENA Coalition for Action. 2022. Decarbonizing End-Use Sectors: Green Hydrogen Certification. International Renewable Energy Agency, Abu Dhabi.

⁴³ A larger NCRE electricity generation mix will also allow Colombia to reap the full decarbonization benefits of the electrification of end uses, for example, in the agricultural sector, to continue decarbonizing the primary energy matrix.

⁴⁴ The reform supported by this component of the PA does not address, support, or depends on the railway transport coal, peat, or other fossil fuels. The law focuses on improving technical, institutional, and economic regulatory frameworks to promote private sector participation in infrastructure and service provision. As such, the effectiveness of the regulatory reform is not contingent on activities that can introduce barriers to the low-carbon transition.



adoption of clean energy buses, taxis, and trucks and discourage the use of higher-carbon modes of transportation. carbon modes of transportation.

35. **Substance.** The proposed PA consists of two key components. First, the government included taxis and heavy trucks as two new categories of vehicles that can benefit from the "*Fondo para la promoción de ascenso tecnológico*", and allows contributions from the national government, as an additional source for the fund. The law's modification increases the number of vehicle categories that can benefit from the replacement fund aiming to accelerate the replacement of conventional vehicles toward zero tailpipe emissions, low-carbon alternatives. Introducing institutional enhancements, scalable fleet acquisition mechanisms and financial incentives for vehicle owners to speed up fleet replacement, the operationalization of the fund will facilitate the transition to electric vehicles, achieving emission reduction targets set in the NDC framework and improving air quality in urban areas. Second, the government has set up a modern technical and economic regulatory framework which, combined with strengthened sectoral institutionality, creates the necessary conditions to speed up the rehabilitation and operation (freight and passengers) of more than 5,000 km of intercity railways, contributing to the modal shift (freight) from road to rail. In turn this will (a) strengthen complementarity among transportation modes; (b) reduce operational costs; and (c) improve regional production and consumption connectivity, while partially migrating cargo from road to rail. Thus, the new regulation aims to enhance the efficiency and sustainability of railway transportation in Colombia.

36. **Expected impact.** The proposed PA is expected to have a significant impact on the decarbonization of transport. By accelerating the replacement of fossil fuel powered taxis, semi-trucks (below 10.5 tons), official fleets and transit buses with electric units, Colombia will advance in its efforts to cut back carbon emissions from the transportation sector. This will contribute to reducing local pollutants, improving air quality, mitigating GHG emissions and, additionally, reducing noise pollution. Additionally, the investment in zero emission public transport fleets will contribute to the expansion and improvement of transit services, a key strategy to prevent the shift from public transport to higher carbon, private modes. Furthermore, the latest technical and economic regulatory framework which, combined with strengthened sectoral institutionality, will speed up the operationalization of Colombia's predominantly dormant railway network, facilitating the movement of freight in lower carbon modes, preventing the introduction of additional trucking fleets, and additionally, reducing the number of traffic related deaths and injuries and optimizing the use of congested road assets. More precisely, this PA will contribute to RI 4(b): kilometers of brownfield railways under structuring for PPP tendering due to the technical, economic, and regulatory reforms introduced in the railways law aiming to catalyze investment in the railway sector. This PA contains business enabling measures under the MFD-e category 'legal and regulatory reforms' and 'transaction related'.

Pillar 2. Promote Sustainable Landscapes and Communities

Prior Action 5: *To increase climate resilience, promote the sustainable use of natural resources, and conserve key ecosystems, the Republic of Colombia has: (a) established the granting of forest concessions to benefit rural producers organizations, associated rural producers' families, rural producers' women associations and organizations of individuals that have entered the transitional justice models within the framework of the Final Agreement for the Termination of the Conflict and the Construction of a Stable and Lasting Peace and the total peace policy for sustainable forest management and to conserve the forest within the communities, as evidenced by Article 55 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) regulated the use of land and the protection and use of renewable natural resources and the environment in collective territories of black, afro-Colombian, raizal and palenquera communities, for the benefit of the communities, as evidenced by Decree No. 1384 of 2023, published in the Official Gazette on August 25, 2023.*

37. **Rationale.** Conflicts over the use of land within the National Forest Reserve Areas created by Law 2 of 1959 are one of the country's primary socio-environmental conflicts. In addition to constraining forest governance, these conflicts limit the development of a forest economy, and impede development and implementation of forest protection and



rehabilitation policies. Climate change has the potential to increase conflicts over land use. Putting in place policies that will increase resilience of nationally protected lands to climate change to the benefit of traditionally excluded communities is therefore key to reducing land conflict. The model of rural producer (*campesino*) forest concessions seeks to regulate the use of forests within public land in those Reserve Areas defined by Law 2 of 1959 through agreements between environmental authorities and rural producer communities by recognizing tenure rights and effectively building local governance for forest conservation (protection, restoration, sustainable use, and knowledge generation). At the same time, the black, afro-Colombian, *raizal*, and *palenquera* communities of Colombia have recognition of their territorial rights as a differentiated ethnic group, as set out in Article 55 of the 1991 Political Constitution, but specific regulation on the protection of renewable resources has been pending since the enactment of Law 70 in 1993.

38. **Substance.** The objective of Article 55 of Law 2294 of 2023 (NDP 2022-2026), is to grant forest concessions to rural *producers'* communities.⁴⁵ These concessions aim to incentivize communities to conserve the forest and hence protect key ecosystem services, enhancing climate mitigation, adaptation, and resilience; promoting an economy based on forests and biodiversity; and ensuring the development of recovery, rehabilitation, and restoration activities and the sustainable use of timber and non-timber products and ecosystem services, as defined in Law 2 of 1959. These concessions will also contribute to controlling the loss of forests and degradation of natural ecosystems by reducing deforestation⁴⁶ and ensuring the implementation of strategies for reforestation and ecological rehabilitation and restoration in active deforestation nuclei. Environmental integrity of activities within concessions will be ensured through 'conservation and participatory planning' processes undertaken by individual communities with entities from the National Environmental System. Decree 1384, which regulates Chapter 4 of Law 70, clarifies matters related to land use and the protection of natural resources and the environment in the collective territories of black, afro-Colombian, *raizal*, and *palenquera* communities. This decree specifies communities' duties and rights with respect to the protection and conservation of the environment, including the priority rights to use and exploit natural resources, associate for the sustainable use of natural resources, receive benefits derived from the natural resources, receive benefits derived from the use of biodiversity (Law 164 of 1994 Biodiversity Convention), decide on the research or studies that are carried out in their territory. The government has a series of support mechanisms that will be used to ensure a successful implementation of the concessions, such as a Community Forest Monitoring Program, the National Strategy for Deforestation Control and Forest Management; the Forest and Carbon Monitoring System; and the own local communities through their Community Action Councils (JAL) and rural producers associations.

39. **Expected impact.** The implementation of both Acts is expected to ensure the environmental integrity and sustainable use of forest resources including through provisions to prevent deforestation and promote restoration to support critical ecosystem services that underpin climate mitigation and adaptation capacity as well as biodiversity conservation. Both regulatory acts will benefit vulnerable groups, including *campesino* organizations, black, afro-Colombian, *raizal*, and *palenquera* communities; rural producers' associations; and women's associations within the framework of the Peace Agreement and the current government's total peace policy. These Acts will enable equitable solutions that enhance communities' rights and conditions to generate a forest economy in partnership with the government and other stakeholders and benefit from their role in the sustainable use of their resources. In Decree 1384, over 6 million ha of forests, wetlands and coastal ecosystems will be positively affected. Community-driven conservation models will play a key role in protecting biodiversity, reducing GHG emissions, and providing autonomy and decision-making capacity to communities to implement actions and measures that promote climate change mitigation and

⁴⁵ The measure intends to open the possibility of granting privileges to historically marginalized special interest populations and it's the product of a long-term national discussion. On one hand, the concession will grant rural producers a 30-year use license on forest reserves (as defined under a 1959 law) which seeks to promote community forestry models through forest management plans, thus decreasing current deforestation pressure caused by agricultural expansion. On the other hand, the regulation of the use of land and the protection of renewable natural resources in collective territories of black, afro-Colombian, *raizal* and *palenquera* communities will enable equitable solutions that protect key ecosystems while providing new opportunities to vulnerable populations.

⁴⁶ Paragraph 1 of article 55 explicitly states that a conservation and environmental planning agreement is a prerequisite for granting the forest concessions, and that potential concessions located in strategically important deforestation containment zones – as identified in the Forest and Carbon Monitoring System- will be prioritized by the Ministry of Environment and Sustainable Development.



adaptation while also preserving community cultural identity. This PA will contribute to RI 5 (b) number of forest concessions granted to rural producer communities.

Prior Action 6: *To improve land administration as a precondition for more sustainable land use and management, the Republic of Colombia has: (a) created the Territory Administration System (“SAT”) to facilitate institutional coordination, citizen’s engagement, and the development and use of territorial information, as evidenced by Article 53 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) strengthened multi-purpose cadastral management through the definition of unified processes, standards, and minimum technical specifications, as evidenced by Agustín Codazzi Geographical Institute (“IGAC”) Resolution No. 1040 of 2023, published in the Official Gazette on August 10, 2023.*

40. **Rationale.** The NDP promotes improved territorial planning around a set of determinants in which priority is given to the conservation of the natural environment and ecosystems, management of water and natural resources, reduction of disaster risks, management of climate change, and enhancement of food security (Article 10, Law 2294 of 2023). However, territorial planning in Colombia faces challenges associated with the deficiency and insufficiency in access to information, conflicts, and contradictions between the different entities responsible for planning due to weak governance of land and territories; the lack of a clear definition of rights, restrictions, and responsibilities; underdeveloped real estate markets; and, in general, difficulties in making decisions that impact local development. More effective territorial administration requires making compatible information and decisions related to the use, development, value, and ownership of land, for which there is a complex system of competencies across public and private actors, both at the local and national levels, leading to conflicts and disagreements in decision-making processes.

41. **Substance.** Article 53 of Law 2294, 2023, facilitates the development of the Territory Administration System (*Sistema de Administración del Territorio*, SAT) which, further supported by Resolution 1040 (2023), aims to address deficiencies in territorial planning and administration. Importantly, the reforms build upon efforts under the first series (DPL1, PA7) toward more adequate territorial planning that supports the production of adequate geographic and cadastral information, such as on the type of tenure and sex of landowners (especially, in the context of a substantial gender ownership gap for rural women who have 36 percent of single land ownership compared to 64 percent for men).⁴⁷ The PA standardizes cadastral processes and data and mandates the creation of an organized system (*Sistema de Administración del Territorio*, SAT) with a set of institutional agreements, legal frameworks, and technical standards that allow for the effective use and maintenance of territorial data based on cadastral information, resulting in the clear identification of rights, restrictions, and responsibilities in different territories and hence, the improvement of land administration. The SAT is fundamental for adequate territorial planning, which in addition to contributing to broader development objectives, will also be a tool to inform climate action. More precisely, the SAT, as a territory administration mechanism that directly contributes to land tenure security, has a positive climate mitigation impact. Adequate land management and land tenure security are associated with reduced deforestation, as it enables landholders to make long-term investments and consider future values in current decision-making.⁴⁸ On adaptation, land and geospatial information is key to increase resilience to disasters and adaptation to climate change. This is essential information for disaster risk management and adaptation planning allowing for better risk modeling, monitoring, planning, and decision-making.

42. **Expected impact.** The SAT and adequate cadastral processes and information will contribute significantly to decision-making aimed at satisfying the priorities for national development including climate action. Within a maximum period of three years from the entry into force of Law 2294 of 2023, public and private entities responsible for the information needed for territorial planning are expected to structure and make it available for adopting and implementing the SAT data model. This will allow improved access to information, and thereby enable territorial planning, decision-

⁴⁷ Departamento Administrativo Nacional de Estadística (DANE). 2022. *Situación de las mujeres rurales en Colombia. Tercera edición. Nota estadística.*

⁴⁸ Intergovernmental Panel on Climate Change. 2019. Summary for Policymakers. In: *Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and fluxes in terrestrial ecosystems.*



making, and participation to align with conservation, protection of the environment and ecosystems, prevention of threats and disaster risks, climate change management and food security, as well as progressively contribute to the increase in women's participation in economic autonomy and decisions regarding land use and property management. Moreover, having adequate geographic and cadastral information will allow Colombia to reduce informality in land ownership (around 53 percent of tenure is informal)⁴⁹ and increase legal tenure security for women. The actions will also serve to reduce deforestation (Colombia's annual deforestation rate rose substantially between 2015 and 2021⁵⁰) and conflicts over land use and ownership, protecting especially those most affected by climate change, land degradation, erosion, and changes in land use. This is especially important for building resilience to Colombia's high exposure to natural hazards and reducing GHG emissions related to land use changes, which represents Colombia's largest source of GHG emissions. This PA will contribute to RI 6 (a) Model of processes, governance agreements, standards, data infrastructures, and technologies required for the proper functioning of the SAT and RI 6 (b) territorial entities using geographic and cadastral information following the new standards, reporting information by sex and tenure type.

Prior Action 7: *To enhance climate resilience and protect the livelihoods of small farmers, the Republic of Colombia has strengthened the financing of technical assistance and investments to increase and promote farmers access to comprehensive investments in irrigation, as evidenced by Article 36 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023.*

43. **Rationale.** Climate change is substantially affecting agricultural production, particularly for small farmers. The changing climate patterns, including temperature increases significant reductions in precipitation, water availability, and extended dry spells, are affecting crop suitability, and potentially leading to loss of agricultural land.⁵¹ The National Communication to the United Nations Framework Convention on Climate Change (UNFCCC) acknowledges the agricultural sector's vulnerability and highlights the importance of reducing vulnerability and supporting adaptation measures. It emphasizes the need for increased technical and financial assistance to ensure the climate resilience and livelihoods of small farmers in Colombia. One of the main challenges for small farmers is the lack of technical and financial support to adapt to climate change. Without adequate resources, farmers struggle to implement resilient practices and invest in irrigation systems that allow them to adapt to and increase resilience to water scarcity and climate change impacts. According to the National Irrigation Plan, investments in improving the irrigation infrastructure will increase productivity and reduce water demand. However, the infrastructure of dams, diversions, and canals that Colombia has built in recent decades to upgrade irrigation and other water services has substantial operational problems, with estimates indicating that about 75 percent of installed capacity does not function. The GoC plans to increase the current 1.1 million ha of land under irrigation to 1.7 million ha in the next 20 years. Ensuring water as a low-cost critical input and natural capital asset is indispensable to bolstering Colombia's economy through agriculture and a key element to secure food supplies.

44. **Substance.** The policy aims to prioritize funding for land improvement and TA in districts that have been transferred to users' associations and in districts owned by these associations. A significant proportion of the irrigation/land development districts need to improve their performance and face challenges regarding their long-term viability. These issues related to existing and new small irrigation schemes are addressed by the NDP Law 2294 of 2023 reform and *Plan Nacional de Riego y Drenaje para la Economía Campesina, Familiar y Comunitaria*, ECFC) 2023–2026. The new irrigation infrastructure financed by the ECFC will be developed, considering the potential impacts of climate change on water resources and agricultural practices and infrastructure exposure to climate hazards. In addition, the plan will aim to implement environmentally sound approaches for the use of water resources; introduce irrigated agricultural practices, such as water efficiency and conservation measures; and promote climate-smart production. The territorial entities and national public entities, in their capacity as public executing agencies or the Rural Development Agency, through the *Fondo*

⁴⁹ Unidad de Planeación Rural Agropecuaria (UPRA). 2020. *Informalidad de la tenencia de la tierra en Colombia 2019*.

⁵⁰ Instituto de Estudios Ambientales (IDEAM). 2020. *Resultados del monitoreo de la deforestación*, 134,000 ha/year in 2015 to 74,000 ha/year in 2021.

⁵¹ World Bank, 2008. Climate change aspects in agriculture: Colombia country note.



Nacional de Adecuación de Tierras (FONAT), will provide financial support for land suitability works in the districts that have been transferred to the users' associations. FONAT resources can be utilized to fund land suitability projects carried out under the *Proyectos Integrales de Desarrollo Agropecuario y Rural* (PIDAR) program, which encompasses the pre-investment and investment stages, as well as the planning and implementation of individual or community irrigation systems. Based on lessons learned from previous funds support, the proposed support under the FONAT and PIDAR instruments will strengthen the integrality of the actions. In addition to the capital investment, these lessons emphasize the importance of technical assistance, early consolidation of environmental and social management capacities, ownership and priority by producers' organizations, inclusion and empowerment, market access, and water user organizations' managerial support will be included as part of the support to secure successful implementation and the long-term sustainability. The main objectives of these reforms are to enhance climate resilience and agricultural productivity, ensure its long-term sustainability, and facilitate the transfer of property to the users. The reforms are expected to (a) broaden the windows of entry to financing through FONAT, by financing land improvement works in public districts and in districts given as property to the users' associations; (b) broaden financing options, covering the pre-investment and investment stages and the structuring and execution of individual or community irrigation systems; (c) make financing schemes more flexible by establishing that existing systems will not be subject to investment recovery under the terms of Law 41 of 1993; (d) allow the transfer, without investment recovery charges, of the districts or land improvement works owned by the Rural Development Agency to the users' associations or territorial entities; and (e) transfer existing drainage or flood control districts or infrastructure to local authorities or environmental authorities.

45. **Expected impact.** Investment involves various activities such as construction, rehabilitation, expansion, compatibilization, and modernization of infrastructure and equipment. It also includes providing access to productive assets, offering TA, implementing marketing strategies, and promoting associativity, among other things. These integral irrigation investments can increase agricultural productivity, leading to higher crop yields and improved income for small-scale farmers. This not only helps farmers maintain crop yields during dry periods, increasing climate resilience, but also reduces the pressure on natural water sources, contributing to the long-term sustainability of agriculture by promoting soil health and preventing soil erosion. Moreover, these comprehensive investments create employment opportunities, reduce poverty, and stimulate economic growth in rural areas. The objective of the 2023-2026 ECFC Irrigation and Drainage National Plan is to improve the irrigation infrastructure, increase agricultural productivity and resilience, and reduce water demand. The plan aims to achieve this by modernizing 3095 ha of existing small irrigation districts, constructing 2095 ha of new irrigation districts, improving the operation and maintenance of the irrigation facilities, and increasing yields and resilience of agriculture production through on-farm investments in 25.186 ha. Additionally, the plan seeks to provide technical and financial assistance to beneficiary farmers, promote community participation in the construction and management of irrigation schemes, strengthening user associations to ensure compliance with legal mandates to enable the transfer of the property to the District Water User Organizations, and strengthen the capacity of the irrigation agencies. This PA will contribute to RI 8 (a) area with improved irrigation and drainage services in small existing irrigation districts and (b) water user associations/ small districts strengthened.

Pillar 3. Build Resilience and Adaptation to Climate Change

No additional PAs in DPL2.

Pillar 4. Expand Climate Finance

Prior Action 8: *To accelerate progress towards carbon neutrality and enhanced climate resilience, the Republic of Colombia has created "Fondo para la Vida y la Biodiversidad" and defined its funding sources, governance, and management, to finance the implementation of programs and projects aimed at climate action and resilience, environmental management, and use of renewable natural resources, as evidenced by Decree No. 1648 of 2023, published in the Official Gazette on October 12, 2023.*



46. **Rationale.** Colombia ranks as the 32nd largest emitter of GHGs among 193 countries, and its emissions have been increasing over time. Between 1990 and 2018, emissions grew from 225 to 303 MtCO₂eq, propelled mainly by the transport, agriculture, waste, and energy sectors. As of 2018, LULUCF represents 40 percent of overall GHG emissions, energy represents 31 percent and agriculture 19 percent. In addition, Colombia is highly vulnerable to the impacts of climate change, with climate-related disasters increasing in frequency over the last decades, resulting in substantial economic and social losses. In fact, when damage to physical capital and productivity is considered, climate change is expected to reduce GDP by between at least 1.5 percent and 2.5 percent by 2050 in the absence of investments in adaptation.⁵² Acknowledging those challenges, the country is a regional leader on climate change ambition, with a broad adaptation portfolio with more than thirty measures across seven sectors and an NDC GHG emission reduction target of 51 percent by 2030 relative to a business-as-usual scenario as well as an LTS goal of carbon neutrality by 2050. Achieving Colombia's climate targets will require a significant departure from current emission trends and the implementation of major policy reforms and targeted investments across the economy. Changing the current emissions trend would also require urgently reducing deforestation, accelerating the adoption of climate-smart agricultural practices, investing in resilient transport systems, and increasing renewable energy generation capacity, among other policy actions. The implementation of such an ambitious climate agenda requires substantive fiscal revenues to enable the government to pay for its share of climate investment, a significant level of private capital mobilization and increased efficiency in the use of resources. As per the latest National Climate Financing Strategy⁵³, Colombia should invest annually at least 1.2 percent of its GDP to meet the NDC mitigation and adaptation goals, a significant departure from the current level of investment of 0.16 percent.

47. **Substance.** *Decree No. 1648 of 2023* creates the life and biodiversity fund as a key instrument to accelerate climate action in alignment with the NDC and the Climate Action Law. Its objective is to coordinate, prioritize, and finance the execution of national or subnational plans and projects for climate mitigation and adaptation and the recovery, conservation, and protection of the environment. In addition, the decree defines financing sources, execution mechanisms, and the fund's governance structure. The reform will contribute to the dual objectives of increasing climate finance and improving the efficiency of its allocation and it paves the way for increasing financing by opening the possibility of receiving international resources and cooperation. Regarding efficiency, the reform improves the preexistent institutional arrangements through i) the consolidation of funding sources for the environmental sector, including resources from the national budget, carbon tax, upcoming Emissions Trading System, and the private sector; ii) the adoption of a fiduciary figure to accelerate the decision-making process on investments; iii) the granting of contractual capacity to use the fund's resources to directly facilitate project implementation, and iv) the possibility of financing projects with execution periods beyond a year, among others.

48. **Expected impact.** The reform is expected to increase climate finance while improving its efficiency and transparency. The new financial instrument consolidates multiple sources of funding, facilitates the financing of multiyear projects, lays the groundwork for more agile procurement processes, and opens the possibility for implementation, all substantial improvements in comparison with the preexisting institutional arrangements. As a result, the reform is expected to support the closure of existing financing gaps for climate action and directly support the country in meeting its pledges under the Paris Agreement, updated NDC, LTS, and Climate Action Law (Law 2169 of 2021). This PA will contribute to RI 10, fund resources approved and executed.

⁵² World Bank. 2023. *Colombia Country Climate and Development Report*.

⁵³ National Planning Department, 2022. *Estrategia Nacional de Financiamiento Climático. Cerrando la Brecha*.



Table 4. Development Policy Financing Prior Actions and Analytical Underpinnings

| PA | Analytical Underpinnings |
|---|---|
| Pillar 1. Advance the Low-Carbon Energy Transition | |
| PA1 | <ul style="list-style-type: none"> Policy Document. CONPES 4075. <i>Política de transición energética (2022)</i>. Calls for reducing GHG emissions and environmental impacts of energy systems and assigns a fiscal budget for a diverse set of energy transition investments. Policy Document. CONPES 4023. <i>Política para reactivación, repotenciación y crecimiento sostenible e incluyente: nuevo compromiso por el futuro (2022)</i>. Calls for strengthening capacity to transition toward more sustainable production. Report. World Bank. 2023. Colombia Country Climate and Development Report. Its recommendations include channeling public resources for energy transition and catalyzing private financing to cover up to 80 percent of the investments needed. |
| PA2 | <ul style="list-style-type: none"> PASA. <i>Mainstreaming Sustainable and Competitive Infrastructure for Low Carbon Development Programmatic Approach (P172319)</i>. Support the energy transition, including competition and participation issues.⁵⁴ Report: EPRI. 2021. <i>Resilience Assessment of the Colombian Power System</i>. World Bank. Recommendations to improve the current practices for the power sector in Colombia, with particular focus on the market operations. Report: SCOOPS. 2021. <i>Sustainability of the Colombia Electricity Market: Implementation of an Anonymous and Standardized Contracts Market</i>; IBRD. Recommendations for the long-term introduction of standardized and anonymous long-term power market to increase transparency and competition. |
| PA3 | <ul style="list-style-type: none"> The World Bank directly supported the development of an offshore wind resolution in 2022 and subsequent design of a seabed allocation competition. This resolution was the substance of PA3 in DPL1 of this series. Report: Renewables Consulting Group. 2021. <i>Offshore Wind Roadmap for Colombia. Mission for Energy Transformation Reports</i>; IBRD. Roadmap for the offshore wind industry, including the identification of least environmentally sensitive areas. Report. Diazgranados, L. 2021. <i>Support for the Implementation of H2 Strategy through Recommendations for H2 certification</i>; IBRD. Recommendations to implement a low-carbon hydrogen certification scheme. |
| PA4 | <ul style="list-style-type: none"> Report: IBRD: <i>Recomendaciones para la formulación de una política pública de movilidad urbana (ley de movilidad urbana)</i>. Roadmap for the update of an environmentally and financially sustainable urban transport national policy. Report: Colombia Country Climate and Development Report (2023). Highlights the importance of the railway system expansion as a zero-emission driver. IPF: support to the Bogota metro line 1 (P165300). Improve the city’s sustainable mobility. Ongoing TA to: <ul style="list-style-type: none"> -Determine the useful life of taxis, considering regulatory, technical, economic, and environmental criteria, and identify potential sources of financing for electric taxis. -Structure the plan and schedule for the renewal of motorcycles and mopeds to achieve their technological upgrade by 2030. |
| Pillar 2. Promote Sustainable Landscapes and Communities | |
| PA5 | <ul style="list-style-type: none"> Report: Colombia Country Climate and Development Report (2023). World Bank Group. Calls for implementing deforestation control and forest management policy. Report: Climate Risk Profile (2021). World Bank Group. Calls for promoting climate-resilient production systems in agriculture, and forestry, to improve competitiveness, climate resilience, and food security, especially in vulnerable areas. Policy document: <i>Documento CONPES 4021 Política de deforestación en Colombia (2020)</i>. Departamento Nacional de Planeación. Recommends the development of cross-sector strategies for deforestation control and management of forests. |
| PA6 | <ul style="list-style-type: none"> Report: Climate Risk Profile: Colombia (2021). World Bank Group. Calls for strengthening planning systems to optimize water use across a watershed in the context of climate change and to make the decision-making process more accessible. Report: Colombia Country Climate and Development Report (2023). World Bank Group. Calls for expanding the multipurpose cadaster and building the capacity of regional environmental authorities. Policy document: <i>Documento CONPES 4007 Estrategia para el fortalecimiento de la gobernanza en el Sistema de Administración del Territorio (2020)</i>. Departamento Nacional de Planeación. Calls for strengthening territorial governance. |
| PA7 | <ul style="list-style-type: none"> Policy document: Law 2294 of 2023: NDP 2022–2026. Creates the national system of agrarian reform and rural development to strengthen the agrarian reform process. Policy document: <i>Plan Nacional de Riego 2020 -2039: Resolución 311 de 2020</i>. Improve agricultural productivity through the planning and prioritized implementation of investments in technified irrigation. |

⁵⁴ Corredor, P., U. Helman, D. Jara, and F. Wolak. 2020. *Competencia, participación y estructura del mercado de la electricidad*.



| PA | Analytical Underpinnings |
|--|---|
| | <ul style="list-style-type: none"> Policy document: <i>Plan Nacional de Riego y Drenaje para la Economía Campesina, Familiar y Comunitaria (ECFC) 2020–2031. Resolución 091 de 2020</i>. Promote resilient investments in irrigation and drainage and strengthen community organizations. |
| Pillar 3. Build Resilience and Adaptation to Climate Change | |
| | No additional PAs in DPL2. |
| Pillar 4. Expand Climate Finance | |
| PA8 | <ul style="list-style-type: none"> Report: Colombia Country Climate and Development Report (2023). World Bank Group. Its recommendations explicitly address the need to expand funding sources and improve financial and coordination mechanisms to catalyze climate action. IPF: Colombia Partnership for Market Implementation (P178167): provision of TA to complete the design of the national Emissions Trading System and support its piloting including assessments. Report: Designing Fit-for-Purpose National Climate Funds: A Guidebook for Decision-Makers. UNDP. Guidelines and best practices in designing, establishing, operationalizing, or reforming a National Climate Fund. |

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

49. **The proposed DPL is consistent with the Country Partnership Framework (CPF) FY24-27, discussed by the Board on February 13, 2024, and the 2023 CCDR.** The operation supports CPF Objective 2 (improve land titling and administration), Objective 3 (enhance digital, electricity, and transport connectivity), Objective 6 (improve productivity and innovation), Objective 7 (develop resilient and low-carbon infrastructure), and Objective 8 (mobilize and deploy climate finance). In addition, the operation aligns with key findings and recommendations of the CCDR, including the need to accelerate climate action to reach the long-term net zero target with strategic interventions across key sectors such as low-carbon infrastructure (energy and transport) and sustainable and productive landscapes, as well as the need to increase revenues to support action (climate finance).

50. **The operation directly supports the WB’s corporate goals and the 2021–2025 WBG Climate Action Plan.** It aligns with key dimensions of eliminating poverty in a livable planet: climate mitigation and adaptation, biodiversity and nature, and life essentials (for example, water). By supporting system transitions in the energy, transport, and land use sectors, as well as overall NDC implementation, the DPL supports the 2021–2025 WBG Climate Action Plan. Finally, the DPL is also aligned with the WB’s 2022 Roadmap for Climate Action in Latin America and the Caribbean, with PAs supporting three of the roadmap’s five priority entry points for climate action.

51. **The operation builds on the WB’s recent and ongoing analytical and investment operations in Colombia.** The WB is supporting Colombia’s energy transition through TA in green hydrogen, energy efficiency, OSW, energy access, and integration of NCRE. In the transport sector, the WB has a long-term relationship with the government to support the development of sustainable transport, and through TA, the WB has supported strategies to scale up the adoption of electric buses. Support for the multi-cadaster, universally considered the foundation for sustainable landscapes and land use, has been a core component of the WB’s support to Colombia since 2019 with an existing investment program of loan and grant resources totaling more than US\$140 million and a new operation in the pipeline to scale up that work. This work is further strengthened by a varied portfolio of investment operations and analytical work that supports sustainable landscapes and emissions reductions in the *Orinoquia* region, forest conservation and sustainability in the Heart of the Amazon, and development of climate-smart agricultural supply chains. In addition, building on the analytical work in smart agricultural supply chains, the WB is preparing a multi-phased investment to support irrigation infrastructure, agricultural innovation, and agricultural finance. The ongoing climate finance work is supporting the design and implementation of the pilot for the National Program for Tradable Emission Quotas and supporting the Ministry of Finance (*Ministerio de Hacienda y Crédito Público*, MHCP), Ministry of Environment and Sustainable Development (*Ministerio de Ambiente y Desarrollo Sostenible*, MADS), and National Planning Department (*Departamento Nacional de Planeación*, DNP) to develop a domestic legal framework from the financial sector perspective for compliant and voluntary carbon markets in Colombia. The WB is providing joint TA to further develop the national green taxonomy and green standards in the financial sector through the Joint Capital Markets Program (JCAP) (Sustainable Finance Facility Program, SECO), supporting the authorities



in the implementation of climate risk management guidelines and proactively collaborating with the Colombian Financial Superintendency (SFC) to broaden the scope of green taxonomy to include critical sectors such as biodiversity, adaptation, and water. Moreover, the WB is supporting the MHCP in establishing a comprehensive regulatory framework for green PPP projects; defining key concepts, minimum investment requirements, and functional unit considerations, and providing advisory support to the *Financiera de Desarrollo Nacional* (FDN) in the implementation of FDN's blended finance program and FDN's Direct Access Entity accreditation (steps I–II and III) by the Green Climate Fund, to advance the development of sustainable infrastructure projects in Colombia.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

52. **The operation has benefited from close consultation and collaboration with government counterparts and development partners.** As part of their preparation, all legal reform projects are made publicly available and have an open consultation process as per the official national guidance detailing stages, information channels, and time windows.⁵⁵ For example, the current NDP (PA1, PA3, PA5, PA6, and PA7) had an active participatory process that received more than 6,500 proposals and comments from an ample set of stakeholders, including civil society, private sector, and academia, and was further discussed in over 50 workshops across the country. In addition, the project task team maintained close dialogue with representatives from key line ministries and sectoral entities, including the MADS, the MME, the Ministry of Agriculture and Rural Development (MADR), the Ministry of Transport, the Agustín Codazzi Geographic Institute, and the DNP. With an identification mission and an iterative process of sectoral consultations, the team worked collaboratively to define policy reform priorities, identify PAs, and determine results indicators.

53. **The operation has benefitted from engagement with development partners.** To ensure a coordinated approach with development partners, the team held discussions with *Corporación Andina de Fomento* (CAF) and *Kreditanstalt für Wiederaufbau* (KfW), wherein both institutions expressed their support for the operation and the government reform efforts. Through this consultation, it was confirmed that the program complements efforts of other donors in Colombia providing support to enhance the country's climate ambition.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

54. **This DPL supports actions that are expected to have positive effects on poverty reduction and distributional outcomes over the short, medium, and long terms by supporting mitigation and adaptation measures that reduce the potential of climate change to increase poverty and inequalities.** If unaddressed, climate change is expected to have disproportionately negative effects on the poor and vulnerable groups and exacerbate the already high inequalities in Colombia.⁵⁶ All pillars are expected to have positive distributional impacts. PAs 1, 2, and 3 under Pillar 1 advance the financing of the energy transition process and strengthen incentives for the diversification of NCRE, with expected positive effects in the medium to long run in poverty reduction and equity from reduced emissions. These measures may also promote regional development in certain areas, such as the northern coast, and the potential short-term social costs of promoting localized infrastructure-related measures – associated with normal temporary disruptions on productive activities due to construction of infrastructure, such as transmission lines – will need to be assessed on a project-by-project basis. PA4 is expected to have positive medium- to long-term distributional impacts, by improving the quality of life (for example, lower pollution and congestion) and increasing the accessibility and affordability of public transport. Actions under Pillar II promote sustainable land use. PA5 is expected to have positive social, poverty reduction, and distributional impacts by benefitting vulnerable and poorer groups (for example, rural producer organizations, afro-descendant communities, rural producers' associations, and women's associations). It is expected to increase their agency in the

⁵⁵ DNP. 2023. *Guía para realizar la consulta pública en el proceso de producción normativa, versión 2.*

⁵⁶ World Bank. 2023. *Colombia Country Climate and Development Report.*



sustainable management of natural resources and position them as beneficiaries of the economic benefits derived from these efforts. PA6 supports the protection of land tenure rights and sustainable land use management, measures that may have medium distributional and social impacts by narrowing existing high inequalities in land ownership, increasing its productive and sustainable use, and reducing potential land-drive conflicts. PA7 is expected to have positive poverty reduction and distributional impacts, by increasing the financing available for community irrigation projects, thus increasing agricultural productivity and resilience. Finally, Pillar 4 mitigates the negative long-term distributional impacts of climate change, through regulation to catalyze climate action.

5.2 ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

55. **The PAs supported through the Colombia Green and Resilient DPL2 are likely, in aggregate, to have a positive impact on Colombia's environment, forests, or other natural resources.** In the absence of a strong regulatory environment, future investments arising from some of the policies supported under Pillar 1 (PA1, PA3 and PA5) could potentially result in negative environmental effects. In this instance, however, Colombia has in place a robust national and sector-specific legal framework, which incorporates the full range of environmental protection and mitigation measures to ensure no significant negative effects occur. This is more fully reflected below and in annex 4.

56. **Pillar 1. Advance the Low-Carbon Energy Transition.** Despite the positive benefits expected in terms of GHG emission reductions from the series of PAs supported, there is the potential for negative environmental effects to arise from inadequate installation and operation of on- and off-shore NCRE. The environmental assessment finds that the Colombian legal framework incorporates appropriate measures to manage adverse impacts through national regulations requiring an Environmental Impact Assessment (regulated by Decree 1076, 2015, sections 5 and 6) and for infrastructure related to the energy sector whose projects require Environmental and Social Impact Assessments. With specific regard to OSW, which has the potential to damage maritime and coastal environments, Resolution No. 40712 requires an environmental license approved by the environmental authority, establishes siting requirements away from conservation areas, and requires the submission of extensive environment-related data to DIMAR, and an environmental license approved before any maritime concession can be requested. In terms of monitoring, the resolution mandates DIMAR to monitor activities, conduct annual audits, and regular inspections (Art.11). A potential gap might emerge from the low government capacity given the relatively new focus on off- shore NCRE. In that regard the WB has been supporting Colombia in building capacity for OSW development, with a special focus on aligning concessions and project development with international best practice on environmental management. Also, ongoing technical assistance to the government, particularly DIMAR, involves hiring international experts to advise on environmental issues related to OSW. PA4, which deals with electrification of transport, will support reduced GHG emissions, leading to a range of benefits in terms of climate mitigation, public health from cleaner air, and reduced environmental and noise pollution, especially in urban centers. Any potential risk related to improper end disposal of the retired fleet is managed in line with Colombia's regulatory regime, specifically the Waste Management Policy, Law 105 of 1993, which sets standards for disposal of public transportation vehicles, and Resolution 1606 of 2015, related to the environmental compliance requirements for the removal of motor vehicles from circulation.

57. **Pillar 2. Promote Sustainable Landscapes and Communities.** PA5 has positive effects on Colombia's environment, forests, or natural resources by fostering conservation of key ecosystems, promoting sustainable practices, and controlling forest loss. Similarly, PA6 is also expected to have positive effects on the environment as the Territory Administration System and strengthened cadastral management aim to enhance information and community participation toward conservation and protection of ecosystems. PA7 is expected to have a positive impact on Colombia's environment, as it will increase the efficient use of its natural resources.

58. **Pillar 3: Build Resilience and Adaptation to Climate Change.** No additional PAs in DPL2.



59. **Pillar 4. Expand Climate Finance.** PA8 is expected to have positive effects on Colombia’s environment, forests, or natural resources. Through increased funding for these areas, the *‘Fondo para la Vida y la Biodiversidad’* is expected to promote conservation and biodiversity projects.

60. **Colombia’s environmental governance.** Over the past 50 years, Colombia has made significant progress in environmental protection through legal and regulatory strengthening.⁵⁷ The MADS is the national regulatory entity in charge of formulating, implementing, and enforcing environmental policies and regulations of NCRE projects. The control instruments set by the environmental regulation for NCRE projects require a series of environmental assessments to be conducted, permits to be granted, and intra-agency compliance monitoring systems. In terms of capacity and enforcement, Colombia is ranked above average in the region in various environmental performance indexes.⁵⁸

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

61. **Overall integrated fiduciary risk is considered Low.** Colombia’s public financial management system reveals strengths to support the transparent management of budget resources in a reliable manner. The identified weaknesses are being addressed through a reform plan⁵⁹ and do not pose risks to achieving the PDO. The internal control environment over forex at the Citibank NY/Central Bank does not pose risks to achieving the PDO. No specific audit of the deposit of the credit proceeds will be required, and no additional fiduciary arrangements are considered necessary.

62. **Public financial management (PFM).** Colombia’s PFM system reasonably aligns with good international practices at the national government level.⁶⁰ The budget is comprehensive, well documented, implemented as planned, and published annually on time. The DNP applies a multiyear perspective, with a Medium-Term Fiscal and Expenditure Framework in place since 2003, although these instruments have yet to be integrated with the budget process. Nonetheless, the budget reflects a mostly well-functioning policy-based system. Execution of budgeted expenditures suggests an overall credible budget that is published in a timely fashion⁶¹ and accessible on the MHCP’s website.

63. **Fiscal transparency is generally aligned with good practices.** The only exceptions are inconsistent budget classification systems; the ongoing transition to public sector international accounting standards; and a lack of disclosure of internally available information on macroeconomic scenarios, long-term projections, and public corporations. The government is committed to addressing these weaknesses through a comprehensive reform plan.⁶² Revenue and expenditure controls are comprehensive. Records and controls on cash flows, balances, and public debt support have sound management and provide public institutions with the tools for predicting funding to execute their budgets in an orderly manner.

64. **Consolidated public accounts are prepared within six months after the fiscal year’s end and include full information on revenues, expenditures, financial assets, and liabilities.** The Accountant General issues year-end accrual-based financial statements presented by May 15 of the following year to the Controller General for audit purposes. Controller General auditing policies and procedures provide for the application of financial compliance and perform

⁵⁷Sánchez-Triana, Ernesto, Kulsum Ahmed, and Yewande Awe. 2007. *Environmental Priorities and Poverty Reduction: A Country Environmental Analysis for Colombia*. World Bank; Natural Climate Solutions Handbook, The Nature Conservancy 2021; The First Sovereign Green Bond in Local Currency in Latin America, The World Bank 2023.

⁵⁸See Environmental Performance Index (EPI), where Colombia ranked 42nd. <https://epi.yale.edu/epi-results/2022/country/col>.

⁵⁹GoC (2020): Documento CONPES No. 4008. *Política nacional de información para la gestión financiera pública*; Decree 224 of 2021, created the Intersectoral Commission for Public Financial Management Information and establishes its integrated action plan; the NDP 2022–2026, ‘Colombia World Power of Life’, through the regional convergence axis, which includes the transformation of institutions and public management, with macroeconomic stability as a transversal axis.

⁶⁰World Bank. 2016. *Public Expenditure and Financial Accountability Assessment of Colombia’s Public Financial Management Systems*.

⁶¹GoC (2022): Decree 2590 of December 23, 2022.

⁶²GoC (2020): Documento CONPES No. 4008. *Política nacional de información para la gestión financiera pública* and GoC (2019): NDP 2022–2026, ‘Colombia World Power of Life’, through the regional convergence axis, which includes the transformation of institutions and public management, with macroeconomic stability as a transversal axis. Decree 224 of 2021, created the Intersectoral Commission for Public Financial Management Information and establishes its integrated action plan.



procedures consistent with national government auditing standards. Audit reports are submitted to Congress and the President before July 1st of the following fiscal year.⁶³

65. **Public procurement.** In recent years, Colombia has made significant progress in strengthening the performance of its procurement systems. Procurement is based on the legal framework provided in Law 1150 of 2007, and ruling decrees, the most recent being Decree 1510 of 2013. The Public Procurement Agency (*Colombia Compra Eficiente*, CCE) oversees and leads procurement regulatory reforms. CCE's current programmatic priorities include (a) adopting a more strategic approach to procurement, as an essential component of public sector expenditure management; (b) universalizing the use of the transactional electronic procurement system SECOP II; (c) professionalizing the procurement staff; and (d) using public procurement as a tool to promote the popular economy. By law, all public entities must publish all the procurement activities in one of the e-Gp systems (SECOP I, SECOP II). Based on public information published by CCE, (a) 41 percent of the activities are published in SECOP I (28 percent of value) and 59 percent in SECOP II (72 percent of value), (b) 53 percent of the value of public procurement was awarded following non-competitive methods, (c) performance indicators are not available, and (d) procurement information is available to the public. The current principal priority of CCE is the promotion of Standard Procurement Documents. The Congress of Colombia approved the Procurement Documents Law, Law 2022 of 2020, which mandates that CCE adopt Standard Bidding Documents (SBDs) that will be mandatory in the contractual activity of all entities subject to the General Contracting Statute of the Public Administration. As of today, CCE has approved SBDs for the following sectors: transport, water and sanitation infrastructure, multipurpose cadaster, and social infrastructure. CCE has developed a control dashboard for using SBDs based on a sample of 7,127 activities of 1,180 agencies, the average number of received bids is 16, and the average savings (awarded value versus estimated amount) is 3.9 percent. Regarding the resolution of complaints, there is no possibility of challenging the decisions of the contracting entity at the administrative level. The only way to challenge procurement decisions is through the judiciary system, which meets the criteria of independence and capacity but is not necessarily effective or efficient.

66. **Foreign exchange control environment.** Fiduciary due diligence was conducted to cover the government's bank account at Citibank NY used for depositing the proceeds of DPL operations and the overall foreign exchange control environment of the Central Bank. The audit report of the Consolidated Financial Statements of Citigroup Inc. and Subsidiaries for 2022–2021 had an unmodified opinion, and the effectiveness of Citigroup Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2022, was confirmed. The 2022 financial statements of the Central Bank were prepared following International Financial Reporting Standards, and the audit was carried out per International Standards on Auditing by an independent, internationally recognized audit firm acceptable to the WB. The unmodified opinion did not reveal any significant issues related to the internal control environment. The fiduciary due diligence, therefore, concluded that the internal forex control environment does not pose risks to the development objectives of this operation.

67. **The proposed loan will follow the WB's standard disbursement procedures for development policy support.** Upon approval of the operation, the effectiveness of the Loan Agreement, and the submission of a signed withdrawal application, the loan proceeds will be disbursed into the government's bank account at Citibank in New York. The account is denominated in US dollars, is controlled by the National Treasury, and is part of the government's foreign exchange reserves. An equivalent amount in Colombian pesos will then be transferred into the Treasury Single Account of the MHCP, thus becoming available to finance budgeted expenditures. The borrower shall, within thirty days after the withdrawal of the loan, report to the WB (a) the exact sum received into the forex account in the Citibank NY/Central Bank, (b) the details of the account to which the Colombian pesos equivalent of the loan proceeds have been credited, and (c) the record that

⁶³ In the opinion of the Controller General, both the Consolidated General Balance of the Public Treasury and the Consolidated General Balance of the Nation, presented "faithfully in all material aspects the financial situation, results and changes in equity corresponding to the period 2022, in accordance with the conceptual framework for the preparation and presentation of financial information and the rules for the recognition, measurement, disclosure and presentation of economic facts defined in the accounting regulatory framework issued by the General Accountant of the Nation." The Controller General considers that the misstatements were not material, and that the impossibilities did not reach the level of materiality for the Consolidated Balance Sheets, and therefore it issued an unqualified opinion.



an equivalent amount has been accounted for in the borrower’s budget management systems. This confirmation will include the applied exchange rate and the transfer date. The financial support provided under this operation is not intended to finance goods or services on the ‘Excluded Expenditures’ list. If any portion of the credit is used to finance ineligible expenditures, as so defined in the current General Conditions applicable to Development Policy Financings, the WB shall require the borrower to refund the amount, and such payments made for excluded expenditures would be canceled. The Closing Date has been established on April 30, 2025.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

68. **The MHCP and DNP are responsible for collecting and monitoring information related to program implementation and progress toward achieving results for DPL2.** They are further responsible for coordinating with the agencies involved in the reform program supported by this DPL. The MHCP and the DNP have long-standing experience collecting and monitoring information in the context of DPLs. The operation will also be monitored and evaluated through ongoing policy dialogue and TA programs.

69. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a WB Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank’s independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the WB’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB’s corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank’s Accountability Mechanism, please visit <https://accountability.worldbank.org>.

6. SUMMARY OF RISKS AND MITIGATION

70. **The overall risk level for this DPL is assessed as Moderate.** This is based on a moderate rating for macroeconomic risk, political and governance risk, and institutional capacity for implementation and sustainability risk, and a low rating for all other risks.⁶⁴ Although the country needs to continue to reduce inflation and the current account and fiscal deficits, if policies continue to support macroeconomic stability, the probability of the government’s budget becoming become insufficient to support the objectives of this operation is Moderate. In addition, considering the government’s public commitment to decarbonize the economy, any resulting impacts on the objectives of this operation are predicted to be Moderate.

Table 5. Summary Risk Ratings

| Risk Categories | Rating |
|-----------------------------|------------|
| 1. Political and Governance | ● Moderate |
| 2. Macroeconomic | ● Moderate |

⁶⁴ There are allegations of forced labor in the production of solar panels and components. This DPL focuses on policies and institutional reforms in Colombia. DPL proceeds are not earmarked to any specific purpose, including the manufacture or procurement of solar panels or components.



| | |
|---|------------|
| 3. Sector Strategies and Policies | ● Low |
| 4. Technical Design of Project or Program | ● Low |
| 5. Institutional Capacity for Implementation and Sustainability | ● Moderate |
| 6. Fiduciary | ● Low |
| 7. Environment and Social | ● Low |
| 8. Stakeholders | ● Low |
| 9. Other | |
| Overall | ● Moderate |



ANNEX 1: POLICY AND RESULTS MATRIX

| Prior Actions and Triggers | | Results | | |
|--|--|--|----------------|-----------------------|
| Prior Actions under DPL1 | Prior Actions under DPL 2 | Indicator Name | Baseline | Target |
| Pillar 1: Advance the Low-Carbon Energy Transition | | | | |
| <p>Prior Action 1: To consolidate the energy transition process and reduce greenhouse gas emissions, the Republic of Colombia, has adopted the “Policy for Energy Transition”, as evidenced by CONPES document No. 4075 dated March 29, 2022.</p> | <p>Prior Action 1: To finance the energy transition process and reduce greenhouse gas emissions, the Republic of Colombia, has created the fund “<i>Colombia Potencia Mundial de la Vida</i>” and defined its operational rules, including the establishment of the energy transition sub-account, for the efficient administration of resources for the energy transition, as evidenced by Article 329 of Law 2294 of 2023 (National Development Plan law (NDP 2022-2026)), published in the Official Gazette on May 19, 2023; and by Decree No. 0049 of 2024, published on the Official Gazette on January 30, 2024.</p> | <p>Results indicator #1: Annual emissions in the electricity sector (MtCO₂e/yr) (linked to PA1 of DPL1 and DPL2)</p> | 9.28 (2021) | 6.5 (2024) |
| <p>Prior Action 2: To advance the low-carbon energy transition, the Republic of Colombia has: a) taken measures to provide energy efficiency and low-carbon hydrogen projects with tax incentives, as evidenced, respectively, by Decree No. 895 of 2022, published in the Official Gazette on May 31, 2022, and the Mining and Energy Planning Unit (UPME) Resolution No. 319 of 2022, published in the Official Gazette on August 12, 2022; and b) removed barriers for implementation of renewable energy and green hydrogen projects, as evidenced by Decree No. 1537 of 2022, published in the Official Gazette on August 4, 2022.</p> | <p>Prior Action 2: To advance the low-carbon energy transition through market reforms, the Republic of Colombia, through the Energy and Gas Regulatory Commission (“CREG”), has: (a) established an updated methodology for determining the firm energy for the reliability charge of wind and solar photovoltaic sources, as evidenced by Resolution No. 101 006 of 2023 and Resolution No. 101 007 of 2023, published in the Official Gazette on March 16, 2023; and (b) adopted regulation allowing electricity retailers to hold tenders to exclusively contract electricity produced from non-conventional renewable energy generation, as evidenced by Resolution No. 101 008 of 2023, published on the Official Gazette on March 27, 2023.</p> | <p>Results indicator #2: a) Increase in private investment that has accessed fiscal incentives for energy efficiency (US\$) (PCE monetary) (linked to PA2 of DPL1) b) Increase in private investment that has accessed fiscal incentives for low-carbon hydrogen and non-conventional renewable energy project development (US\$) (PCE monetary) (linked to PA2 of DPL1)</p> | 0 (2022) | 360,000,000 (2024) |
| | | | 0 (2022) | 300,000,000 (2024) |



| Prior Actions and Triggers | | Results | | |
|---|---|--|------------|--------------|
| Prior Actions under DPL1 | Prior Actions under DPL 2 | Indicator Name | Baseline | Target |
| | | c) New renewable energy capacity installed (MW) (PCE non-monetary) (linked to PA2 of DPL2) | 0 (2023) | 2,000 (2025) |
| Prior Action 3: To further incentivize and accelerate the deployment of non-conventional renewable energy sources and foster a clean energy transition, the Republic of Colombia has: a) defined the rules and regulations for temporary seabed leasing and long-term concessions for offshore wind electricity generation, making the requirements for technical and financial authorizations more flexible and incentivizing greater investor participation, as evidenced by the Ministry of Mines and Energy (MME) and General Maritime Directorate (DIMAR) joint Resolution No. 40284 of 2022, published in the Official Gazette on August 3, 2022; and b) incentivized the development of geothermal resources and their utilization for electricity generation, as evidenced by Decree No. 1318 of 2022, published in the Official Gazette on July 27, 2022. | Prior Action 3: To accelerate the deployment of innovative non-conventional renewable energy sources and foster a clean energy transition, the Republic of Colombia has: (a) taken measures to streamline the competitive processes for granting temporary permits over maritime areas, and launched and published an offshore wind (“OSW”) seabed temporary permit process, as evidenced by the Ministry of Mines and Energy (“MME”) and the General Maritime Directorate (“DIMAR”) joint Resolution No. 40712 of 2023, published in the Official Gazette on December 1, 2023; and the DIMAR Resolution No. 0951 of 2023 published on December 4, 2023, respectively; and (b) mandated the creation of a green hydrogen certification system, as evidenced by Article 235 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023. | Results indicator #3: a) Potential offshore wind electricity generation capacity that has obtained a temporary leasing permit to explore an area (MW) (linked to PA3 of DPL1 and DPL2) b) Increase in geothermal electricity generation capacity constructed or under exploration (MW) (PCE non-monetary) (linked to PA3 of DPL1) | 0 (2022) | 200 (2024) |
| Prior Action 4: To prevent the widespread bankruptcy of public transport operators recovering from the financial impacts of COVID-19 and promote lower carbon transport services by discouraging the migration of passengers towards private, more polluting modes, the Republic of Colombia has enacted a law that includes measures to provide extraordinary financial support to public transport service providers, expand inter-municipal transport routes and deliver services in a more flexible manner, as evidenced by Law No. 2198 of | Prior Action 4: To bolster transport decarbonization through the electrification of urban transport, the support of public transport systems, and the expansion of multimodal transport, the Republic of Colombia has: (a) modified the <i>"Fondo para la promoción de ascenso tecnológico"</i> to include funding for the acquisition of low- and zero-carbon taxis and heavy trucks and increasing available financial resources by incorporating contributions from the national government; as evidenced by Article 253 of Law 2294 of 2023 (NDP 2022-2026), published on the Official Gazette in May 19, 2023; and (b) submitted to Congress a draft railways law which aims | Results indicator #4: a) Electric buses registered in the Single National Transport Registry, RUNT (number) (linked to PA4 of DPL1) b) Kilometers of brownfield railway under structuring for PPP tendering (number) | 616 (2021) | 1,590 (2024) |
| | | | 0 (2023) | 498 (2024) |



| Prior Actions and Triggers | | Results | | |
|--|---|---|---|--|
| Prior Actions under DPL1 | Prior Actions under DPL 2 | Indicator Name | Baseline | Target |
| 2022 published in the Official Gazette on January 25, 2022. | to update the institutional, economic, financing, and management conditions for passengers and freight railway transportation, as evidenced by the letter from the Ministry of Transport to Congress, dated February 6, 2023. | (PCE non-monetary) (linked to PA4 of DPL2) | | |
| Pillar 2. Promote Sustainable Landscapes and Communities | | | | |
| Prior Action 5: To contain the expansion of the agricultural frontier in environmentally sensitive areas and preserve water regulation functions, the Republic of Colombia, through the Ministry of Agriculture and Rural Development (MADR) and the Ministry of Environment and Sustainable Development (MADS), has regulated agricultural activities in high-altitude wetlands (<i>páramo</i>) ecosystems, using principles of conservation and sustainable management practices, as evidenced by Resolution No. 1294 of 2021, published in the Official Gazette on December 9, 2021. | Prior Action 5: To increase climate resilience, promote the sustainable use of natural resources, and conserve key ecosystems, the Republic of Colombia has: (a) established the granting of forest concessions to benefit rural producers organizations, associated rural producers’ families, rural producers’ women associations and organizations of individuals that have entered the transitional justice models within the framework of the Final Agreement for the Termination of the Conflict and the Construction of a Stable and Lasting Peace and the total peace policy for sustainable forest management and to conserve the forest within the communities, as evidenced by Article 55 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) regulated the use of land and the protection and use of renewable natural resources and the environment in collective territories of black, afro-Colombian, <i>raizal</i> and <i>palenquera</i> communities, for the benefit of the communities, as evidenced by Decree No. 1384 of 2023, published in the Official Gazette on August 25, 2023. | Results indicator #5: a) <i>Páramos</i> with sustainable production systems under implementation (number) (linked to PA5 of DPL1) b) Regulation developed for granting forestry concessions to rural producers as per article 55 of law 2294 of 2023 (number) (linked to PA5 of DPL2) c) Rural producers’ organizations trained in the access procedures to use forestry concessions (number) (linked to PA5 of DPL2) | 0 (2021) 0 (2022) 0 (2023) | 4 (2024) 1 (2024) 10 (2025) |
| Prior Action 6: To reduce greenhouse gas emissions from the livestock sector, the Republic of Colombia, through the MADR and the MADS, has mandated the adoption of the guidelines included in the “Sustainable Cattle Ranching Policy” promoting the modernization and reconversion of traditional activities to sustainable livestock systems, as evidenced by | Does not apply. | Results indicator #5: d) Hectares impacted by transformation of traditional livestock systems into sustainable livestock systems (number) | 147,000 (2022) | 167,000 (2024) |



| Prior Actions and Triggers | | Results | | |
|---|---|---|------------------------------------|------------------------------------|
| Prior Actions under DPL1 | Prior Actions under DPL 2 | Indicator Name | Baseline | Target |
| Resolution No. 126 of 2022, published in the Official Gazette on April 19, 2022. | | (linked to PA6 of DPL1) | | |
| Prior Action 7: To improve land administration as a precondition for more sustainable land management, the Republic of Colombia has taken measures to: a) update regulations related to territorial targeting, including in environmentally sensitive rural areas, as evidenced by MADR Resolution No. 137 of 2022, published in the Official Gazette on May 6, 2022; and b) enable the acceleration and decentralization of cadastral management, as evidenced by (i) Decree No. 1608 of 2022, published in the Official Gazette on August 5, 2022; and (ii) Resolutions promulgated by the Agustin Codazzi Geographical Institute (IGAC) Nos. 315 of 2022, published in the Official Gazette on February 15, 2022; 679 of 2022, published in the Official Gazette on June 1, 2022; 853 of 2022, published in the Official Gazette on August 2, 2022; and 658 of 2022, published in the Official Gazette on May 27, 2022. | Prior Action 6: To improve land administration as a precondition for more sustainable land use and management, the Republic of Colombia has: (a) created the Territory Administration System (“SAT”) to facilitate institutional coordination, citizen’s engagement, and the development and use of territorial information, as evidenced by Article 53 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) strengthened multi-purpose cadastral management through the definition of unified processes, standards, and minimum technical specifications, as evidenced by Agustin Codazzi Geographical Institute (“IGAC”) Resolution No. 1040 of 2023, published in the Official Gazette on August 10, 2023. | Results indicator #6: a) Model of processes, inter-institutional agreements, standards, data infrastructures, and technologies required for the proper functioning of the SAT defined (number) (Linked to PA6a of DPL2) b) Territorial entities using geographic and cadastral information following the new standards, reporting information by sex and tenure type (number) (linked to PA7 of DPL1 and PA6b of DPL2) | 0 (2023) 82 (2022) | 1 (2024) 322 (2024) |
| Does not apply. | Prior Action 7: To enhance climate resilience and protect the livelihoods of small farmers, the Republic of Colombia has strengthened the financing of technical assistance and investments to increase and promote farmers access to comprehensive investments in irrigation, as evidenced by Article 36 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023. | Results indicator #8: a) Area provided with improved irrigation and drainage services in small existing irrigation districts (ha) (linked to PA7 of DPL2) b) Water User associations/ small districts strengthened (number) (linked to PA7 of DPL2) | 418 (2023) 105 (2023) | 934 (2024) 213 (2024) |



| Prior Actions and Triggers | | Results | | |
|--|---------------------------|---|---|--|
| Prior Actions under DPL1 | Prior Actions under DPL 2 | Indicator Name | Baseline | Target |
| Pillar 3: Build Resilience and Adaptation to Climate Change | | | | |
| <p>Prior Action 8: To strengthen climate-related disaster risk management and climate change adaptation actions, the Republic of Colombia has: (a) adopted the “National Plan for Disaster Risk Management: A Development Strategy 2015-2030” containing a strategic framework for risk management, tools for harmonization with other development and land use planning instruments, and a program detailing specific projects, including a clear identification of objectives, targets, responsible implementation entities, as well as financing sources for the short, medium, and long term, as evidenced by Decree No. 1478 of 2022, published in the Official Gazette on August 3, 2022; and (b) adopted mandatory guidelines to be used by all relevant regional environmental authorities for the formulation and implementation of Comprehensive Territorial Climate Change Management Plans, which shall include information provided by disaster risk management committees and sub-directorates, as evidenced by MADS Resolution No.0849 of 2022, published in the Official Gazette on August 8, 2022.</p> | Does not apply. | <p>Results indicator #7:</p> <p>a) Municipalities of categories 5 and 6 exposed to hydro-meteorological risks with community maps (number) (linked to PA8 of DPL1)</p> <p>b) Ecosystem-based adaptation interventions for disaster risk reduction at the community level under implementation (number) (linked to PA8 of DPL1)</p> <p>c) Sites in vulnerable coastal areas where ecosystem-based adaptation interventions have been conducted (number) (linked to PA8 of DPL1)</p> | <p>0 (2022)</p> <p>0 (2022)</p> <p>0 (2022)</p> | <p>100 (2024)</p> <p>16 (2024)</p> <p>4 (2024)</p> |
| <p>Prior Action 9: To mitigate the impact of disasters, including those of a hydrometeorological nature, on farmers and producers, the Republic of Colombia, has enacted a law establishing an insurance scheme for the agricultural sector, as evidenced by Law No. 2178 of 2021, published in the Official Gazette on December 30, 2021.</p> | Does not apply. | <p>Results indicator #9:</p> <p>Agricultural pilot insurance schemes (traditional and parametric) financed that provide coverage to small farmers (number) (linked to PA9 of DPL1)</p> | <p>0 (2021)</p> | <p>3 (2024)</p> |
| Pillar 4: Expand Climate Finance | | | | |



| Prior Actions and Triggers | | Results | | |
|----------------------------|--|---|-------------|--------------|
| Prior Actions under DPL1 | Prior Actions under DPL 2 | Indicator Name | Baseline | Target |
| Does not apply. | Prior Action 8: To accelerate progress towards carbon neutrality and enhanced climate resilience, the Republic of Colombia has created “ <i>Fondo para la Vida y la Biodiversidad</i> ” and defined its funding sources, governance, and management, to finance the implementation of programs and projects aimed at climate action and resilience, environmental management, and use of renewable natural resources, as evidenced by Decree No. 1648 of 2023, published in the Official Gazette on October 12, 2023. | Results indicator #10: Fund resources executed (US\$, millions) (linked to PA8 of DPL2) | 0 (2023) | 60 (2025) |



ANNEX 2: FUND RELATIONS ANNEX

Colombia—Assessment Letter for The World Bank January 30, 2024

- 1. The current Flexible Credit Line (FCL) arrangement for Colombia was last reviewed by the IMF's Executive Board in April 2023 and is set to expire in April 2024.** The FCL is a recognition of Colombia's very strong policy frameworks—anchored by a flexible exchange rate, a credible inflation targeting-regime, a medium-term fiscal framework, an effective financial sector supervision and regulation, and a track record of very strong policy implementation. The FCL continues to serve Colombia well.
- 2. During 2023, the Colombian economy made important strides reducing domestic and external imbalances and moderating fast-growing demand.** Appropriately tight macroeconomic policies (see below), allowed inflation to decline from a peak of 13.3 percent (y/y) in March 2023 to 9.3 percent (y/y) in December 2023, supported by lower food prices. Meanwhile, the current account deficit is estimated to have narrowed sharply to about 3¼ percent of GDP in 2023 (from over 6 percent in 2022), owing to a sharp decline in imports, supported by tourism and remittances, despite less favorable terms of trade. Real GDP growth is estimated to have slowed to around 1¼ percent; a substantial moderation from the 7.3 percent observed in 2022, driven by a slowdown in domestic demand, and especially investment, as consumption has remained relatively robust.
- 3. The economy is set to continue its transition toward a more sustainable path in the period ahead.** With output levels now near potential, real GDP growth is expected to recover gradually in 2024 and converge to its long-term potential at around 3-3¼ percent over the medium term. This is being supported by a normalization of macroeconomic policies, as well as a recovery in private investment from current low levels, gains from further integrating Venezuelan migrants, and the implementation of large-scale infrastructure projects. Inflation is expected to continue to decline towards the 3 percent target through 2025 before stabilizing, while the current account deficit is expected to gradually converge to around 3½ -4 percent of GDP over the medium term, financed mainly through foreign direct investment.
- 4. While improved, risks to the outlook remain on the downside.** An intensification of regional conflicts could further tighten global financial conditions, disrupt supply chains, and raise global food prices, negatively impacting growth and adding to inflationary pressures. Domestically, a stronger-than-expected *El Niño* could hinder economic activity, posing risks to inflation and the fiscal accounts. Uncertainties about the social reforms and/or the energy transition plans, as well as deviations from the fiscal rule could raise borrowing costs and further undermine private investment. That said, adequate buffers and a sustained track record of very strong policy implementation mitigate risks and continue to support Colombia's resilience and capacity to respond to shocks.



5. Macroeconomic policies should aim to continue to address remaining imbalances while also safeguarding economic growth:

- **Monetary policy.** The central bank raised the policy rate to 13.25 percent in April and kept it unchanged until the first cut of 25 bps in December 2023. This was consistent with a tightening of the policy stance throughout 2023 as inflation expectations continued declining, although they remain above the 3 percent target. Durably reducing inflation and inflation expectations to the target will require a continued tight monetary stance for some time. Meanwhile, the exchange rate should continue playing its shock absorbing role.
- **Fiscal policy.** Fiscal consolidation continued in 2023, owing mainly to the 2021-22 tax reforms and the gradual unwinding of fuel subsidies: the central government's overall deficit is estimated to have narrowed from 5.3 percent of GDP in 2022 to 4.4 percent of GDP, and at the combined public sector (CPS) level, from 6.1 percent of GDP in 2022 to 3.7 percent of GDP. This consolidation, together with inflation and the nominal appreciation of the peso, has helped to bring down public debt from around 60 percent of GDP in 2022 to around 55 percent at end-2023. The medium-term fiscal framework and 2024 budget envisage a further consolidation at the CPS level, driven by lower deficits of subnational governments and the continued reduction of fuel subsidies. Underlying this outlook are ambitious gains from improved revenue administration gains and faster resolution of tax disputes. To the extent that such revenues do not materialize, expenditure plans would need to be scaled back to meet the deficit targets in the fiscal rule. The social reforms currently under discussion, such as the pension and healthcare reforms, can have fiscal costs and would need to fit within Colombia's fiscal rules. Preliminary analyses of public debt show that it remains sustainable with high probability under a wide range of plausible shock scenarios, and with moderate medium-term sovereign risks.

6. The financial sector remains resilient. The banking sector remains liquid and well-capitalized, with liquidity and capital adequacy ratios well above regulatory minima. Credit growth has moderated to more sustainable levels compared to 2022 owing to tight macroeconomic policies, higher provisioning requirements for consumer loans, and tightened lending standards. With the economy slowing, non-performing loans (NPLs) have risen, especially in consumer loans, which in turn has reduced provisioning, although coverage remains adequate. Some bank funding pressures that arose during 2023 were quickly addressed by actions from the Superintendency and the central bank. Continuing to closely monitor NPLs, household indebtedness, and maturity risks will be important for taking timely action as needed. Similarly, continued monitoring of interconnectedness and contagion risks remains necessary given complex financial conglomerates and increasing cross-border exposures.

7. Meanwhile, improving growth prospects and external competitiveness will require structural reforms in key areas. Further advancing structural reforms to enhance productivity remains critical to boosting potential growth in the medium-term. The broad objectives of the administration's equity and climate agenda are welcomed, although they should be designed in line with Colombia's very strong policy frameworks, appropriately balancing equity, and efficiency



considerations. On the climate front, reducing dependence on oil and coal will require a carefully calibrated and gradual energy transition and export diversification strategies. A strengthening of governance frameworks remains necessary.

8. The latest Executive Board assessment is presented in Press Release No. 23/126 for the Review of the Arrangement under the FCL. On April 26, 2023, the IMF Executive Board concluded the review of the two-year FCL arrangement for SDR 7.1577 billion (about US\$9.8 billion). The staff report (IMF Country Report No. 23/150) was published on April 27, 2023. The authorities have stated their intention to gradually reduce access under possible successor arrangements, external risks permitting. Relatedly, the central bank recently announced a plan to gradually accumulate reserves during 2024, market conditions permitting, for up to US\$1.5 billion, to maintain adequate reserves while global uncertainty is expected to persist.



ANNEX 3: LETTER OF DEVELOPMENT POLICY



Bogotá D.C., 22 de febrero de 2024

Señor:

AJAY BANGA

Presidente

Banco Mundial

Washington, D.C.

Asunto: Carta de Política - Apoyo al Programa de Desarrollo Verde y Resiliente 2

Apreciado presidente Banga:

Mediante la presente carta, tenemos el gusto de manifestar el continuo compromiso del Gobierno de Colombia para la construcción de un modelo de desarrollo verde y resiliente que garantice el bienestar y la dignidad de actuales y futuras generaciones de ciudadanos. Materializar nuestra visión de Colombia como potencia mundial de la vida, requiere indudablemente de una transformación productiva hacia el desarrollo bajo en carbono, reconociendo la importancia de la sostenibilidad y la justicia ambiental, así como la responsabilidad histórica de hacer frente al urgente reto planteado por el cambio climático.

Esta voluntad política se refleja explícitamente en nuestro Plan Nacional de Desarrollo 2022-2026, el cual reconoce y reafirma la necesidad de desarrollar acciones que permitan el cumplimiento de la meta de reducción al 2030 del 51 por ciento de las emisiones de Gases de Efecto Invernadero (GEI) consignada en la actualización de la Contribución Determinada a Nivel Nacional (NDC, por su sigla en inglés). Apuntamos a profundizar y expandir la agenda de reformas de políticas públicas de manera tal que el país disminuya su dependencia del modelo de economía extractivista. Más concretamente, nuestro plan de desarrollo prioriza elementos clave como el ordenamiento del territorio alrededor del agua; y la transformación productiva, internacionalización y acción climática con catalizadores como la conservación, la consolidación de territorios resilientes al clima, la transición energética, y el financiamiento para la acción climática, entre otros.

Dentro de esta amplia agenda transformacional, destacamos especialmente: (a) la necesidad de descarbonizar el sector de la energía, impulsando una matriz de generación eléctrica más limpia y resiliente, electrificando el transporte y mejorando la eficiencia en el uso de la energía. Para lograrlo, utilizaremos los excedentes financieros del carbón y del petróleo para hacer una transición energética que lleve al país hacia una economía verde, con la meta de agregar 2.000 MW de capacidad en operación comercial de generación eléctrica a partir de fuentes



no convencionales de energía renovable y alcanzar 2,1 millones de toneladas de CO₂ mitigadas por el sector transporte, (b) la importancia de avanzar con la reforma rural integral, atacar la problemática de la tenencia de la tierra y la lucha contra la deforestación. Para tal efecto, se avanzará en la restitución y titulación de la tierra con énfasis en población vulnerable, se acelerará el catastro multipropósito, se ampliarán las áreas en proceso de restauración, recuperación y rehabilitación de ecosistemas degradados a 1,7 millones de hectáreas, y se reducirá la deforestación nacional en un 20% a 2026 y (c) el imperativo de movilizar recursos financieros para la acción climática de manera eficiente y transparente, máxime si se tiene en cuenta que se estima necesario invertir anualmente al menos 1.2% del PIB para cumplir con la NDC.

Contexto macroeconómico

En 2023, la economía colombiana registró un crecimiento económico de 0,6% anual, consolidando el sano y necesario proceso de ajuste macroeconómico, tras dos años de altos crecimientos y elevados niveles de inflación¹. Por el lado de la producción, este crecimiento estuvo explicado principalmente por el desempeño de los sectores de actividades financieras, actividades artísticas y administración pública, los cuales registraron crecimientos anuales de 7,9%, 7,0% y 3,9%, respectivamente². Por el lado del gasto, se destacó la contracción anual de la demanda interna (-3,8%), explicada principalmente por la evolución desfavorable en la formación bruta de capital fijo³. En contraste, las exportaciones reales totales crecieron 3,1% en términos anuales, impulsadas por el crecimiento de las exportaciones de servicios.

Pese a la desaceleración económica observada en 2023, el mercado laboral mantuvo un desempeño favorable. Esto se vio reflejado en una tasa de desempleo más baja y en un crecimiento de los ocupados por encima de su promedio histórico. En efecto, en 2023 la tasa de desempleo se ubicó en 10,2%, la más baja desde 2019 y 1 punto porcentual (pp) por debajo de lo observado en 2022. Por su parte, en 2023 la población ocupada registró un crecimiento de 3,4%, 1,5pp superior al promedio histórico entre el 2002 y 2019 (1,9%).

El ajuste de los desbalances macroeconómicos en 2023 se reflejó en una corrección del déficit de cuenta corriente (% PIB). Particularmente, año corrido al tercer trimestre de 2023, el déficit de cuenta corriente se ubicó en 2,7% del PIB, disminuyendo 3,6pp frente a lo observado en el mismo periodo de 2022. Esta corrección ha estado explicada, en buena medida, por la desaceleración de la demanda interna, la cual se ha reflejado en una reducción en las importaciones de bienes (16,8% en 2023) y de servicios (8,0%, año corrido al tercer trimestre).

¹ En 2021, la economía colombiana registró un crecimiento un crecimiento de 10,8% y una inflación fin de periodo de 5,6%, mientras que en 2022 se registró un crecimiento de 7,3% y una inflación de 13,1%.

² Estos sectores contribuyeron con 1,2 puntos porcentuales al crecimiento total.

³ La formación bruta de capital fijo se redujo en 8,9%, principalmente por la disminución de 16,2% en la inversión en maquinaria y equipo.



Por su parte, pese a un contexto económico global retador, las exportaciones no tradicionales⁴ mostraron ser resilientes y crecieron 1,5% en 2023, alcanzando niveles históricamente altos y contribuyendo a la corrección del déficit externo. Adicionalmente, las exportaciones de servicios, año corrido al tercer trimestre de 2023 con datos de balanza de pagos, crecieron 12,8% y se ubicaron 44,1% por encima de los niveles previos a la pandemia.

La inversión extranjera directa (IED) ha mostrado un dinamismo favorable, y ha representado la principal fuente de financiamiento del déficit externo. En particular, año corrido al tercer trimestre de 2023, la IED bruta se ubicó en USD 12.797 millones, lo que representó el 180,4% de las necesidades de financiamiento externo de la economía (déficit de cuenta corriente). Los sectores que presentaron el mayor crecimiento en su IED durante los tres primeros trimestres de 2023 fueron minería (246,9%), industrias manufactureras (74,5%) y comercio (31,2%).

En respuesta a las presiones inflacionarias que se han observado a nivel global y local, el Banco de la República inició el proceso de normalización monetaria desde finales de 2021, mediante incrementos sostenidos en la tasa de interés de política⁵. Lo anterior, aunado a la disipación de choques externos, el cierre de la brecha del producto y la apreciación de la tasa de cambio, resultaron en una desaceleración sostenida de la inflación en 2023, que la llevó a cerrar el año en 9,3%. Las perspectivas sobre el comportamiento del nivel de precios de la economía colombiana en lo que resta de 2024 son favorables, y se han reflejado en los resultados recientes de inflación. En particular, en enero de 2024 la inflación anual se ubicó en 8,4%, desacelerándose por décimo mes consecutivo y reduciéndose en 5,0pp frente al máximo alcanzado en marzo de 2023 (13,3%). Lo anterior ha estado apoyado en una importante corrección de los precios de los alimentos, que ha favorecido el ajuste de la inflación de los hogares pobres y vulnerables. Se espera que la tendencia a la baja de la inflación se mantenga, llevándola a situarse al cierre de 2024 en 6,0% y a ubicarse en el rango meta del Banco de la República en 2025.

Para 2024 se estima que la economía colombiana crecería 1,5%, marcando el inicio de una senda sostenida de recuperación económica. Este crecimiento estaría enmarcado en un entorno internacional que se mantendría retador, una política monetaria menos contractiva, una corrección gradual de la inflación local y una menor percepción de riesgo. Lo anterior, junto a la disminución prevista de las tasas de interés domésticas, generaría unas condiciones financieras menos apretadas que impulsarían la recuperación de la demanda interna hacia el final del año.

⁴ Corresponden a las exportaciones de bienes, excluyendo petróleo y sus derivados, carbón, café y ferroníquel.

⁵ Entre septiembre de 2021 y noviembre de 2023, la tasa de interés de política aumentó 11,5pp, pasando de 1,75% a 13,25%.



La continuación del dinamismo de las exportaciones no tradicionales y de servicios, junto con la aceleración de la inversión, impulsarían el crecimiento económico de 2024. En particular, el crecimiento esperado para 2024 de las exportaciones, especialmente las no tradicionales y de servicios, consolidaría el buen desempeño que estas han mostrado tras la pandemia. Además, se prevé que con el inicio de la fase constructiva de varios proyectos 5G en conjunto con una reducción de las tasas de interés, que favorecerían los cierres financieros de los proyectos en fase de adjudicación, la inversión fija presente una recuperación a lo largo del año. A partir de 2025, el crecimiento económico se ubicaría de forma sostenida por encima del 3%, impulsado principalmente por las políticas de reindustrialización y de transición energética, y una mayor inversión pública (especialmente en infraestructura).

En cuanto a las cifras fiscales, el proceso de consolidación fiscal continuó en 2023, llevando el déficit del Gobierno Nacional Central a 4.2% del PIB, lo que es consistente con un sobrecumplimiento de la meta establecida por la Regla Fiscal. El déficit del Gobierno Nacional Central disminuyó 1.1% del PIB respecto a 2022, en la medida en que mayores ingresos por cuenta de las reformas tributarias de 2021 y 2022, una fuerte actividad económica y términos de intercambio favorables en 2022, más que compensaron el aumento en el gasto primario. En consecuencia, el déficit primario disminuyó de 1% en 2022 a 0.3% en 2023. Así mismo, la deuda neta del GNC disminuyó de 57.9% del PIB en 2023 a 52.8% (por debajo del ancla definida por la Regla Fiscal), beneficiándose de la apreciación del peso colombiano y su impacto en la valoración en pesos de la deuda externa. Así mismo, el Gobierno Nacional continuó con la senda de incrementos en el precio de los combustibles líquidos (que inició en octubre de 2022), reduciendo las presiones de gasto derivadas de los subsidios a los combustibles y reafirmando su compromiso con la sostenibilidad fiscal del país.

Respecto a 2024, la última versión del Plan Financiero del Ministerio de Hacienda y Crédito Público proyecta que el déficit fiscal del Gobierno Nacional aumentará a 5.3% del PIB, consistente con los objetivos de la Regla Fiscal. Esto en un contexto de condiciones macroeconómicas retadoras que motivan una postura contra cíclica para apoyar la actividad económica. El nuevo escenario fiscal contempla un aumento en los ingresos de alrededor de 0.3% del PIB respecto a 2023, en la medida en que el aumento de recaudo tributario por mejoras en la administración tributaria, el arbitramiento de litigios y la reforma tributaria de 2022 más que compensarían la caída esperada en los ingresos petroleros y no petroleros. Aunque el gasto disminuye en 0.8% del PIB respecto a lo proyectado en la Ley de Presupuesto de 2024 (en respuesta a decisiones judiciales que revirtieron parte del recaudo de la reforma tributaria de 2022), se prevé que aumente de 23% del PIB en 2023 a 24.4% en 2024 especialmente por un aumento en el gasto primario consistente con la implementación del programa de Gobierno, enfocado en la reactivación de la economía colombiana. En cualquier caso, y en línea con su historia de observancia, el Gobierno nacional reitera su compromiso con el estricto cumplimiento de la Regla Fiscal, por lo que desarrollará un monitoreo



permanente de los ingresos y hará los ajustes necesarios en materia de gasto para satisfacer las metas establecidas en la Ley 1473 de 2011.

Situación actual desarrollo verde y resiliente

Colombia apuesta a una estrategia de desarrollo basada en un modelo de transformación hacia actividades productivas diversificadas, que aprovechen la biodiversidad y los servicios ecosistémicos, que sean intensivas en conocimiento e innovación, que respeten y garanticen los derechos humanos, y que aporten a la construcción de resiliencia ante los choques climáticos con un enfoque multisectorial. Dentro de nuestra agenda para acelerar la transición energética, hemos tomado decisiones para cortar la dependencia del petróleo, el carbón y el gas y extender el uso de energías limpias, incluyendo la asignación de 8,3 GW de capacidad, para un total de 190 proyectos de energías limpias en el 2023, así como la inversión de 95.000 millones de pesos que beneficia a más de 70.000 personas con proyectos de comunidades energéticas⁶ y techos solares en instituciones públicas para municipios de categoría cinco y seis, que son los más pequeños del país. Dentro de acciones relevantes en curso, destaca la futura expedición del decreto FONENERGIA para facilitar la focalización de fuentes de financiamiento e implementar planes que permitan ampliar la cobertura del servicio de electricidad de la red y mejorar la calidad del servicio así como incentivar el despliegue de soluciones de energías renovables.

En cuanto a la agenda para el transporte sostenible, con la expedición de la Circular No. 20231120000077 de Mintransporte se establecieron las directrices para la implementación y seguimiento de los esquemas de Monitoreo, Reporte y Verificación de las acciones para cumplir la NDC en el sector del transporte y se sigue impulsando la intermodalidad por medio del desarrollo en curso del Registro Único de Transporte Ferroviario, que tiene por objeto la simplificación de los trámites para la prestación del servicio, así como con la actualización en curso del decreto que regula la habilitación y el permiso de operación necesarios para prestar el servicio público de transporte ferroviario.

En lo pertinente a las acciones de política para la protección de ecosistemas críticos, el manejo integral de la tierra y la sostenibilidad, avances recientes incluyen la estructuración del Plan Integral de Contención de la Deforestación, y una reducción de la deforestación del 29.1% a nivel nacional y de un 36.4% en la región amazónica del país, según el más reciente informe anual de deforestación para 2022, así como el avance en la actualización del Plan Nacional de Acción de Biodiversidad, entre otros.

Por su parte, en cuanto al compromiso nacional relacionado con el financiamiento climático, destaca el mandato para la destinación específica del Impuesto Nacional al Carbono

⁶ Corresponde a los avances adelantados antes de la reglamentación del art 235 de la ley 2294 de 2023, mediante el decreto 2236 del 2023



estableciendo que el 80% de los recursos que se recauden por concepto del este impuesto se destinarán, a través del Ministerio de Ambiente y Desarrollo Sostenible, para el financiamiento de las metas y medidas en materia de acción climática establecidas en la Ley 2169 de 2021, así como las previstas en la NDC de Colombia; así como la adición de los recursos provenientes de la futura implementación del Programa Nacional de Cupos Transables de Emisiones -PNCTE, como otra fuente de ingresos para el financiar la acción climática. Dentro de acciones relevantes en curso, destaca la futura expedición del decreto PNCTE que sentará las bases para la operación del programa, definiendo aspectos como su alcance, las condiciones para la adquisición de cupos transables, los criterios y requisitos para su asignación directa, las condiciones y los requisitos para la verificación, certificación y registro de emisiones, entre otros.

El programa de crédito

Si bien el gobierno nacional está totalmente comprometido con la agenda de desarrollo verde y resiliente, esta operación, la segunda en la serie, bajo la modalidad de Préstamo Programático de Apoyo a Reformas de Política, será crítica para apoyar la acción climática por medio de la aceleración de la transición energética, la promoción de paisajes y comunidades sostenibles y la expansión y mejora de la eficiencia de los procesos de financiación climática.

Gracias al acompañamiento técnico y financiero del Banco Internacional de Reconstrucción y Fomento (BIRF), Colombia avanza en la transformación de su modelo de desarrollo, buscando armonizar el crecimiento con la protección y uso sostenible de nuestro patrimonio natural. Sin embargo, persisten aún desafíos en materia de diseño, implementación, financiamiento y monitoreo de políticas públicas que deben ser atendidos con el objetivo de facilitar el cumplimiento de compromisos climáticos internacionales, así como minimizar sus impactos negativos en el bienestar de nuestra población.

A través de este préstamo programático, el país adquiere el compromiso de avanzar en la implementación de reformas de política pública, en tres grandes frentes, en correspondencia con las prioridades del Gobierno Nacional, de manera armonizada con las políticas fiscales, y manteniendo siempre la integridad de nuestro entorno macroeconómico.

El primer pilar promueve reformas de política para la aceleración de la transición energética hacia un modelo de desarrollo bajo en carbono, incluyendo: la creación de nuevos instrumentos financieros para catalizar la transición, la modernización regulatoria del sector por medio de la eliminación de barreras técnicas que obstaculizan la expansión de la energía renovable, y el impulso a fuentes innovadoras de generación, el avance hacia la universalización con la implementación de comunidades energéticas y el aumento en la eficiencia energética.



En particular, la creación y reglamentación del fondo Colombia Potencia Mundial de la Vida, con su subcuenta para la transición energética e industrial, materializadas en la ley 2294 de 2023 y el decreto MHCP 0049 de 2024, constituye un instrumento fundamental para canalizar recursos financieros que permitan impulsar tecnologías de generación de vanguardia, cumpliendo simultáneamente los objetivos de diversificar nuestra matriz energética para reducir emisiones y mejorar su resiliencia ante fenómenos de variabilidad climática. En adición a lo anterior, las resoluciones CREG 101-006, 101-007 y 101-008 de 2023 por medio de las cuales se define la metodología para determinar la energía firme para el cargo por confiabilidad de plantas eólicas, de plantas solares fotovoltaicas y se permite la realización de convocatorias públicas con objeto exclusivo para compras de energía provenientes de fuentes no convencionales de energía renovable mejoran la rentabilidad de los proyectos renovables, con lo cual esperamos que efectivamente se contribuya a descarbonizar nuestra matriz de generación. De manera similar, la Ley 2294 de 2023, la resolución MME 40234 de 2023 junto con las resoluciones DIMAR 40712 de 2023 y 0951 de 2023 abren el camino para el desarrollo de proyectos de vanguardia en los espacios de energía eólica costa afuera e hidrógeno verde. Finalmente, con la presentación del proyecto de ley ferroviaria y la modificación al Fondo para la Promoción de Ascenso Tecnológico para cubrir taxis y vehículos de carga pesada incluida también en la ley 2294 de 2023, vamos a descarbonizar el transporte en el país, por medio de la aceleración del reemplazo vehicular y la promoción del transporte intermodal.

El segundo pilar tiene como objetivo promover paisajes y comunidades sostenibles buscando incrementar la resiliencia climática. En este caso, la creación de la figura de las concesiones forestales campesinas por medio de la ley 2294 de 2023 y la regulación para la protección de los recursos naturales renovables y del ambiente, en los territorios colectivos adjudicados, en trámite u ocupados ancestral y tradicionalmente por las comunidades negras, afrocolombianas, raizales y palenqueras contenida en el decreto 1384 de 2023, saldan una deuda histórica con las poblaciones vulnerables de Colombia y sientan las bases para la adecuada conservación de nuestra riqueza natural. En adición, las acciones regulatorias para el mejoramiento de la administración de la tierra, incluyendo el fortalecimiento del catastro multipropósito desarrolladas en la resolución IGAC 1040 de 2023 y la creación del Sistema para la Administración del Territorio consignada en la ley 2294 de 2023, son fundamentales para avanzar con la transformación del país apoyada sobre nuestra bandera de reforma rural integral; así como lo son los renovados esfuerzos por avanzar en el desarrollo de infraestructura de riego contenidos en la misma ley.

El último pilar del programa busca mejorar la capacidad del país para movilizar y ejecutar recursos financieros que permitan acelerar la acción climática en adaptación y mitigación. En particular, la creación del Fondo para la Vida y la Biodiversidad a través del decreto 1648 de 2023, sienta las bases para un financiamiento climático más eficiente, transparente y adecuado a las necesidades del país, ya que consolida fuentes de financiamiento, agiliza los mecanismos para la asignación y ejecución de los recursos y facilita a financiación de



proyectos que trasciendan el ciclo presupuestal anual. Igualmente, desde el DNP se cuenta con el Corredor de Financiamiento Climático, como herramienta de intermediación que busca articular la oferta de recursos de financiación con la demanda de los sectores y territorios, la cual se espera se pueda fortalecer y seguir posicionando.

Sin otro particular y con lo expuesto en esta carta de política, esperamos haber dado cabal cuenta de nuestra situación económica, de nuestra agenda de política para impulsar el desarrollo verde y resiliente, y de la estrecha articulación entre nuestras prioridades y el objetivo de la operación, de manera que podamos seguir avanzando en su implementación con el soporte técnico y financiero del BIRF.

Sea esta la oportunidad para agradecer, nuevamente, el valioso apoyo del Banco Mundial como socio estratégico para el desarrollo de Colombia.

Cordial saludo,

RICARDO BONILLA GONZÁLEZ

Ministro

Ministerio de Hacienda y Crédito Público



[Unofficial translation]
DEVELOPMENT POLICY LETTER

Bogotá D.C., February 22, 2024.

Mr.

AJAY BANGA

President

World Bank

Washington, D.C.

Subject: Letter of Development Policy - Support for Green and Resilient Development Program 2

Dear President Banga:

Through this letter, we are pleased to bring forth the Colombian Government's continued commitment to construct a green and resilient development model that guarantees the well-being and dignity of current and future generations of citizens. Realizing our vision of Colombia as a global power of life undoubtedly requires a productive transformation towards low-carbon development, recognizing the importance of sustainability and environmental justice, as well as the historical responsibility to address the urgent challenge posed by climate change.

This political will is explicitly portrayed in our National Development Plan 2022-2026, which recognizes and reaffirms the need to undertake actions to achieve the goal of reducing greenhouse gas (GHG) emissions by 51 percent by 2030, as set out in the updated Nationally Determined Contribution (NDC). We aim to deepen and expand the public policy reform agenda so that the country decreases its dependence on the extractive economic model. More specifically, our development plan prioritizes key elements such as land use planning around water; productive transformation, internationalization, and climate action with catalysts such as conservation, consolidation of climate resilient territories, energy transition, and climate action financing, among others.

Within this broad transformational agenda, we especially highlight: (a) the need to decarbonize the energy sector, promoting a cleaner and more resilient power generation matrix, electrifying transportation, and improving energy efficiency. To achieve this, we will use the financial surpluses from coal and oil to undergo an energy transition that will lead the country towards a green economy, with the goal of adding 2,000 MW of capacity in commercial operation of power generation from non-conventional renewable energy sources and reaching 2.1 million tons of CO₂ mitigated by the transport sector, (b) the importance of moving forward with the comprehensive rural reform, tackling the land tenure issue and the fight against deforestation. To this end, progress will be made towards land restitution and titling focusing on vulnerable populations, the multipurpose cadastre will be accelerated, the restoration, recovery and rehabilitation areas of degraded ecosystems will be expanded to 1.7 million hectares, and national deforestation will be reduced by 20% by 2026, and (c) the imperative of mobilizing financial resources for climate action in an efficient and transparent manner, especially considering that at least 1.2% of GDP must be invested annually to achieve the NDC.



Macroeconomic context

In 2023, the Colombian economy registered an annual economic growth of 0.6%, consolidating the healthy and necessary macroeconomic adjustment process, after two years of high growth and high inflation levels.⁶⁵ On the production side, this growth was mainly explained by financial activities, artistic activities, and the public administration, which registered annual growth of 7.9%, 7.0% and 3.9%, respectively.⁶⁶ On the expenditure side, the annual cutdown of domestic demand (-3.8%) was noteworthy, mainly explained by the unfavorable evolution of gross fixed capital formation.⁶⁷ In contrast, total real exports grew 3.1% for the year, driven by the growth of services exports.

Despite the economic slowdown observed in 2023, the labor market maintained a favorable performance. This was reflected in a lower unemployment rate and growth in the employed population above its historical average. In fact, in 2023 the unemployment rate stood at 10.2%, the lowest since 2019 and 1 percentage point (pp) below 2022. Meanwhile, in 2023, the employed population had 3.4% growth, 1.5pp higher than the historical average between 2002 and 2019 (1.9%).

The adjustment of macroeconomic imbalances in 2023 was reflected in a correction of the current account deficit (% GDP). Particularly, year-to-date by Q3 of 2023, the current account deficit stood at 2.7% of GDP, coming down 3.6pp compared to the same period in 2022. This correction has been largely explained by the deceleration of domestic demand, which has been reflected in a reduction in the import of goods (16.8% in 2023) and services (8.0%, year-to-date up to Q3). Despite a challenging global economic context, non-traditional exports⁶⁸ proved to be resilient and grew 1.5% in 2023, reaching historically high levels and contributing to the correction of the external deficit. In addition, services exports, year-to-date by Q3 of 2023 with balance of payments data, grew 12.8% and were 44.1% above pre-pandemic levels.

Foreign direct investment (FDI) has shown a favorable dynamism and has represented the main source of financing for the external deficit. Year-to-date by Q3 of 2023, gross FDI stood at USD 12.797 billion, which represented 180.4% of the economy's external financing needs (current account deficit). The sectors with the highest growth in FDI during the first three quarters of 2023 were mining (246.9%), manufacturing industries (74.5%) and trade (31.2%).

In response to the inflationary pressures observed globally and locally, the Central Bank began the process of monetary normalization in late 2021, by means of sustained increases in the policy interest rate.⁶⁹ This, together with the dissipation of external shocks, the closing of the output gap and the appreciation of the exchange rate, resulted in a sustained deceleration of inflation in 2023, which led it to close the year at 9.3%. The outlook for the behavior of the Colombian economy's price level in the remainder of 2024 is favorable and has been reflected in recent inflation outcomes. In January 2024, annual inflation stood at 8.4%, decelerating for the tenth consecutive month and dropping down by 5.0pp compared to the peak reached in March 2023 (13.3%). This has been supported by a significant correction in food prices, which has favored the inflation adjustment for poor and vulnerable households. The downward trend in inflation is expected to continue, bringing it to 6.0% by the end of 2024 and to be within the target range of the

⁶⁵ In 2021, the Colombian economy recorded a growth rate of 10.8% and an end-of-period inflation of 5.6%, while in 2022 it recorded growth of 7.3% and inflation of 13.1%.

⁶⁶ These sectors contributed 1.2 percent points to total growth.

⁶⁷ Gross fixed capital formation decreased by 8.9%, mainly due to a 16.2% decrease in investment in machinery and equipment.

⁶⁸ Correspond to exports of goods, excluding oil and its derivatives, coal, coffee, and ferronickel.

⁶⁹ Between September 2021 and November 2023, the policy interest rate went up by 11.5pp, from 1.75% to 13.25%.



Central Bank in 2025.

By 2024, it is estimated that the Colombian economy would grow 1.5%, marking the beginning of a sustained path of economic recovery. This growth would be framed in an international environment that would remain challenging, a less contractionary monetary policy, a gradual correction of local inflation and a lower risk perception. The above, together with the expected decrease in domestic interest rates, would generate less tight financial conditions that would boost the recovery of domestic demand towards the end of the year.

Continued dynamism in non-traditional exports and services exports, together with accelerating investment, would boost economic growth in 2024. In particular, the expected 2024 growth of exports, especially non-traditional and services exports, would consolidate the good performance they have shown post-pandemic. In addition, with the start of the construction phase of several 5G projects along a reduction in interest rates, which would improve the bankability of projects in the awarding phase, fixed investment is expected to recover throughout the year. From 2025 onwards, economic growth is expected to be upheld above 3%, driven mainly by reindustrialization and energy transition policies, and higher public investment (especially in infrastructure).

Regarding fiscal figures, the fiscal consolidation process continued in 2023, bringing the Central National Government deficit to 4.2% of GDP, which is consistent with an overachievement of the target established by the Fiscal Rule. The Central National Government deficit decreased 1.1% of GDP vs 2022, as higher revenues from the 2021 and 2022 tax reforms were collected, strong economic activity, and favorable terms of trade in 2022, more than offset the increase in primary spending. As a result, the primary deficit declined from 1% in 2022 to 0.3% in 2023. Likewise, the Central National Government's net debt decreased from 57.9% of GDP in 2023 to 52.8% (below the limit established by Fiscal Rule), benefiting from the appreciation of the Colombian peso and its impact on the peso valuation of external debt. Likewise, the National Government kept moving forward with the price increase of liquid fuels (which began in October 2022), reducing spending pressures derived from fuel subsidies and reaffirming its commitment to the country's fiscal sustainability.

Regarding 2024, the latest version of the Ministry of Finance and Public Credit's Financial Plan forecasts that the National Government's fiscal deficit will increase to 5.3% of GDP, consistent with the objectives of the Fiscal Rule. This in a context of challenging macroeconomic conditions that motivate a counter-cyclical stance to support economic activity. The new fiscal scenario contemplates an increase in revenues of about 0.3% of GDP vs 2023, to the extent that the tax collection increases due to improvements in tax administration, the arbitration of litigation, and the 2022 tax reform would more than offset the expected drop in oil and non-oil revenues. Although spending decreases by 0.8% of GDP in comparison with the forecast in the 2024 Budget Law (in response to judicial decisions that reversed part of the collection of the 2022 tax reform), it is expected to increase from 23% of GDP in 2023 to 24.4% in 2024 especially due to an increase in primary spending consistent with the implementation of the Government's program, focused on the reactivation of the Colombian economy. In any case, and in line with its history of compliance, the national government reiterates its commitment to strict compliance with the Fiscal Rule and will therefore develop a permanent monitoring of revenues and make the necessary adjustments in spending to meet the goals established in Law 1473 of 2011.



Current situation of green and resilient development

Colombia is committed to a development strategy based on a model of transformation toward diversified productive activities that take advantage of biodiversity and ecosystem services, that are intensive in knowledge and innovation, that respect and guarantee human rights, and that contribute to building resilience to climate shocks with a multisectoral approach. Within our agenda to accelerate the energy transition, we have made decisions to cut dependence on oil, coal and gas and expand the use of clean energy, including the allocation of 8.3 GW of capacity, for a total of 190 clean energy projects by 2023, as well as the investment of 95 billion pesos benefiting more than 70,000 people with community energy projects⁷⁰ and solar roofs in public institutions for category five and six municipalities, which are the smallest in the country. Among the relevant actions underway, the future issuance of the FONENERGIA decree to facilitate the targeting of financing sources and implement plans to expand the coverage of the power grid service and improve the quality of service, as well as to incentivize the deployment of renewable energy solutions, stands out.

Regarding the sustainable transportation agenda, the issuance of Circular No. 20231120000077 of the Ministry of Transport established the guidelines for the implementation and follow-up of the schemes for Monitoring, Reporting and Verification of actions to comply with the NDC in the transport sector and continues to promote intermodality through the ongoing development of the Sole Registry of Rail Transportation, which aims to simplify the procedures for the provision of the service, as well as the ongoing update of the decree that regulates the authorization and operating permit required to provide the public rail transportation service.

Regarding policy actions for the protection of critical ecosystems, comprehensive land management and sustainability, recent advances include the structuring of the Comprehensive Plan to Contain Deforestation, and a reduction in deforestation of 29.1% nationwide and 36.4% in the country's Amazon region, according to the most recent annual deforestation report for 2022, as well as progress in updating the National Biodiversity Action Plan, among others.

Regarding the national commitment related to climate finance, the mandate for the specific allocation of the National Carbon Tax stands out, establishing that 80% of the resources collected from this tax will be used, through the Ministry of Environment and Sustainable Development, to finance the climate action goals and measures established in Law 2169 of 2021, as well as those set forth in Colombia's NDC; as well as the addition of resources from the future implementation of the National Program of Tradable Emission Quotas – (PNCTE for its acronym in Spanish), as an additional source of income to finance climate action. Among the relevant actions underway is the future issuance of the PNCTE decree that will lay the foundations for the operation of the program, defining aspects such as its scope, the conditions for the acquisition of tradable quotas, the criteria and requirements for their direct allocation, the conditions and requirements for the verification, certification, and registration of emissions, among others.

The credit program

While the national government is fully committed to the green and resilient development agenda, this operation, the second in the series, under the modality of a Programmatic Development Policy Loan, will be critical to support climate action by accelerating the energy transition, promoting sustainable

⁷⁰ Pertains to the progress made prior to the regulation of article 235 of law 2294 of 2023, through decree 2236 of 2023.



landscapes and communities, and expanding and improving the efficiency of climate finance processes.

Thanks to the technical and financial support of the International Bank for Reconstruction and Development (IBRD), Colombia is moving forward in the transformation of its development model, seeking to harmonize growth with the protection and sustainable use of our natural capital. However, there are still challenges in terms of design, implementation, financing, and monitoring of public policies that must be addressed to facilitate compliance with international climate commitments, as well as minimize their negative impacts on the welfare of our population.

Through this programmatic loan, the country commits to advance in the implementation of public policy reforms on three main fronts, in line with the National Government's priorities, in harmony with fiscal policies, and always maintaining our macroeconomic integrity.

The first pillar promotes policy reforms to accelerate the energy transition to a low-carbon development model, including: the creation of new financial instruments to catalyze the transition, regulatory modernization of the sector by removing technical barriers that hinder the expansion of renewable energy, and boosting innovative sources of generation, moving towards universalization with the implementation of power communities and increasing energy efficiency.

In particular, the creation and regulation of the Colombia World Power of Life fund, with its sub-account for energy and industrial transition, materialized in Law 2294 of 2023 and Ministry of Public Credit and Finance Decree 0049 of 2024, constitutes a fundamental instrument to channel financial resources to promote cutting-edge generation technologies, simultaneously meeting the objectives of diversifying our energy matrix to reduce emissions and improving its resilience to climate variability. In addition to the above, CREG Resolutions 101-006, 101-007 and 101-008 of 2023, define the methodology to determine the firm energy for the reliability surcharge for wind and solar photovoltaic plants and allow public tenders with the exclusive purpose of purchasing energy from non-conventional renewable energy sources, improve the profitability of renewable projects, which we hope will effectively contribute to decarbonize our generation matrix. Similarly, Law 2294 of 2023, Ministry of Mines and Energy Resolution 40234 of 2023 together with DIMAR Resolutions 40712 of 2023 and 0951 of 2023 open the door for the development of cutting-edge projects in the offshore wind energy and green hydrogen industries. Finally, with the presentation of the railroad bill and the modification to the Fund for the Promotion of Technological Upgrading to cover cabs and heavy-duty vehicles also included in law 2294 of 2023, will help decarbonize transportation in the country, by accelerating vehicle replacement and promoting intermodal transportation.

The second pillar aims to promote sustainable landscapes and communities seeking to increase climate resilience. In this case, the creation of the concept of rural producers' forestry concessions through Law 2294 of 2023 and the regulation for the protection of renewable natural resources and the environment, in collective territories awarded, in process or ancestrally and traditionally occupied by black, Afro-Colombian, *Raizal* and *Palenquera* communities contained in Decree 1384 of 2023, settle a historical debt with Colombia's vulnerable populations and lay the foundations for the proper conservation of our natural wealth. In addition, the regulatory actions for the improvement of land administration, including the strengthening of the multipurpose cadastre developed in IGAC resolution 1040 of 2023 and the creation of the System for the Administration of the Territory contained in law 2294 of 2023, are fundamental to move forward with the transformation of the country supported on our flagship program of comprehensive rural reform; as are the renewed efforts to advance in the development of irrigation



infrastructure within that very law.

The last pillar of the program seeks to improve the country's capacity to mobilize and implement financial resources to accelerate climate action in adaptation and mitigation. In particular, the creation of the Fund for Life and Biodiversity through Decree 1648 of 2023, lays the groundwork for a more efficient, transparent, and adequate climate finance for the country's needs, as it consolidates funding sources, streamlines mechanisms for the allocation and implementation of resources, and facilitates the financing of projects that transcend the annual budget cycle. Likewise, the National Planning Department has the Climate Finance Corridor as an intermediation tool that seeks to bring together the supply of financing resources with the demand of the sectors and territories, which is expected to be strengthened and further positioned.

With this policy letter, we hope that we have given a full account of our economic situation, our policy agenda to promote green and resilient development, and the close alignment between our priorities and the operation's goal, so that we can continue to move forward in its implementation with the technical and financial support of IBRD.

We would like to take this opportunity to thank the World Bank once again for its valuable support as a strategic partner for Colombia's development.

Sincerely,

RICARDO BONILLA GONZÁLEZ

Minister

Ministry of Finance and Public Credit



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

| PA | Significant Positive or Negative Environment Effects | Significant Poverty, Social, or Distributional Effects (positive or negative) |
|---|--|---|
| Pillar 1: Advance the Low-Carbon Energy Transition | | |
| 1 | <p>Positive impact. A positive impact on the environment is expected from the creation of the “Potencia Mundial de la Vida” Fund as a vehicle to implement cross-sectoral actions leading to reduced GHG emissions, particularly from the promotion of the deployment of more efficient and cleaner energy.</p> <p>A negative impact might result from the implementation of renewable energy projects such as OSW and green hydrogen without adequate management. However, Colombia has relevant expertise in managing such risks and its legal and institutional framework for environmental management is adequate to prevent and safeguard the environment. The MADS has an appropriate system to prevent potential negative environmental impacts.</p> | <p>Positive long-term poverty and distributional impacts expected, from capital mobilization to support the financing of projects that promote NCRE, which can benefit the country’s most underserved regions that still exhibit significant infrastructure disparities; improved improve access, quality, and affordability of electricity; improved resilience of the sector and alleviation of energy costs.</p> |
| 2 | <p>Positive impact. A long-term positive impact is expected due to the decrease in GHG emissions resulting from the increased use of wind and solar PV projects because of the new methodological approach.</p> | |
| 3 | <p>Positive impact. A positive impact is expected due to the decrease in GHG emissions resulting from the increased use of renewable energy.</p> <p>Potential negative environmental impacts may be expected in the seabed and to marine biodiversity from incentivizing the operation of OSW electricity generation and geothermal projects. Construction of new wind facilities could also have negative impacts such as effects on bird migration routes and collisions of birds with machinery. The assessment to determine environmental management capacity to handle potential effects included a review of Colombia’s legal and institutional framework for environmental management. The MADS has adequate institutional capacity to manage environmental provisions and guarantee effective fulfillment of the Ministry’s mandate and institutional functions. Also, ANLA must ensure the evaluation of environmental impacts to issue the license and subsequently closely monitor potential impact. Lastly, potential impacts will also be monitored by DIMAR, which is in charge of safeguarding the marine environment (according to Decree 2324/1984). Article 2 of the present Resolution (No. 40712) requires presenting the environmental authorization, permit, or license approved by the environmental authority, and other environmental data, to DIMAR before requesting the maritime concession. “Demonstrate that the nominated area does not overlap with continental shelf conservation sites or environmental conservation areas.” Lastly, DIMAR has been working with the International Maritime Organization through the ‘International agreement on cooperation, preparation and fight against hydrocarbon contamination’ to strengthen DIMAR’s capacity to monitor and enforce environmental regulations. Also, the WB has been working closely with DIMAR to strengthen its environmental overview capacity.</p> | |
| 4 | <p>Positive impact. Positive impact is expected from the emission reductions and air quality improvement resulting from fleet replacements. However, old transport vehicles should be disposed of in an environmentally sound manner. For that, Colombia has a strong regulatory framework to properly manage car disposal: the Waste Management Policy, Law 105 of 1993 defines disposal of public vehicles and Resolution 1606 of 2015 related to the conditions and</p> | <p>Positive poverty, distributional, and social impacts expected, from reduced carbon emissions, enhance air quality, and improve the quality of life.</p> |



| PA | Significant Positive or Negative Environment Effects | Significant Poverty, Social, or Distributional Effects (positive or negative) |
|--|---|---|
| | requirements for environmental issues that the disintegrating entities must comply with to develop the process of the disintegration of motor vehicles. | |
| Pillar 2: Promote Sustainable Landscapes and Communities | | |
| 5 | Positive impact. Positive impact due to the promotion of conservation of key ecosystems, promotion of sustainable practices, and control of forest loss. | Positive poverty, distributional, and social impacts expected, by empowering marginalized rural groups and sustainable resource management. |
| 6 | Positive impact. This PA is expected to have positive effects on the environment as the Territory Administration System and strengthened cadastral management aim to enhance information and community participation and decision-making process and planning toward conversation and protection of ecosystems | Positive poverty, distributional and social impacts expected, by improving territorial conflict resolution and narrowing existing inequalities in land ownership. |
| 7 | Positive impact. This PA is expected to promote the efficient use of natural resources and reduce pressure. However, potential residual negative effects might occur from inadequate management of investment activities such as construction, rehabilitation, expansion, complementation, and modernization of infrastructure and equipment. Those risks are expected to be managed through the Colombian EIA system. | Positive poverty, distributional, and social impacts expected, by increasing funding for community irrigation projects and boosting agricultural productivity and resilience among family farmers. |
| Pillar 3: Build Resilience and Adaptation to Climate Change | | |
| Does not apply. No new PAs in DPL2. | | |
| Pillar 4: Expand Climate Finance | | |
| 8 | Positive impacts. Through increased funding for these areas, the ' <i>Fondo para la Vida y la Biodiversidad</i> ' is expected to promote conservation and biodiversity projects. | Positive poverty, distributional, and social impacts expected, by expanding financial mechanisms for climate change, with their effectiveness in alleviating poverty being contingent on the specific projects, design, and the prevailing context. |



ANNEX 5: POVERTY AND SOCIAL IMPACT ASSESSMENT

Pillar 1: Advance the Low-Carbon Energy Transition

1. **Colombia is highly vulnerable to the adverse effects of climate change.** The country is among the top Latin American countries that experience high rates of natural and climate-induced disasters, particularly floods and landslides.⁷¹ Moreover, climate-related disasters have increased in the past few decades, and future projections predict a heightened incidence of floods, landslides, rising sea levels, and intensified heat waves. These events will not only damage infrastructure but also disrupt electricity generation, negatively impact human health, and labor productivity and cause financial and agricultural losses. Without investments in adaptation measures, Colombia's GDP is expected to decrease by 1.5 to 2.5 percent by 2050 (when accounting for damage to physical capital and productivity).⁷² These climate events will disproportionately affect impoverished and vulnerable populations, as they are more likely to reside in hazard-prone areas and experience substantial losses and slower recovery rates, thus perpetuating a cycle of poverty further exacerbated by vulnerability to natural disasters.⁷³ Poor rural households will witness substantial wage reductions and more significant consumption declines than urban populations, informal workers will face wage losses twice as severe as formal workers, and female informal and low-skilled workers are expected to bear a more significant burden of climate adverse effects.⁷⁴

2. **The measures included in PA1–PA3 aim to advance the energy transition in Colombia, which is expected to have long-term positive effects on poverty and inequality.** These actions are intended to close infrastructure gaps; improve economic productivity and growth; and provide access to affordable, reliable, and resilient infrastructure services. Specifically, the actions under PA1 will mobilize capital to support the financing of projects that promote NCRE, which can benefit the country's most underserved regions that still exhibit significant infrastructure disparities. This impact would be much greater if initiatives were directed toward areas such as La Guajira and the Caribbean region, which face substantial challenges related to accessibility, quality, and affordability.

3. **Measures under PA1–PA3 can create new job opportunities and reduce long-term inequality.** PA1–PA3 aligns with Colombia's pursuit of the Resilient Net Zero Pathway. The Resilient Net Zero Pathway is expected to enhance the country's climate resilience and reduce air pollution, traffic congestion, and susceptibility to global market fluctuations. By 2050, these actions are estimated to generate approximately US\$7 billion in economic benefits for the country. Even though there will be a net economic cost of US\$30 billion in the short term (2023–2030), it will be offset by a net gain of US\$37 billion in the long term (2030–2050).⁷⁵ Appropriate climate-related investments could potentially boost Colombia's GDP by up to 2 percent by 2050 compared to a scenario without such investments. This would result in a slight increase in household consumption, benefiting lower-income households and reducing existing inequality levels.⁷⁶ Achieving Colombia's NDC could create 347,000 jobs between 2023 and 2030 (equivalent to 1.6 percent of the 2022 employment level).⁷⁷ The energy transition is expected to create more jobs for men than women and more for the poor than the non-poor due to the nature of the sectors

⁷¹ World Bank. 2023. *Colombia Country Climate and Development Report*.

⁷² Ibid.

⁷³ Hallegatte, S., M. Fay, and E. B. Barbier. 2018. "Poverty and Climate Change: Introduction." *Environment and Development Economics* 23 (3): 217–233.

⁷⁴ Ibid.; World Bank. 2021. *Building an Equitable Society in Colombia*.

⁷⁵ World Bank. 2023. *Colombia Country Climate and Development Report*.

⁷⁶ Ibid.

⁷⁷ Ibid.



that will have the most job gains, such as communication and transport. However, it is essential to consider short-term losses and vulnerable sectors, as well as job transition programs for workers in the coal and oil industries.⁷⁸ For example, job reductions are expected in coal and oil industries, which will disproportionately affect employees in regions such as Boyacá and Santander.⁷⁹

4. **PA1–PA3 can improve access, quality, and affordability of electricity, particularly for underprivileged populations who currently lack access to the service.** Although access to electricity is almost universal, there are still disparities based on location and socioeconomic conditions. For example, 93.1 percent of people in the lowest income group have access to electricity compared to 99.8 percent in the highest group. Similar discrepancies arise when comparing urban and rural areas, where electricity service coverage is 94 percent in rural areas compared to 99.9 percent in urban areas.⁸⁰ Some departments, such as Choco, Putumayo, Amazonas, Guainía, and La Guajira, have coverage below 90 percent, while only 33.2 percent of people in Vichada live in homes with access to electricity (figure 5.1A). Despite the high coverage of electricity service, a significant proportion of people (9.7 percent) still use wood, coal, and waste as their primary cooking fuels, indicating other challenges in achieving adequate electricity access. Furthermore, disparities are even more pronounced when comparing the bottom 40 percent of population, where 24.6 percent use inadequate cooking fuels, to the top 60 percent group (0.96 percent). The difference between urban and rural areas is significant, with a gap of nearly 37 percentage points (0.8 versus 38.2 percent).⁸¹ Moreover, there are significant inter-departmental disparities, with peripheral departments showing high percentages of the population relying on inadequate cooking fuel (figure 5.1B).

5. **PA1–PA3 policies aim to make Colombia’s energy matrix more diverse and improve its resilience, having the potential to improve quality of life of vulnerable populations.** PA1–PA3 actions seek to reduce the country’s reliance on hydroelectric energy. Hydropower sources account for approximately 70 percent of Colombia’s electricity generation, making it vulnerable to disruptions during El Niño-induced droughts.⁸² NCRE plays a vital role in diversifying the mix of electricity generation. It serves as a strategy to enhance resilience against climate change-induced events, including droughts that can affect hydropower production. NCRE also contributes to broader economy-wide decarbonization efforts, such as utilizing renewable energy to produce green hydrogen and green ammonia for fertilizers.⁸³ The expansion of the electricity generation and transmission system will have considerable social inclusion implications, as it aims to improve access for those currently disconnected from the grid or experiencing inferior service quality (who tend to be the poorest population).

6. **PA1–PA3 may also have a redistributive effect by helping alleviate increased energy generation costs on final tariffs.** The diversification of the energy mix can help reduce the impact of phenomena such as El Niño on generation prices. In such cases, thermal energy units—that are more expensive—are used to meet electricity demands. Mitigating the effect of higher prices can benefit rural areas and lower-income households, which allocate a larger portion of their income to cover their electricity bills. For instance, the poorest 40 percent of households in urban areas spend 11 percent of their income on electricity, while the rest of the households spend only 3 percent. Similarly, in rural areas, the bottom 40 percent of households spend 7 percent of their income on electricity compared to 3 percent spent by the

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Encuesta de Calidad de Vida 2022.

⁸¹ Ibid.

⁸² Ibid.

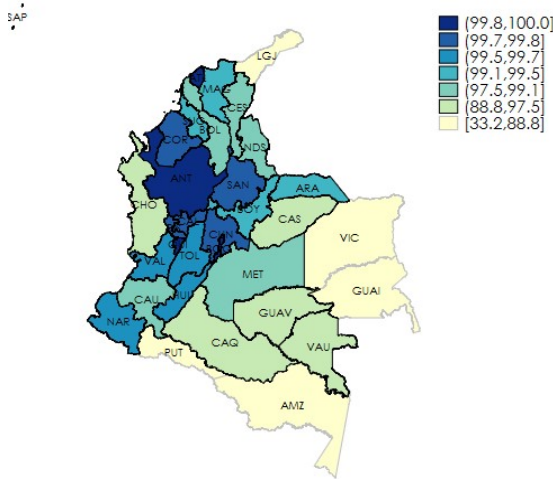
⁸³ World Bank. 2023. *Colombia Country Climate and Development Report*.



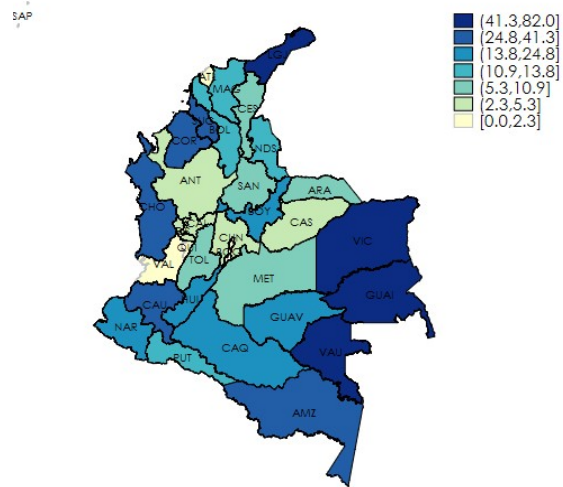
rest of the households (figure 5.2A). The poorest quintile spends 14 percent of their monthly income on electricity, which is seven times more than the quintile with the highest income (figure 5.2B).

Figure 5.1. Access to Electricity and Use of Inadequate Cooking Fuel by Decile

A. Access to Electricity Service through the Grid by Department



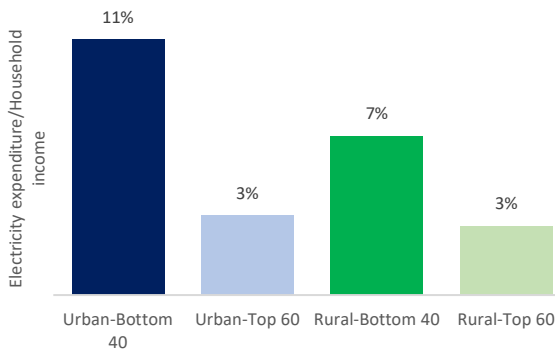
B. Percentage of Households Cooking with Fuelwood, Charcoal, or Waste by Department



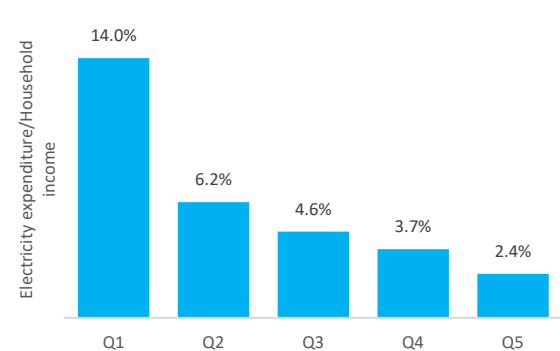
Source: Own estimates based on Encuesta de Calidad de Vida (ECV) 2022.

Figure 5.2. Expenditure in Electricity as Percentage of Household Income

A. Expenditure in Electricity by Residential Area



B. Expenditure in Electricity by Income Quintile



Source: Own estimates based on Encuesta de Calidad de Vida (ECV) 2022.

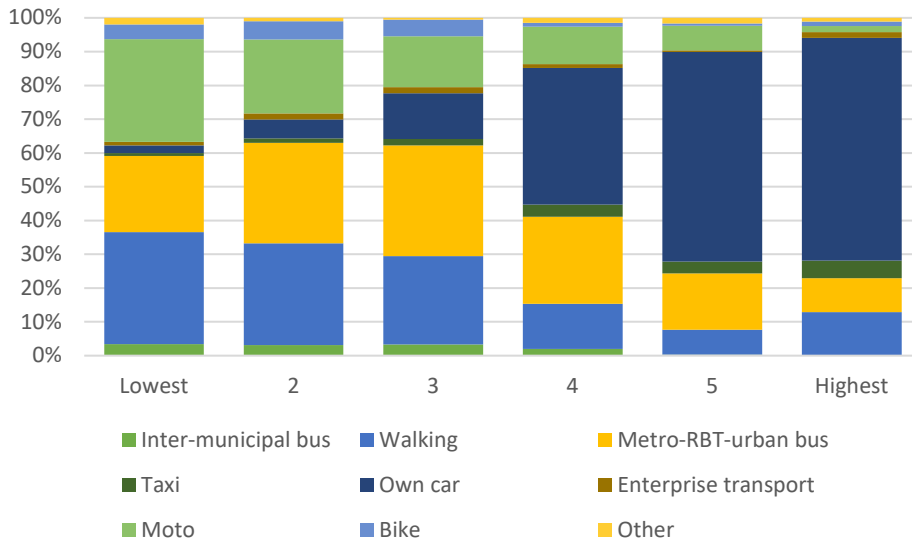
7. **Policies under PA4 will promote decarbonization of urban transportation, helping reduce carbon emissions, enhance air quality, and improve the quality of life.** Public transport is highly used by the most vulnerable groups, with workers from the lowest socioeconomic strata being the most frequent users (23–29 percent). In contrast, only around 10 percent of workers in highest socioeconomic strata use public transportation to travel to work (figure 5.3).⁸⁴ The targeted reforms focus on accelerating the replacement of old fleets with flexible and low-carbon transport services. Promoting fleet decarbonization and electric mobility in public transport will improve air quality, in turn reducing the negative health

⁸⁴ Based on National Administrative Department of Statistics (2022): Encuesta de Calidad de Vida. Households are classified by the government into six different strata based on their dwelling characteristics such as floor, exterior, or walls materials.



effects of air pollution, which disproportionately affects the less well-off.⁸⁵ The estimated cost of population exposure to urban air pollution and other environmental health consequences is about 2 percent of GDP.⁸⁶ The improvement and decarbonization of urban transport systems can create safer and healthier cities, which is crucial considering that there are around 15,000 air pollution-related deaths per year in the country, especially among the elderly, children, and people with existing respiratory and cardiovascular conditions.⁸⁷

Figure 5.3. Work Commuting by Income Quintile in Urban Areas



Source: Own estimates based on Encuesta de Calidad de Vida (ECV) 2022.

Pillar 2. Promote Sustainable Landscapes and Communities

8. **Measures under PA5 are expected to actively contribute to poverty reduction by empowering marginalized rural groups and promoting sustainable resource management.** These actions include the introduction of rural producers forest concessions, which hold the potential not only to curb deforestation but also to indirectly contribute to poverty reduction—through increased access to essential social services in rural forested areas, the establishment of land tenure rights for local communities, and the empowerment of these communities to participate effectively in forest management decisions.⁸⁸ Guatemala’s experience with forest concessions in the Maya Biosphere Reserve demonstrated that well-managed concessions could yield environmental benefits for society and socioeconomic gains for local communities. Deforestation rates were nearly eliminated in the nine active concessions⁸⁹—covering

⁸⁵ Mura, I., J. Franco, L. Bernal, N. Melo, J. Díaz, and R. Akhavan-Tabatabaei. 2020. *A Decade of Air Quality in Bogotá: A Descriptive Analysis*.

⁸⁶ National Planning Department and Fondo Acción. 2015. *Valoración Económica de la Degradación Ambiental en Colombia*; Golub, E., I. Klytchnikova, G. Sanchez Martinez, J. C. and Belausteguigoitia. 2015. *Environmental Health Costs in Colombia. Estimated Changes for the Period 2002–2010*.

⁸⁷ Instituto Nacional de Salud (INS). 2018. *Caga de enfermedad ambiental en Colombia. Informe Técnico Especial No. 10. Observatorio Nacional de Salud*.

⁸⁸ FAO (Food and Agriculture Organization) and IFE. 2018. *Hacia concesiones forestales en las zonas tropicales que contribuyan a la consecución de la Agenda 2030: Directrices voluntarias*, por Y.T. Tegegne, J. Van Brusselen, M. Cramm, T. Linhares-Juvenal, P. Pacheco, C. Sabogal y D. Tuomasjukka. Estudio FAO: Montes NO. 180, Roma. 128 paginas.

⁸⁹ Initially, 12 concessions were granted, but three of them remain inactive due to contract violations. The authors stress the need to include additional measures in recovery and rehabilitation strategies—beyond forestry activities—to ensure the long-term sustainability of livelihoods.



350,000 ha, while the community witnessed improvements in income, savings, capitalization of communal enterprises, and asset accumulation among participating families.⁹⁰

9. **PA6 is expected to have positive social and distributional impacts by improving territorial conflict resolution and narrowing existing inequalities in land ownership.** Cadastral information is essential for property rights allocation, land distribution, and effective land management, especially in rural areas. Therefore, the SAT and improved cadastral process will play a crucial role in resolving land tenure conflicts and will help address inequalities in rural property. Currently, land concentration in Colombia is high, with a land Gini coefficient is 0.89, compared to 0.523 for income.⁹¹ Colombia is among the top five most unequal countries in the world in terms of land concentration,⁹² with 81 percent of private land concentrated in the top 1 percent of farms, which is the highest among 15 countries in the region and significantly higher than the regional average of 52 percent.⁹³ Furthermore, women have lower access to formal land ownership than men.⁹⁴ Land ownership concentration has been increasing in the most remote areas, where resource extraction has historically been high.⁹⁵ Weak land administration has led to disorderly expansion of agricultural land and conflicts. It has also limited productivity growth as small- and medium-size rural producers cannot develop economies of scale and increase their productivity.⁹⁶ In addition to the positive social impacts from more effective administration (resulting in fewer conflicts and disagreements derived from weak governance of the sector), the PA is expected to have positive distributional impacts. First, by producing gender-disaggregated data allowing for monitoring and action around gender gaps and increasing legal tenure security for women. Second, through information for disaster risk management and adaptation planning to inform mitigation of climate risks that affect the poor more severely and that can increase poverty and inequality.⁹⁷ Finally, by providing information that can help reduce informality in land ownership enhancing, among others, the use of land as a productive asset.

10. **PA7 is expected to reduce poverty and inequality by increasing funding for community irrigation projects and boosting agricultural productivity and resilience among family farmers.** These actions seek to increase agricultural productivity and resilience, mitigate the adverse effects of climate change in rural and impoverished communities, and enhance adaptation capabilities during droughts. Particularly, measures under PA8 that support irrigation districts have the potential to strengthen the performance and productivity of the agricultural sector,⁹⁸ having poverty reduction and distributive effects as two out of three of the poor in rural areas work in agriculture, a sector in which total factor productivity has not grown (it was -0.3 percent between 2007 and 2016, being below the world average).⁹⁹

Pillar 3: Build Resilience and Adaptation to Climate Change. No additional PAs in DPL2.

⁹⁰ Stoian, D., A. Rodas, M. Butler, L. Monterroso, and B. Hogdon. 2018. *Las concesiones forestales en Petén, Guatemala. Un análisis sistémico del desempeño socioeconómico de las empresas comunitarias en la Reserva de la Biósfera Maya.* https://www.cifor.org/publications/pdf_files/brief/7160-brief.pdf.

⁹¹ Estimates for income Gini based on National Administrative Department of Statistics. 2021. *Gran Encuesta Integrada de Hogares*; Núñez, J., J. Parra, and G. Piraquive. 2017. *Desigualdad de la Riqueza y el Ingreso en Colombia.*

⁹² Cuesta, J., and J. Pico. 2020. *COVID-19 Affects Everyone but Not Equally: The Gendered Poverty Effects of the COVID-19 Pandemic in Colombia.*

⁹³ Guereña, A. 2017. *Radiografía de la Desigualdad. Lo que nos Dice el Último Censo Agropecuario Sobre la Distribución de la Tierra en Colombia.*

⁹⁴ MADR. 2021. *Resolución 382 de 2021.*

⁹⁵ Ibañez, A., and J. Muñoz. 2011. *La Persistencia de la Concentración de la Tierra en Colombia: ¿Qué Pasó Entre 2000 y 2010?*

⁹⁶ World Bank. 2021. *Building an Equitable Society in Colombia.*

⁹⁷ Davalos, Maria Eugenia; Monroy Barragan, Juan Manuel; Rodriguez, Luz Stella; Vargas Manrique, Carlos Eduardo.

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 Too (English). Washington, D.C.: World Bank Group.

⁹⁸ World Bank. 2023. *Colombia Country Climate and Development Report.*

⁹⁹ OECD (Organisation for Economic Co-operation and Development). 2020. *Agricultural Policy Monitoring and Evaluation 2020.*



Pillar 4: Expand Climate Finance

11. **Measures under PA8 seek to advance conservation and biodiversity initiatives by expanding financial mechanisms for climate change.** Nevertheless, their effectiveness in alleviating poverty is highly contingent on the specific projects, design, and the prevailing context. There is an extended debate regarding whether biodiversity conservation and poverty alleviation policy goals are inherently conflicting or potentially complementary. Some scholars express pessimism regarding the simultaneous achievement of conservation and poverty reduction through mechanisms such as the payment for environmental services (PES),¹⁰⁰ which is considered within the scope of the *'Fondo para la Vida y la Biodiversidad'*. However, other studies suggest that PES can have limited but positive effects on poverty alleviation.¹⁰¹ Policies such as PES might be more effective when designed with generous payments, voluntary participation, low transaction costs, and access to alternative income sources.¹⁰² The success of PES schemes depends on ensuring that the benefits to service providers outweigh the costs, which is especially important in developing countries where objectives often encompass environmental and poverty alleviation goals.¹⁰³ It is also important to consider ownership rights, local context, and project duration when designing PES mechanisms for poverty alleviation. Private ownership-based PES schemes tend to be more effective than community-based ones, and regional projects often outperform national ones.¹⁰⁴ Longer project durations also have a more significant impact on poverty reduction, as they allow service providers an extended period for transitioning into non-agricultural employment and because of the time required to achieve changes in land-use behaviors.¹⁰⁵

¹⁰⁰ Samij, C., M. Lisiecki, P. Kulkarni, L. Paler, and L. Chavis. 2014. *Effects of Payment for Environmental Services (PES) on Deforestation and Poverty in Low- and Middle-Income Countries: A Systematic Review*.

¹⁰¹ Liu, Zhaoyang, and Andreas Kontoleon. 2018. "Meta-Analysis of Livelihood Impacts of Payments for Environmental Services Programmes in Developing Countries." *Ecological Economics* 149 (C).

¹⁰² Ibid.

¹⁰³ Ibid.

¹⁰⁴ Jing, Shouwu, and Minzhe Du. 2022. "The Effects of Payment for Environmental Services on Environmental Improvement and Poverty Reduction: A Meta-Regression Analysis." *Processes* 10 (6): 1089.

¹⁰⁵ Ibid.



ANNEX 6: ASSESSMENT OF PRIOR ACTIONS FOR ALIGNMENT WITH THE PARIS AGREEMENT

| | |
|---|--|
| Program Development Objective(s): Accelerate climate action by: (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; (iii) building resilience and adaptation to climate change; and (iv) expanding climate finance. | |
| Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies? | Answer: Yes. Explanation: The operation directly supports the achievement of key mitigation targets contained in the updated NDC and LTS as well as the enhancement of climate resilience, as outlined in the NAP. More precisely, the operation promotes GHG mitigation in the energy, transport, and land use sectors and increased adaptive capacity in the agricultural space. In addition, the operation aligns with key CCDR findings including the call to reduce GHG emissions in key priority sectors and increase efficiency in the climate finance space to catalyze climate action. |
| Mitigation goals: assessing and reducing the risks | |
| Pillar 1: Advancing the low-carbon energy transition | |
| Prior Action 1: To finance the energy transition process and reduce greenhouse gas emissions, the Republic of Colombia, has created the fund “ <i>Colombia Potencia Mundial de la Vida</i> ” and defined its operational rules, including the establishment of the energy transition sub-account, for the efficient administration of resources for the energy transition, as evidenced by Article 329 of Law 2294 of 2023 (National Development Plan law (NDP 2022-2026)), published in the Official Gazette on May 19, 2023; and by Decree No. 0049 of 2024, published on the Official Gazette on January 30, 2024. | |
| Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions? | Answer: No. Explanation: This prior action is not likely to cause a significant increase in GHG emissions. On the contrary, the fund’s creation and operationalization will accelerate climate investments with the goal of reducing sectoral GHG emissions and progressing toward the long-term decarbonization of energy in the country. |
| Conclusion for PA1: Aligned on mitigation | |
| Prior Action 2: To advance the low-carbon energy transition through market reforms, the Republic of Colombia, through the Energy and Gas Regulatory Commission (“CREG”), has: (a) established an updated methodology for determining the firm energy for the reliability charge of wind and solar photovoltaic sources, as evidenced by Resolution No. 101 006 of 2023 and Resolution No. 101 007 of 2023, published in the Official Gazette on March 16, 2023; and (b) adopted regulation allowing electricity retailers to hold tenders to exclusively contract electricity produced from non-conventional renewable energy generation, as evidenced by Resolution No. 101 008 of 2023, published in the Official Gazette on March 27, 2023. | |
| Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions? | Answer: No. Explanation: The measure will not cause an increase in emissions. On the contrary, the measure will increase the bankability of NCRE projects, thereby improving the enabling environment to scale up investments and generate more clean and sustainable energy, thus decarbonizing and improving the climate resilience of the country’s electricity grid that is currently overly reliant on hydropower. |



| | |
|---|---|
| Conclusion for PA2: Aligned on mitigation | |
| Prior Action 3: To accelerate the deployment of innovative non-conventional renewable energy sources and foster a clean energy transition, the Republic of Colombia has: (a) taken measures to streamline the competitive processes for granting temporary permits over maritime areas, and launched and published an offshore wind (“OSW”) seabed temporary permit process, as evidenced by the Ministry of Mines and Energy (“MME”) and the General Maritime Directorate (“DIMAR”) joint Resolution No. 40712 of 2023, published in the Official Gazette on December 1, 2023; and the DIMAR Resolution No. 0951 of 2023 published on December 4, 2023, respectively; and (b) mandated the creation of a green hydrogen certification system, as evidenced by Article 235 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023. | |
| Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions? | Answer: No. Explanation: The measures supported by the PA are not expected to contribute to increased GHG emissions. In fact, the reforms improve the enabling environment for the private sector-led development of the OSW industry, hence paving the way for additional NCRE generation and GHG reductions. |
| Conclusion for PA3: Aligned on mitigation | |
| Prior Action 4: To bolster transport decarbonization through the electrification of urban transport, the support of public transport systems, and the expansion of multimodal transport, the Republic of Colombia has: (a) modified the “Fondo para la promoción de ascenso tecnológico” to include funding for the acquisition of low- and zero-carbon taxis and heavy trucks and increasing available financial resources by incorporating contributions from the national government; as evidenced by Article 253 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) submitted to Congress a draft railways law which aims to update the institutional, economic, financing, and management conditions for passengers and freight railway transportation, as evidenced by the letter from the Ministry of Transport to Congress, dated February 6, 2023. | |
| Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions? | Answer: No. Explanation: The supported measures will not increase GHG emissions. In fact, the reforms support the electrification of transport by opening the possibility of replacing taxis and trucks using resources allocated to the Fund and promoting railway transport to decrease sectoral emissions. |
| Conclusion for PA4: Aligned on mitigation | |
| Pillar 2: Promote Sustainable Landscapes and Communities | |
| Prior Action 5: To increase climate resilience, promote the sustainable use of natural resources, and conserve key ecosystems, the Republic of Colombia has: (a) established the granting of forest concessions to benefit rural producers organizations, associated rural producers’ families, rural producers’ women associations and organizations of individuals that have entered the transitional justice models within the framework of the Final Agreement for the Termination of the Conflict and the Construction of a Stable and Lasting Peace and the total peace policy for sustainable forest management and to conserve the forest within the communities, as evidenced by Article 55 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) regulated the use of land and the protection and use of renewable natural resources and the environment in collective territories of black, afro-Colombian, <i>raizal</i> and <i>palenquera</i> communities, for the benefit of the communities, as evidenced by Decree No. 1384 of 2023, published in the Official Gazette on August 25, 2023. | |
| Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions? | Answer: No. Explanation: The measure will contribute to deforestation containment and preservation of key ecosystem services. Thus, it supports the achievement of both mitigation agendas while reducing GHG emissions from the largest emitter sector. |
| Conclusion for PA5: Aligned on mitigation | |



Prior Action 6: To improve land administration as a precondition for more sustainable land use and management, the Republic of Colombia has: (a) created the Territory Administration System (“SAT”) to facilitate institutional coordination, citizen’s engagement, and the development and use of territorial information, as evidenced by Article 53 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) strengthened multi-purpose cadastral management through the definition of unified processes, standards, and minimum technical specifications, as evidenced by Agustin Codazzi Geographical Institute (“IGAC”) Resolution No. 1040 of 2023, published in the Official Gazette on August 10, 2023.

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| Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions? | Answer: No. Explanation: The measure will not contribute to increasing GHG emissions. Improving land administration and tenure security has positive effects in terms of deforestation containment. |
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Conclusion for PA6: Aligned on mitigation.

Prior Action 7: To enhance climate resilience and protect the livelihoods of small farmers, the Republic of Colombia has strengthened the financing of technical assistance and investments to increase and promote farmers access to comprehensive investments in irrigation, as evidenced by Article 36 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023.

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| Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions? | Answer: No. Explanation: While the measure supports increasing investments in irrigation infrastructure, the program is targeted toward small farmers and associations, hence the scope of interventions is limited and not expected to cause significant increases in GHG emissions. The project framework includes relevant environmental considerations such as not intervening ecosystem of key importance, ensuring water efficiency, obtaining environmental permits to ensure non-depletion of hydrological resources, and so on. Moreover, the prior action is not expected to finance irrigation infrastructure dependent on fossil fuel burning for its operation. |
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Conclusion for PA7: Aligned on mitigation

Pillar 4: Expand climate finance

Prior Action 8: To accelerate progress towards carbon neutrality and enhanced climate resilience, the Republic of Colombia has created “Fondo para la Vida y la Biodiversidad” and defined its funding sources, governance, and management, to finance the implementation of programs and projects aimed at climate action and resilience, environmental management, and use of renewable natural resources, as evidenced by Decree No. 1648 of 2023, published in the Official Gazette on October 12, 2023.

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| Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions? | Answer: No. Explanation: The reform supports the development of a more efficient financial instrument with the goal of accelerating climate action and hence, reducing GHG emissions at a faster pace. |
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Conclusion for PA8: Aligned on mitigation

Mitigation goals: All prior actions are aligned on mitigation



| Adaptation and resilience goals: assessing and managing the risks | |
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| Pillar 1: Advancing the low-carbon energy transition | |
| Prior Action 1: To finance the energy transition process and reduce greenhouse gas emissions, the Republic of Colombia, has created the fund “ <i>Colombia Potencia Mundial de la Vida</i> ” and defined its operational rules, including the establishment of the energy transition sub-account, for the efficient administration of resources for the energy transition, as evidenced by Article 329 of Law 2294 of 2023 (National Development Plan law (NDP 2022-2026)), published in the Official Gazette on May 19, 2023; and by Decree No. 0049 of 2024, published on the Official Gazette on January 30, 2024. | |
| Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)? | Answer: No. Explanation: This prior action’s development impact is not expected to be threatened by climate risks, as its main focus revolves around the design and operationalization of a financial instrument. |
| Conclusion for PA: Aligned on adaptation | |
| Prior Action 2: To advance the low-carbon energy transition through market reforms, the Republic of Colombia, through the Energy and Gas Regulatory Commission (“CREG”), has: (a) established an updated methodology for determining the firm energy for the reliability charge of wind and solar photovoltaic sources, as evidenced by Resolution No. 101 006 of 2023 and Resolution No. 101 007 of 2023, published on the Official Gazette on March 16, 2023; and (b) adopted regulation allowing electricity retailers to hold tenders to exclusively contract electricity produced from non-conventional renewable energy generation, as evidenced by Resolution No. 101 008 of 2023, published on the Official Gazette on March 27, 2023. | |
| Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)? | Answer: No. Explanation: This prior action’s development impact is not expected to be threatened by climate risks, as it promotes a better enabling and regulatory environment for NCRE generation. |
| Conclusion for PA 2: Aligned on adaptation | |
| Prior Action 3: To accelerate the deployment of innovative non-conventional renewable energy sources and foster a clean energy transition, the Republic of Colombia has: (a) taken measures to streamline the competitive processes for granting temporary permits over maritime areas, and launched and published an offshore wind (“OSW”) seabed temporary permit process, as evidenced by the Ministry of Mines and Energy (“MME”) and the General Maritime Directorate (“DIMAR”) joint Resolution No. 40712 of 2023, published in the Official Gazette on December 1, 2023; and the DIMAR Resolution No. 0951 of 2023 published on December 4, 2023, respectively; and (b) mandated the creation of a green hydrogen certification system, as evidenced by Article 235 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023. | |
| Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)? | Answer: No. Explanation: This prior action’s development impact is not expected to be threatened by climate risks as its scope is limited to OSW seabed exploratory stage, including wind surveys, non-invasive seabed geophysical surveys, and social and environmental studies. |
| Conclusion for PA 3: Aligned on adaptation | |
| Prior Action 4: To bolster transport decarbonization through the electrification of urban transport, the support of public transport systems, and the expansion of multimodal transport, the Republic of Colombia has: (a) modified the “ <i>Fondo para la promoción de ascenso tecnológico</i> ” to include funding for the acquisition of low- and zero-carbon taxis and heavy trucks and increasing available financial resources by incorporating contributions from the national government; as evidenced by Article 253 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) submitted to Congress a draft railways law which aims to update the institutional, economic, financing, and management conditions for passengers and freight railway transportation, as evidenced by the letter from the Ministry of Transport to Congress, dated February 6, 2023. | |



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| <p>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</p> | <p>Answer: No. Explanation: This prior action’s development impact is not expected to be threatened by climate risks, as its main focus revolves around the design and of a financial instrument and the update of institutional and economic conditions to support railway transport.</p> |
| <p>Conclusion for PA 4: Aligned on adaptation</p> | |
| <p>Pillar 2: Promote Sustainable Landscapes and Communities</p> | |
| <p>Prior Action 5: To increase climate resilience, promote the sustainable use of natural resources, and conserve key ecosystems, the Republic of Colombia has: (a) established the granting of forest concessions to benefit rural producers organizations, associated rural producers’ families, rural producers’ women associations and organizations of individuals that have entered the transitional justice models within the framework of the Final Agreement for the Termination of the Conflict and the Construction of a Stable and Lasting Peace and the total peace policy for sustainable forest management and to conserve the forest within the communities, as evidenced by Article 55 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) regulated the use of land and the protection and use of renewable natural resources and the environment in collective territories of black, afro-Colombian, <i>raizal</i> and <i>palenquera</i> communities, for the benefit of the communities, as evidenced by Decree No. 1384 of 2023, published in the Official Gazette on August 25, 2023.</p> | |
| <p>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</p> | <p>Answer: No. Explanation: This prior action’s development impact is not expected to be threatened by climate risks, as the creation of the forest concession and the regulation of renewable resources in collective territories is an administrative reform. Moreover, the prior action is expected to increase climate resilience by protecting key ecosystem services through deforestation containment.</p> |
| <p>Conclusion for PA 5: Aligned on adaptation</p> | |
| <p>Prior Action 6: To improve land administration as a precondition for more sustainable land use and management, the Republic of Colombia has: (a) created the Territory Administration System (“SAT”) to facilitate institutional coordination, citizen’s engagement, and the development and use of territorial information, as evidenced by Article 53 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) strengthened multi-purpose cadastral management through the definition of unified processes, standards, and minimum technical specifications, as evidenced by Agustin Codazzi Geographical Institute (“IGAC”) Resolution No. 1040 of 2023, published in the Official Gazette on August 10, 2023.</p> | |
| <p>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</p> | <p>Answer: No. Explanation: This prior action’s development impact is not expected to be threatened by climate risks, as the improvement in the land administration of the country is not exposed to climate hazards.</p> |
| <p>Conclusion for PA 6: Aligned on adaptation</p> | |
| <p>Prior Action 7: To enhance climate resilience and protect the livelihoods of small farmers, the Republic of Colombia has strengthened the financing of technical assistance and investments to increase and promote farmers access to comprehensive investments in irrigation, as evidenced by Article 36 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023.</p> | |
| <p>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</p> | <p>Answer: Yes. Explanation: The development of irrigation infrastructure is exposed to climate hazards and impacts including flooding and droughts.</p> |



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| Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context? | Answer: Yes. Explanation: The prior action requires that irrigation projects comply with environmental considerations including the acquisition of environmental permits, which in the Colombian context includes a robust set of requirements such as ensuring water availability, assessing climate hazards vulnerabilities on potential intervention areas, assessing hydrological reliability, and the inclusion of flood proofing for infrastructure when relevant. |
| Conclusion for PA7: Aligned on adaptation | |
| Pillar 4: Expand climate finance | |
| Prior Action 8: To accelerate progress towards carbon neutrality and enhanced climate resilience, the Republic of Colombia has created “ <i>Fondo para la Vida y la Biodiversidad</i> ” and defined its funding sources, governance, and management, to finance the implementation of programs and projects aimed at climate action and resilience, environmental management, and use of renewable natural resources, as evidenced by Decree No. 1648 of 2023, published in the Official Gazette on October 12, 2023. | |
| Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)? | Answer: No. Explanation: This prior action’s development impact is not expected to be threatened by climate risks, as the reform supports the development of a more efficient financial instrument. |
| Conclusion for PA8: Aligned on adaptation | |
| Adaptation and resilience: <i>All prior actions are aligned on adaptation and resilience.</i> | |
| Overall Conclusion of Paris Alignment Assessment: The operation is fully aligned with the mitigation and resilience goals of the Paris Agreement. | |



ANNEX 7: LINKAGES BETWEEN DPL1 TRIGGERS AND DPL2 PRIOR ACTIONS

| OIT proposed in DPL1 | Prior Action for DPL2 | Comments |
|--|--|--|
| Pillar 1. Advance the Low-Carbon Energy Transition | | |
| OIT 1: Regulation to enhance energy efficiency and electricity sector resilience, reservoir standards, or programs supporting a just energy transition for workers and vulnerable communities, by the Ministry of Mines and Energy, the Institute of Planning and Promotion of Energy Solutions in Non-Interconnected Zones, the Energy and Gas Regulatory Commission, and/or the UPME. | PA1: To finance the energy transition process and reduce greenhouse gas emissions, the Republic of Colombia, has created the fund “ <i>Colombia Potencia Mundial de la Vida</i> ” and defined its operational rules, including the establishment of the energy transition sub-account, for the efficient administration of resources for the energy transition, as evidenced by Article 329 of Law 2294 of 2023 (National Development Plan law (NDP 2022-2026)), published in the Official Gazette on May 19, 2023; and by Decree No. 0049 of 2024, published on the Official Gazette on January 30, 2024. | The trigger was upgraded to PA. The broad scope of OIT 1 is now focused on concrete policy reforms in line with the current GoC priorities around energy transition. In particular, the Fund will play significant role to finance some of the activities contained in OIT 1 such as energy efficiency and a just energy transition. |
| Does not apply. | PA2: To advance the low-carbon energy transition through market reforms, the Republic of Colombia, through the Energy and Gas Regulatory Commission (“CREG”), has: (a) established an updated methodology for determining the firm energy for the reliability charge of wind and solar photovoltaic sources, as evidenced by Resolution No. 101 006 of 2023 and Resolution No. 101 007 of 2023, published in the Official Gazette on March 16, 2023; and (b) adopted regulation allowing electricity retailers to hold tenders to exclusively contract electricity produced from non-conventional renewable energy generation, as evidenced by Resolution No. 101 008 of 2023, published in the Official Gazette on March 27, 2023. | Despite lack of aligned OIT, the PA was introduced to reflect substantive reforms to propel non-conventional renewable energy generation. |
| OIT 2: Regulations to support energy efficiency and the production and use of low-carbon energy fuels, certification, and other measures to improve the enabling environment for investments in these sectors, such as through resolutions from the Ministry of Mining and Energy, Energy and Gas | PA3 (b): To accelerate the deployment of innovative non-conventional renewable energy sources and foster a clean energy transition, the Republic of Colombia has (b) mandated the creation of a green hydrogen certification system, as evidenced by Article 235 of Law 2294 of 2023 (NDP 2022-2026), published on the Official Gazette on May 19, 2023. | The trigger was upgraded to PA. A specific policy reform to support low-carbon fuel was included PA3(b). Moreover, the policy reform agenda has been expanded to include the development of a financial vehicle for the energy transition and further support for wind and solar PV sources. |



| OIT proposed in DPL1 | Prior Action for DPL2 | Comments |
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| Regulatory Commission, and/or the UPME. | | |
| <p>OIT 3: Reforms, such as regulations by the Ministry of Mines and Energy, the Energy and Gas Regulatory Commission, and/or the UPME, to streamline processes and support the development of offshore wind and geothermal electricity production.</p> | <p>PA3 (a): To accelerate the deployment of innovative non-conventional renewable energy sources and foster a clean energy transition, the Republic of Colombia has: (a) taken measures to streamline the competitive processes for granting temporary permits over maritime areas, and launched and published an offshore wind (“OSW”) seabed temporary permit process, as evidenced by the Ministry of Mines and Energy (“MME”) and the General Maritime Directorate (“DIMAR”) joint Resolution No. 40712 of 2023, published in the Official Gazette on December 1, 2023; and the DIMAR Resolution No. 0951 of 2023 published on December 4, 2023, respectively.</p> | <p>The trigger was upgraded to PA with considerable progress in policy reform to support OSW.</p> |
| <p>OIT 4: Regulations that will operationalize the government’s fleet replacement fund, created by Law 2169, which will allow public transport operators to access government-backed financial instruments and speed up fleet replacement for electric buses.</p> | <p>PA4: To bolster transport decarbonization through the electrification of urban transport, the support of public transport systems, and the expansion of multimodal transport, the Republic of Colombia has: (a) modified the <i>"Fondo para la promoción de ascenso tecnológico"</i> to include funding for the acquisition of low- and zero-carbon taxis and heavy trucks and increasing available financial resources by incorporating contributions from the national government; as evidenced by Article 253 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) submitted to Congress a draft railways law which aims to update the institutional, economic, financing, and management conditions for passengers and freight railway transportation, as evidenced by the letter from the Ministry of Transport to Congress, dated February 6, 2023.</p> | <p>The trigger was upgraded to PA. In addition, the scope of the low-carbon transport PA was expanded to reflect policy reforms to strengthen intermodal transportation.</p> |
| Pillar 2. Promote Sustainable Landscapes and Communities | | |
| <p>OIT 5: Reforms, such as regulations of the MADS, MADR, and related institutions, and/or decrees, to further address</p> | <p>PA5: To increase climate resilience, promote the sustainable use of natural resources, and conserve key ecosystems, the Republic of Colombia</p> | <p>The trigger was upgraded to PA as the GoC has made progress in advancing the sustainable landscapes agenda. Reflecting</p> |



| OIT proposed in DPL1 | Prior Action for DPL2 | Comments |
|---|--|--|
| sustainable management and/or land use change in sensitive ecosystems such <i>páramos</i> , wetlands, and/or forests. | has: (a) established the granting of forest concessions to benefit rural producers organizations, associated rural producers’ families, rural producers’ women associations and organizations of individuals that have entered the transitional justice models within the framework of the Final Agreement for the Termination of the Conflict and the Construction of a Stable and Lasting Peace and the total peace policy for sustainable forest management and to conserve the forest within the communities, as evidenced by Article 55 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) regulated the use of land and the protection and use of renewable natural resources and the environment in collective territories of black, afro-Colombian, <i>raizal</i> and <i>palenquera</i> communities, for the benefit of the communities, as evidenced by Decree No. 1384 of 2023, published in the Official Gazette on August 25, 2023. | the current administration priorities, the PA now has a narrower focus on forest management, while simultaneously expanding its scope beyond OIT 5 to address the intersectionality between natural resources protection and collective territories of black, Afro-Colombian, <i>Raizal</i> , and <i>Palenquera</i> communities. |



| OIT proposed in DPL1 | Prior Action for DPL2 | Comments |
|--|---|---|
| <p>OIT 6: CONPES on sustainable livestock production</p> | <p>Does not apply.</p> | <p>The trigger was dropped due to the need for additional technical work required to develop the CONPES. Such work is ongoing, with the WB’s support to the MADR, particularly in identifying the policy framework required to mainstream sustainable livestock practices across the country. An important intermediate step in the preparation of the CONPES is the development of an implementation roadmap for the Bovine Nationally Appropriate Mitigation Action, which will look in detail at the policy framework required for scaled adoption of sustainable livestock practices and technologies. The Bovine Nationally Appropriate Mitigation Action study is a key milestone for which there will be a technical workshop in March 2024.</p> |
| <p>OIT 7: Articles of the National Development Plan Law strengthening: (i) the IGAC, as the authority in charge of the cadaster; and (ii) the National Land Agency, for carrying out at scale titling of small- and medium-sized rural properties and resolving land disputes, giving priority to areas such as those covered by the Peace Agreement.</p> | <p>PA6: To improve land administration as a precondition for more sustainable land use and management, the Republic of Colombia has: (a) created the Territory Administration System (“SAT”) to facilitate institutional coordination, citizen’s engagement, and the development and use of territorial information, as evidenced by Article 53 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) strengthened multi-purpose cadastral management through the definition of unified processes, standards, and minimum technical specifications, as evidenced by Agustin Codazzi Geographical Institute (“IGAC”) Resolution No. 1040 of 2023, published in the Official Gazette on August 10, 2023.</p> | <p>The trigger was upgraded to PA.</p> |
| <p>Does not apply.</p> | <p>Prior Action 7: To enhance climate resilience and protect the livelihoods of small farmers, the Republic of Colombia has strengthened the financing of</p> | <p>Despite lack of aligned OIT, the prior action was introduced to support and reflect the GoC’s prioritization of water</p> |



| OIT proposed in DPL1 | Prior Action for DPL2 | Comments |
|--|--|---|
| | technical assistance and investments to increase and promote farmers access to comprehensive investments in irrigation, as evidenced by Article 36 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023. | management in the latest NDP. |
| Pillar 3. Build Resilience and Adaptation to Climate Change | | |
| OIT 8: Regulation to target subsidized agricultural insurance to vulnerable groups. | Does not apply. | The trigger was dropped. After approval of DPL1, the GoC triggered CAT DDO III, disbursing 100% of the loan funds. The government and the WB are on track to deliver a new CATDDO IV loan in FY24, which is built around resilience and adaptation to natural disasters and climate change. As a result, this pillar does not include additional PAs in phase 2 of the DPL, deferring instead these actions to the proposed CAT DDO IV. |
| Pillar 4: Expand Climate Finance | | |
| Does not apply. | Prior Action 8: To accelerate progress towards carbon neutrality and enhanced climate resilience, the Republic of Colombia has created <i>"Fondo para la Vida y la Biodiversidad"</i> and defined its funding sources, governance, and management, to finance the implementation of programs and projects aimed at climate action and resilience, environmental management, and use of renewable natural resources, as evidenced by Decree No. 1648 of 2023, published in the Official Gazette on October 12, 2023. | Despite lack of aligned OIT, the prior action was introduced to expand the ambition of the reform program originally focused on climate adaptation and mitigation to cover climate financing. |

ANNEX 8: RESPONSIBLE AGENCIES AND REPORT FREQUENCY FOR DPL2 INDICATORS

| Prior Actions under DPL 2 | Indicator Name | Responsible agency | Report frequency |
|--|--|------------------------------|------------------|
| <p>Prior Action 1: To finance the energy transition process and reduce greenhouse gas emissions, the Republic of Colombia, has created the fund “<i>Colombia Potencia Mundial de la Vida</i>” and defined its operational rules, including the establishment of the energy transition sub-account, for the efficient administration of resources for the energy transition, as evidenced by Article 329 of Law 2294 of 2023 (National Development Plan law (NDP 2022-2026)), published in the Official Gazette on May 19, 2023; and by Decree No. 0049 of 2024, published on the Official Gazette on January 30, 2024.</p> | <p>Results indicator #1: Annual emissions in the electricity sector (MtCO₂e/yr) (linked to PA1 of DPL1 and DPL2)</p> | Ministry of mines and energy | Biannual |
| <p>Prior Action 2: To advance the low-carbon energy transition through market reforms, the Republic of Colombia, through the Energy and Gas Regulatory Commission (“CREG”), has: (a) established an updated methodology for determining the firm energy for the reliability charge of wind and solar photovoltaic sources, as evidenced by Resolution No. 101 006 of 2023 and Resolution No. 101 007 of 2023, published in the Official Gazette on March 16, 2023; and (b) adopted regulation allowing electricity retailers to hold tenders to exclusively contract electricity produced from non-conventional renewable energy generation, as evidenced by Resolution No. 101 008 of 2023, published in the Official Gazette on March 27, 2023.</p> | <p>Results indicator #2: a) Increase in private investment that has accessed fiscal incentives for energy efficiency (US\$) (PCE monetary) (linked to PA2 of DPL1)</p> | Ministry of mines and energy | Biannual |
| | <p>b) Increase in private investment that has accessed fiscal incentives for low-carbon hydrogen and non-conventional renewable energy project development (US\$) (PCE monetary) (linked to PA2 of DPL1)</p> | Ministry of mines and energy | Biannual |
| | <p>c) New renewable energy capacity installed (MW) (PCE non-monetary) (linked to PA2 of DPL2)</p> | Ministry of mines and energy | Biannual |
| <p>Prior Action 3: To accelerate the deployment of innovative non-conventional renewable energy sources and foster a clean energy transition, the Republic of Colombia has: (a) taken measures to streamline the competitive processes for granting temporary permits over maritime areas, and launched and published an offshore wind (“OSW”) seabed temporary permit process, as evidenced by the Ministry of Mines and Energy (“MME”) and the General Maritime Directorate (“DIMAR”) joint Resolution No. 40712 of 2023, published in the Official Gazette on December 1, 2023; and the DIMAR Resolution No. 0951 of 2023 published on December 4, 2023, respectively; and (b) mandated the creation of a green hydrogen certification system, as evidenced by Article 235 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023.</p> | <p>Results indicator #3: a) Potential offshore wind electricity generation capacity that has obtained a temporary leasing permit to explore an area (MW) (linked to PA3 of DPL1 and DPL2)</p> | Ministry of mines and energy | Biannual |
| | <p>b) Increase in geothermal electricity generation capacity constructed or under exploration (MW) (PCE non-monetary) (linked to PA3 of DPL1)</p> | Ministry of mines and energy | Biannual |
| <p>Prior Action 4: To bolster transport decarbonization through the electrification of urban transport, the support of public transport systems, and the expansion of multimodal transport, the Republic of Colombia has: (a) modified the “<i>Fondo para la promoción de ascenso tecnológico</i>” to include</p> | <p>Results indicator #4: a) Electric buses registered in the Single National Transport Registry, RUNT (number) (linked to PA4 of DPL1)</p> | Ministry of transport | Biannual |



| Prior Actions under DPL 2 | Indicator Name | Responsible agency | Report frequency |
|--|--|--|------------------|
| <p>funding for the acquisition of low- and zero-carbon taxis and heavy trucks and increasing available financial resources by incorporating contributions from the national government; as evidenced by Article 253 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) submitted to Congress a draft railways law which aims to update the institutional, economic, financing, and management conditions for passengers and freight railway transportation, as evidenced by the letter from the Ministry of Transport to Congress, dated February 6, 2023.</p> | <p>b) Kilometers of brownfield railway under structuring for PPP tendering (number) (PCE non-monetary) (linked to PA4 of DPL2)</p> | <p>Ministry of transport</p> | <p>Biannual</p> |
| <p>Prior Action 5: To increase climate resilience, promote the sustainable use of natural resources, and conserve key ecosystems, the Republic of Colombia has: (a) established the granting of forest concessions to benefit rural producers organizations, associated rural producers' families, rural producers' women associations and organizations of individuals that have entered the transitional justice models within the framework of the Final Agreement for the Termination of the Conflict and the Construction of a Stable and Lasting Peace and the total peace policy for sustainable forest management and to conserve the forest within the communities, as evidenced by Article 55 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) regulated the use of land and the protection and use of renewable natural resources and the environment in collective territories of black, afro-Colombian, <i>raizal</i> and <i>palenquera</i> communities, for the benefit of the communities, as evidenced by Decree No. 1384 of 2023, published in the Official Gazette on August 25, 2023.</p> | <p>Results indicator #5:</p> <p>a) <i>Páramos</i> with sustainable production systems under implementation (number) (linked to PA5 of DPL1)</p> | <p>Ministry of environment and sustainable development</p> | <p>Biannual</p> |
| | <p>b) Regulation developed for granting forestry concessions to rural producers as per article 55 of law 2294 of 2023 (number) (linked to PA5 of DPL2)</p> | <p>Ministry of environment and sustainable development</p> | <p>Biannual</p> |
| | <p>c) Rural producers' organizations trained in the access procedures to use forestry concessions (number) (linked to PA5 of DPL2)</p> | <p>Ministry of environment and sustainable development</p> | <p>Biannual</p> |
| <p>Prior Action 6: To improve land administration as a precondition for more sustainable land use and management, the Republic of Colombia has: (a) created the Territory Administration System ("SAT") to facilitate institutional coordination, citizen's engagement, and the development and use of territorial information, as evidenced by Article 53 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023; and (b) strengthened multi-purpose cadastral management through the definition of unified processes, standards, and minimum technical specifications, as evidenced by Agustin Codazzi Geographical Institute ("IGAC") Resolution No. 1040 of 2023, published in the Official Gazette on August 10, 2023.</p> | <p>Results indicator #6:</p> <p>a) Model of processes, inter-institutional agreements, standards, data infrastructures, and technologies required for the proper functioning of the SAT defined (number) (Linked to PA6a of DPL2)</p> | <p>National Planning Department</p> | <p>Biannual</p> |
| | <p>b) Territorial entities using geographic and cadastral information following the new standards, reporting information by sex and tenure type (number) (linked to PA7 of DPL1 and PA6b of DPL2)</p> | <p>Agustin Codazzi Geographical Institute</p> | <p>Biannual</p> |
| <p>Prior Action 7: To enhance climate resilience and protect the livelihoods of small farmers, the Republic of Colombia has strengthened the financing of technical assistance and</p> | <p>Results indicator #8:</p> | | |



| Prior Actions under DPL 2 | Indicator Name | Responsible agency | Report frequency |
|--|---|---|------------------|
| investments to increase and promote farmers access to comprehensive investments in irrigation, as evidenced by Article 36 of Law 2294 of 2023 (NDP 2022-2026), published in the Official Gazette on May 19, 2023. | a) Area provided with improved irrigation and drainage services in small existing irrigation districts (ha) (linked to PA7 of DPL2) | Agency of rural development | Biannual |
| | b) Water User associations/ small districts strengthened (number) (linked to PA7 of DPL2) | Agency of rural development | Biannual |
| Prior Action 8: To accelerate progress towards carbon neutrality and enhanced climate resilience, the Republic of Colombia has created “ <i>Fondo para la Vida y la Biodiversidad</i> ” and defined its funding sources, governance, and management, to finance the implementation of programs and projects aimed at climate action and resilience, environmental management, and use of renewable natural resources, as evidenced by Decree No. 1648 of 2023, published in the Official Gazette on October 12, 2023. | Results indicator #10: Fund resources executed (US\$, millions) (linked to PA8 of DPL2) | Ministry of environment and sustainable development | Biannual |