Public Disclosure Authorized

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 21-Feb-2024 | Report No: PIDA37063

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Colombia	P181080	Colombia Green and Resilient DPO 2 (P181080)	P180033
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	28-Mar-2024	Energy & Extractives	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Colombia	Ministry of Finance and Public Credit, National Planning Department		

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.

Financing (in US$, Millions)

SUMMARY

Total Financing	750.00

DETAILS

Total World Bank Group Financing	750.00
World Bank Lending	750.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **Colombia is highly exposed to climate and geophysical hazards, with impacts on economic growth and poverty.**[1] (ND-GAIN). The country has one of the highest rates of disasters caused by natural and climate-induced hazards in Latin America.[2] The country is also at a high risk of geophysical hazards, including earthquakes and volcanos,[3] which between 1980 and 2020 represented, respectively, 10 and 6 percent of the average annual number of natural hazards incidents.[4] Floods and landslides are the most prevalent hazards,[5] and the frequency of floods has more than doubled since the 1970s.[6] Disaster and climate risks represent by far Colombia's largest contingent liability, estimated at up to 4.4 percent of GDP.[7] 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 droughts[8], with current impacts of water insecurity losses ranging from 1.6 to 2.3 percent of GDP including impacts on agricultural crop yields[9] and posing risks to electricity generation given the high share of hydroelectric production.[10] The economic impacts of climate change are expected to depress real GDP annually between 1.5 and 2.5 percent by 2050[11] and exacerbate poverty and inequality.

2. **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.[12]

3. **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

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[1] 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.
[2] European Commission (2022): INFORM Risk Index. Colombia ranks second in the Latin America region in the hazard and exposure category.
[3] World Bank (2023): ThinkHazard!
[4] World Bank (2021): Climate Risk Country Profile: Colombia.
[5] Ibid.
[6] Guha-Sapir, D., R. Below, and Ph. Hoyois. 2021. EM-DAT. The CRED/OFDA International Disaster Database. *Université Catholique de Louvain.*
[7] Ministry of Finance and Public Credit (2021): Medium-Term Fiscal Framework.
[8] As evidenced with the drought and wildfire crisis of early 2024.
[9] 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.
[10] World Bank. 2021. *Colombia Turning the Tide: Water Security for Recovery and Sustainable Growth*.
[11] World Bank. 2023. *Colombia Country Climate and Development Report*.
[12] Ibid.

to allow the financial system to absorb potential shocks from financial stress abroad and increases in risky credit portfolio.

Relationship to CPF

1. **The proposed DPL is consistent with the latest WBG FY24-27 Country Partnership Framework (CPF), approved by the Board on February 13, 2024, and the CCDR**. The operation supports CPF Objectives 2 (improve land titling and administration), 3 (enhance digital, electricity, and transport connectivity), 6 (improve productivity and innovation), 7 (develop resilient and low-carbon infrastructure), and 8 (mobilize and deploy climate finance), as well as the cross-cutting peace meta-objective. 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).

C. 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.

Key Results

4. The operation will accelerate climate action. Key results under Pillar 1 aim to contribute to Colombia's decarbonization by accelerating the low-carbon transformation of the energy and transport sectors by financing and incentivizing renewable energy and supporting low-carbon fleet replacement. Pillar 2 results will render land use more sustainable and resilient using forest concessions in favor of peasant organizations, strengthening land administration and multi-purpose cadastral management, and modifying the irrigation subsector. Finally, key results under Pillar 4 will contribute towards the strengthening of the climate finance framework through the creation of a more efficient financial vehicle to support climate action.

D. Project Description

5. The DPL is the second in a series of two single-tranche programmatic operations that aims to accelerate climate action and builds on a strong commitment to addressing climate change that has spanned administrations, and which is enshrined in Colombia's legal framework. Through a comprehensive policy and legal climate change framework,[13] Colombia has adopted substantial national and international commitments, established an institutional architecture for climate change management, and created economy-wide mitigation instruments such as the carbon tax. The operation is aligned with the agenda of the national government, centered around an economic transformation toward a low-carbon development pathway**.** The latest NDP, approved in May 2023, promotes sustained, inclusive, and sustainable economic growth through the implementation of five pillars, including one that focuses on productive transformation, internationalization, and climate action,[14] seeking 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,[15] (b) the development of NCRE,[16] (c) the consolidation of the multipurpose cadaster and the transition toward a System of Territorial Administration,[17] and (d) the importance of expanding climate finance to support sustainable development.[18]

[13] Key elements include the National Policy on Climate Change, the National Climate Change Adaptation Plan, The Low-Carbon Development Strategy, the National Plan for Risk and Disaster Management, and the National Climate Change Law (Law 1931-2018), among others.

[14] National Planning Department (2023): *Plan Nacional de Desarrollo 2022–2026. Colombia Potencia Mundial de la Vida*. See section 4 *'Transformación productiva, internacionalización y acción climática'.*

[15] Ibid. See section 4.A *'Naturaleza viva: revitalización con inclusión social'.*

[16] Ibid. See section 4.C *'Transición energética justa, segura, confiable y eficiente'.*

[17] Ibid. See section 1.5 *'Consolidación del catastro multipropótisto y tránsito hacia el Sistema de Administración del Territorio"*

[18] Ibid*.* See section 4.E *'Financiamiento del desarrollo como mecanismo habilitante para una economía productiva'.*

6. **The proposed DPL 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 increasing climate financing while improving its efficiency and transparency.

7. **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 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.

E. Implementation

Institutional and Implementation Arrangements

8. **The Ministry of Finance and Public Credit and the National Planning Department are responsible for collecting and monitoring information related to program implementation and progress toward the achievement of results for this DPL.** The Ministry of Finance and Public Credit and the National Planning Department are further responsible for coordinating with the agencies involved in the reform program supported by this DPL. The Ministry of Finance and Public Credit and the National Planning Department have long-standing experience collecting and monitoring information in the context of DPLs. Monitoring and evaluation of the operation will also be carried out through ongoing policy dialogue and technical assistance programs.

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

Poverty and Social Impacts

9. **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.** 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. 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, peasant organizations, afro-

descendant communities, rural producers' associations, and women's associations). It is expected to increase their agency in the 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.

Environmental, Forests, and Other Natural Resource Aspects

10. **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.** Future investments arising from some of the policies supported under Pillar 1 (PA1, PA3 and PA5) could potentially result in negative environmental effects. However, Colombia has in place a robust national and sector-specific legal framework, with a full range of environmental protection and mitigation measures. For PA1 and PA3 there is the potential for negative environmental effects to arise from inadequate installation and operation of on- and off-shore NCRE. Yet, the Colombian legal framework incorporates appropriate measures 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 before any maritime concession can be requested. PA2 is expected to have positive environmental impacts due to the decrease in GHG emissions resulting from the increased use of wind and solar PV projects. PA4, which deals with electrification of transport, will support reduced GHG emissions, leading to public health benefits from cleaner air, and reduced pollution, especially in urban centers. Any potential risk related to improper end disposal of the retired fleet is managed with 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. All prior actions in pillar 2 are expected to have positive effects on Colombia's environment, forests, and natural resources. PA5 will foster conservation of key ecosystems, promote sustainable practices, and control forest loss. PA6 will enhance information and community participation for ecosystem protection through the Territory Administration System and a strengthened cadastral management. PA7 will contribute to the efficient use of natural resources. Finally, PA 8 in pillar 4 is also expected to have positive effects through increased funding as the *'Fondo para la Vida y la Biodiversidad'* will promote conservation and biodiversity projects.

G. Risks and Mitigation

11. **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 sector strategies and policies, technical design of project or program, fiduciary, environment and social, and stakeholders risk categories. 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.

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APPROVAL

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