Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 06-Nov-2023| Report No: PIDC36824

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	Mar 25, 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)

The development objective is to accelerate climate action by: (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; and (iii) expanding climate finance.

Financing (in US$, Millions)

SUMMARY

Total Financing	500.00

DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Colombia is highly exposed to climate and geophysical hazards, with impacts on economic growth and poverty.** The country ranks 28th out of 182 countries on climate risk,[1] and 92nd out of 182 on the Notre Dame-Global Adaptation Index[2] (ND-GAIN) and has one of the highest rates of disasters caused by natural and climate-induced hazards in Latin

[1] Germanwatch (2021): Global Climate Risk Index 2021.

[2] 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

America.[3] The country is also at a high risk of earthquakes and volcanos[4] with an average annual occurrence between 1980 and 2020 of 10 percent and 6 percent respectively.[5] Floods and landslides are the most prevalent hazards;[6] the frequency of floods has more than doubled since the 1970s.[7] Disaster and climate risks represent by far Colombia's largest contingent liability, estimated at up to 4.4 percent of Gross Domestic Product (GDP).[8] Exposure to climate risks is widespread: 47 percent of the territory face "high" or "very high" climate risks, and 84 percent of Colombia's population and 86 percent of its assets are exposed to two or more natural hazards.[9] Climate-related hazards disrupt access to basic services, road connectivity, education and health care, directly impacting economic growth, productivity, and citizen's wellbeing. Moreover, the economic impacts of climate change are expected to depress real GDP annually between 1.5 and 2.5 percent by 2050[10] and exacerbate poverty and inequality. Estimations suggest that by 2030, climate shocks could lower the welfare of around 3 million people who are already poor and living in poorer regions,[11] and by 2050 consumption losses could amount to 2 percent for urban households and up to 3 percent for rural households.[12]

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 Contributions (NDC) targets a GHG emission reduction of 51 percent by 2030 relative to a business-as---usual scenario, an ambition level that exceeds that of 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 target have been enshrined in law through Law 2169-2021. Finally, development planning has consistently included climate and environmental action: The latest three National Development Plans (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, promoting low-carbon development, and improving institutions and governance.[13]

3. **The macroeconomic policy framework is adequate for this operation.** Colombia has a track record of 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 prevent imbalances from growing and safeguard the macroeconomic framework, including a prompt monetary policy response to rising inflation. The fiscal reforms of 2021 and 2022 and the strengthening of the fiscal rule and the fiscal council 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. The administration stands firm in removing fuel subsidies and has expressed commitment to comply with the fiscal rule but risks for 2024 remain. Finally, the institutional check and balances system has been effective in avoiding deviations from the track record of prudent policymaking.

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challenges in combination with its readiness to improve resilience. The Index is composed of two key dimensions of adaptation: i. vulnerability, which measures a country's exposure, sensitivity, and capacity to adapt to the negative effects of climate change; and ii. readiness, which measures a country's ability to leverage investments and convert them to adaptation actions.

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

[4] World Bank (2023): ThinkHazard!

[5] World Bank (2021): Climate Risk Country Profile: Colombia.

[6] Ibid.

[7] Guha-Sapir, D., Below, R., and Hoyois, Ph. (2021): EM-DAT. The CRED/OFDA International Disaster Database. *Université Catholique de Louvain.*

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

[9] World Bank (2023): Colombia Country Climate and Development Report.

[10] Ibid.

[11] World Bank (2023): 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 Tool.

[12] World Bank (2023): Colombia Country Climate and Development Report.

[13] Ibid.

Relationship to CPF

4. **The proposed DPL is consistent with the WBG crisis response framework for supporting GRID, the GCRF, the latest WBG FY16-21 Country Partnership Framework (CPF), discussed by the Board on April 7, 2016, the most recent Performance and Learning Review (PLLR) (April 23, 2019), and the Country Climate and Development Report (CCDR).** Aligned with the GRID framework and the third and fourth pillars of the GCRF, this operation supports reforms that address immediate and long-term barriers to a growth path that will deliver a broad-based inclusive recovery. The policy measures aim to increase climate resilience, reduce GHG emissions and will generate substantial climate co-benefits. The operation supports CPF Objectives 2 (enhancing capacity for natural resource management), 7 (deepened financial intermediation for productive purposes, including the energy and agriculture pillars), and 8 (improved infrastructure services and enhanced urban planning to develop competitive cities), as well as the cross-cutting peace pillar. The operation supports the adjustments to the CPF made in the PLR, particularly the addition of a climate change lens to all pillars of the CPF. Similarly, it is consistent with the findings of the 2022 update of the Systematic Country Diagnostic (Report No. 171460-CO), including its findings on the centrality of curbing land use change and advancing a low-carbon energy transition, increasing the sustainability and resilience of agriculture, and the importance of improving cadaster management. Finally, 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)

The development objective is to accelerate climate action by: (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; and (iii) expanding climate finance.

Key Results

5. **The overall result will be to accelerate climate action, specifically by (i) advancing the low-carbon energy transition; (ii) promoting sustainable land use; and (iii) expanding climate finance.** 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, promoting access and improved quality of energy services for vulnerable regions, 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 multi-purpose cadastral management, and reorganizing the irrigation subsector. Finally, key results under Pillar 3 will contribute towards GHG emissions reductions through the implementation of an Emissions Trading System and the improvement of the transparency and environmental integrity of carbon markets in the country.

D. Concept Description

6. **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,[14] 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 and provisions

[14] 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.

for an emissions trading system. The Program is aligned with long-term national priorities and contributes to the provision of global public goods, in particular climate mitigation. The Program highlights policy reforms in sectors critical to Colombia's low-carbon development.

7. The proposed DPL supports policy reforms that aim to set Colombia's development trajectory on a more sustainable and resilient pathway through the following pillars: (i) advance the low-carbon energy transition; (ii) promote sustainable landscapes and communities; and (iii) expanding climate finance. The Program highlights policy reforms in sectors that are critical to Colombia's low-carbon development and adaptation agendas, and which the administration is committed to accelerating. In addition, the program contributes to the provision of global environmental public goods of critical importance. Pillar 1 contributes to implementing the NDC's low-carbon development priorities in the energy, and transport sectors. The Pillar will do this by (i) enabling the mobilization of capital to finance the energy transition, (ii) promoting the adoption of wind and photovoltaic sources of energy, (iii) as well as OSW and Green Hydrogen, (iv) improving the access and quality of energy services to vulnerable populations and incentivize the use of clean and renewable energy sources, and (v) supporting transport fleet replacement towards cleaner technologies as well as increased investments in public transport service. Pillar 2 contributes to the sustainable use of natural resources, the improvement of land administration and the efficient use of water. The pillar will do this by (i) promoting the sustainable use of natural resources and conserving key ecosystems, (ii) improving land administration as a necessary condition for a adequate, equitable and sustainable land use, and (iii) strengthening the protection and efficient use of water resources in territorial planning. Pillar 3 contributes to expanding potential sources of climate financing. It does so by (i) advancing the regulatory framework to pilot and emission trading system, and (ii) increasing transparency and integrity of national carbon markets.

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

Poverty and Social Impacts

8. 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. Prior Actions 1, 2, and 3 under Pillar I advance the financing of the energy transition process and strengthen incentives to the diversification of NCRE, with expected positive effects in the medium to long run in poverty reduction and equity from reduced emissions. Prior Action 4 is expected to have direct poverty reduction and distributional benefits in the short-term and medium terms by mitigating the impact of increased energy prices from El Niño on the poorest and promoting increased energy access to vulnerable and excluded regions. Prior Action 5 is expected to have positive medium to long term distributional impacts, by improving quality of life (e.g., lower pollution and congestion) and by increasing the accessibility and affordability of public transport. Actions under Pillar II promote sustainable and equitable land use. Prior Action 6 is expected to have positive social, poverty reduction and distributional impacts by benefitting vulnerable and poorer groups (e.g., 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. Prior Action 7 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-driven conflicts. Prior Action 8 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 III mitigates the negative long-term distributional impacts of climate change, through regulation and monitoring of carbon markets to ensure they better align with the objective of reducing emissions.

Environmental, Forests, and Other Natural Resource Aspects

9. **The Prior Actions supported through the Colombia Green and Resilient DPL II are likely, in aggregate, to have a positive impact on Colombia's environment, forests, or other natural resources.** Future investments under Pillar 1 (PA 1, 2, 3, 4, and 5), and under Pillar 2 (PA6, and PA8) supported by the operation may result in potential negative environmental effects. However, the national legal framework incorporates the necessary mitigation measures for their adequate management. In the case of pillar 1, PA 1 to 3 incentivizing the low-carbon energy transition are expected to have positive benefits in terms of emissions reductions to the atmosphere, however potential negative environmental effects might emerge if not adequately managed. To that, the national environmental regulation requires NCRE projects to develop an Environmental Impact Assessment according to the Terms of Reference for the environmental license and to be established and maintained through the Environmental National Licensing Agency and Regional Environmental Authorities. Offshore projects require compliance with Resolution 40284/2022 which defines the concession process and sets out a series of environmental requirements. Further assessment of Colombia´s Systems and legal framework to manage and address these effects will be conducted during project preparation. Similarly, further institutional, and regulatory assessment will be also needed for PA4 due to the increased deployment of electricity infrastructure which assigns additional public budget and funds a credit line to electricity distribution companies. Finally, PA5 speeding fleet replacement for electric buses, 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 but older vehicles should be put out of circulation with environmentally sound final disposition and properly managed in line with Colombia's regulatory regime. This will be assessed more in-depth during project preparation. For pillar 2, PA 6 is expected to have positive effects on Colombia's environment, forests, or natural resources by fostering conservation of key ecosystems, promoting sustainable practices, and control of forest loss. Likewise, PA 7 is also expected to have positive effects on the environment as the Territory Administration System and strengthened cadastral management aims to enhance information and community participation and decision-making process and planning towards conversation and protection of ecosystems. PA8 is expected to have a positive impact on Colombia's environment as it will increase the efficient use of its natural resources. 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. Finally, pillar 3 PA 9 and 10 are expected to have positive effects on Colombia's environment, forests, or natural resources in terms of fostering emission reductions to the atmosphere, through carbon markets.

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APPROVAL

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