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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$750 MILLION TO

REPUBLIC OF COLOMBIA

FOR THE

EQUITABLE AND GREEN RECOVERY
DEVELOPMENT POLICY FINANCING

February 25, 2022

Poverty And Equity Global Practice
Latin America And Caribbean Region

Republic of Colombia

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 16, 2022)

COP3,951.01 = US$1.00

ABBREVIATIONS AND ACRONYMS

CIT	Corporate income tax	MTEF	Medium-Term Expenditure Framework
CPF	Country Partnership Framework	MME	Ministry of Mines and Energy) *in Spanish (*Ministerio de Minas y Energía)
CREG	Regulatory Energy and Gas Commission *in Spanish* (Comisión de Regulación de Energía y Gas)	PND	National Development Plan *in Spanish* (Plan Nacional de Desarrollo)
CONPES	National Council of Economic and Social Policy *in Spanish* (Consejo Nacional de Política Económica y Social)	NCRE	non-conventional renewable energy
DNP	National Planning Department *in Spanish* (Departamento Nacional de Planeación)	NDC	National Determined Contribution
DPF	Development Policy Financing	MHCP	Ministry of Finance *in Spanish*
DPS	Administrative Department for Social Prosperity *in Spanish (*Departamento Administrativo para la Prosperidad Social)	NGFS	The Network of Central Banks and Supervisors for Greening the Financial System
ESG	Environmental, Social and Governance risks	OECD	Organization of Economic Cooperation and Development
FCL	Flexible Credit Line	PER	Public Expenditure Review
GDP	Gross Domestic Product	SDR	Special Drawing Rights
GhG	Greenhouse gas	Sisbén	Identification System of Potential Beneficiaries *in Spanish* (Sistema de Identificación de Potenciales Beneficiarios)
GNP	Gross National Product	SCD	Systematic Country Diagnostic
GoC	Government of Colombia	SFC	Financial Superintendence of Colombia *in Spanish* (Superintendencia Financiera de Colombia)
IADB	Inter American Development Bank	SINAP	National System of Protected Areas *in Spanish*(Sistema

			Nacional de Areas Protegidas)
IBRD	International Bank for Reconstruction and Development	TCFD	Task Force on Climate-related Financial Disclosures
IDA	International Development Association	VAT	Value Added Tax
IFC	International Finance Corporation	WB	World Bank
IMF	International Monetary Fund	WBG	World Bank Group
LAC	Latin America and the Caribbean	WEEE	Waste Electrical and Electronic Equipment
LDP	Letter of Development Policy		

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REPUBLIC OF COLOMBIA

EQUITABLE AND GREEN RECOVERY DPF

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The team is appreciative of the excellent collaboration with the Government of Colombia during the identification of this operation. The team acknowledges the leadership of the Department of National Planning.

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P176788	No

Proposed Development Objective(s)

The development objective of the proposed operation is to support measures that (i) reduce income inequalities (including gender-related) and build resilience, (ii) promote economy-wide decarbonization and climate adaptation, and (iii) mitigate climate change by protecting biodiversity and reducing deforestation.

Organizations

Borrower:	REPUBLIC OF COLOMBIA
Implementing Agency:	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 #1A: Percentage of poor households covered by *Ingreso Solidario*	48% [2021]	61% [2022]
Results Indicator #1B: Percentage of poor households covered by *Compensacion del IVA*	16% [2021]	30% [2022]
Results Indicator #1C: Percentage of beneficiary households of *Familias en Accion* identified using Sisbén IV	40.7% [2021]	90% [2022]
Results Indicator #2A: Regulatory framework for anti-discrimination measures and parental leave adopted for use Results Indicator #2B: Issuance of the methodology for the gradual increase of paternity leave	0 [2021] 0 [2021]	1 [2023] 1 [2022]
Results Indicator #3: Issuance of the monitoring and reporting requirements to be followed in the Implementation and Monitoring Plan for Carbon Neutrality and Climate Resilience	0 [2021]	1 [2022]
Results Indicator #4: Grid-connected NCRE additional capacity contracted in utility (large-scale) projects	0 MW [2021]	750 MW NCRE additional capacity (PPAs signed) [2022]
Results Indicator #5: 45 MW battery storage project in Atlántico region achieves financial closure by 2023	0 MW [2021]	45 MW battery storage capacity (achieving financial closure) [2023]
Results Indicator #6: Grid-connected NCRE additional capacity installed in decentralized (low-scale, less than 5MW) projects	40 MW [2021]	75 MW [2023]
Results Indicator #7A: Number of pension funds and insurance companies integrating ESG and climate risk into their risk management frameworks	5 [2021]	37 [2023]
Result Indicator #7B: Number of financial institutions that manage voluntary pension funds reporting ESG and climate risks exposures	0 [2021]	14 [2023]
Results Indicator #8: Median percentage change in the management effectiveness index of public protected areas	0.09% [2021]	3% [2022]
Results Indicator #9: Number of permits issued for sustainable use of wild flora and non-timber forest products	75 [2018-2020 average]	85 [2022]

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

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Equitable and Green Recovery Development Policy Financing (DPF), in the amount of US$750 million for the Republic of Colombia, supports the Government of Colombia (GoC)'s policies to promote an equitable and sustainable recovery.** The development objective of the proposed operation is to support measures that (i) reduce income inequalities (including gender-related) and build resilience, (ii) promote economy-wide decarbonization and climate adaptation, and (iii) mitigate climate change by protecting biodiversity and reducing deforestation. The program supports social protection reforms that enhance equity and households' resilience, and that remove barriers for women when accessing economic opportunities. It also supports the continuation and upgrading of long-standing climate mitigation and adaptation efforts, including in the financial sector, as well as measures for the consolidation of a low-carbon energy transition. Finally, it advances the country's biodiversity and natural capital conservation agenda toward the mitigation of climate change. The proposed program is expected to narrow gaps in access to opportunities and reduce the negative impacts of climate change, which disproportionately affect the poor and vulnerable populations.

2. **Colombia's equity, climate change, and biodiversity challenges are closely interrelated and have been exacerbated by the deep crisis brought about by the COVID-19 pandemic**. Income inequality in Colombia is the highest among all Organization of Economic Cooperation and Development (OECD) countries, the second highest among 18 Latin America and Caribbean (LAC) countries and one of the highest in the world. Climate change will amplify the country's already extreme level of inequality and hit poor, rural, and female Colombians hardest.[1] The loss of biodiversity goes hand in hand with increased greenhouse gas emissions. The link between climate change and inequality goes in both directions: beyond the impact of climate change on exacerbating inequality, global evidence shows that rising inequality will lead to a faster rise in emissions.[2] With the arrival of the pandemic in 2020, poverty and inequality spiked, women's employment rates were more affected,[3] and the rate of deforestation and biodiversity loss increased, partly due to weaker environmental protection enforcement under pandemic mobility restrictions. The 2016 Peace Agreement with the *Fuerzas Armadas Revolucionarias de Colombia* (FARC) has also created new challenges and opportunities at the equity-climate-biodiversity nexus.[4] Improving equity, responding to the threat of climate change, and protecting the nation's biodiversity are critical as the country recovers from the pandemic.

3. **Inequalities are persistently high in Colombia.** Before the COVID-19 crisis, poverty reduction had stagnated, and income inequality was on the rise. COVID-19 aggravated the country's equity challenges, as it generated an economic contraction of 7.0 percent in 2020 and pushed unemployment to almost 20

[1] World Bank (2021)
[2] Chance, Lucas (2021). https://wid.world/news-article/climate-change-the-global-inequality-of-carbon-emissions/
[3] A woman in Colombia is 1.7 times more likely to be unemployed than a man. Moreover, women face barriers that keep them from participating in the labor market, such as limited access to childcare and their role as primary care giver within families (World Bank 2021), with the burden of care disproportionately increasing among women during school closers (data from 2021 High-Frequency Phone Surveys).
[4] With the peace accord, the country has a new opportunity to address long-standing inequity, but deforestation has increased substantially since 2015 in the areas vacated by the FARC.

percent. The extension of social protection through existing and new programs (*Ingreso Solidario* and the refund of Value Added Tax (VAT) to the poor) helped contain the effect of the crisis on poverty, but were not enough. The national poverty rate increased from 35.7 to 42.5 percent, the Gini index of income inequality increased from 0.527 to 0.544, and gender inequalities widened. The robust economic rebound that Colombia is experiencing (Colombia's Gross Domestic Product (GDP) grew 10.6 percent in 2021, in real terms) will help reduce poverty and inequality. Still, households have not regained their pre-pandemic income levels and need continued support to avoid the erosion of assets that could keep them in or push them into poverty. While the main cash transfer programs (such as *Familias en Acción* or *Colombia Mayor*) have been effective in supporting low-income households, the system to identify vulnerable households (Sisbén) used to lack flexibility and was prone to generate large inclusion errors (World Bank 2021). Moreover, because Sisbén did not incorporate indicators of vulnerability to large shocks (especially climate-related shocks), social protection lacked the flexibility to preempt and respond to the effects of these shocks on the poor and the vulnerable.

4. **Colombia is vulnerable to climate change.** The ND-GAIN Index (University of Notre Dame, 2021) ranks Colombia 91st out of 182 countries in terms of its vulnerability to climate change and other global challenges, as well as its ability to improve resilience. With 268 $MtCO_2eq$ in 2018, or 0.57 percent share of the world's greenhouse gas (GHG) emissions, Colombia ranks 32nd among 193 emitting countries (Climate Watch, 2021). Emissions are concentrated in the energy (34 percent), land-use change and forestry (31 percent), and agriculture (24 percent) sectors, which jointly account for nearly 90 percent of the total emissions. The mean annual temperature in Colombia has already increased by at least 1°C in the last twenty years. Temperatures will continue to increase, with mean monthly temperatures projected to rise by +1.88°C by the 2050s and by 3.88°C by the end of the century under a high-emissions scenario (RCP 8.5). The government has a track record of building its climate mitigation and adaptation response, including the adoption of ambitious emission reduction targets; yet, there was no law enshrining these targets, reinforcing the actions needed to achieve them, and strengthening their implementability. In addition to the high economic and social costs of rising temperatures (World Bank, 2021a), Colombia's energy sector is particularly exposed to climate change with its reliance on hydroelectric power plants. Increasing the adoption of Non-Conventional Renewable Energy sources and mobilizing financing for green investment are needed to reduce these vulnerabilities.

5. **Biodiversity conservation is central to Colombia's climate mitigation and adaptation, as the country with the second-greatest biodiversity in the world.** The country hosts 10 percent of the planet's stock of biodiversity on less than 1 percent of its land (World Bank, 2017a), with more than 63,303 registered species and 314 types of ecosystems (SiB Colombia, 2020). The United Nations Framework Convention on Climate Change recognizes the inseparability of the protection of biodiversity and carbon sequestration. Likewise, David Attenborough (2021) has argued, "*To create a stable and healthy world, it is biodiversity that we ought to be cherishing. After all, if we increase biodiversity, we will, by default, maximize carbon capture and storage, since the more biodiverse a habitat, the better it does that job*." This is particularly the case in Colombia, given that deforestation is a primary driver of both biodiversity loss and greenhouse gas emissions in the country. After falling in recent years, the rate of deforestation increased by 20 percent in 2020 (Global Forest Watch 2021). Colombia needs strong and clear policies to reduce the risk of loss of wildlife and biodiversity and to reduce deforestation.

6. **Recognizing these challenges, the Government has taken multi-pronged actions to foster inclusive and environmentally sustainable economic growth**. Colombia's National Development Plan (PND) 2018-2022 - the Pact for Colombia- Pact for Equity, includes policies to make social programs more effective, as well as to increase women's economic empowerment. The Government has also shown a strong commitment to addressing the challenges posed by climate change, including through the recently updated National Determined Contribution (NDC) and integrating biodiversity conservation in its climate agenda. In light of the COVID-19 shock, the Government approved in February 2021 the "Policy for Economic Reactivation and Sustainable and Inclusive Growth" (CONPES 4023). It focuses on bringing the economy back to its pre-COVID-19 growth path in the short term while transitioning into more sustainable growth in the longer term, with a strong focus on job creation, clean and sustainable growth, and support to the poor and vulnerable.[5]

7. **The proposed operation is a key component of World Bank support to Colombia at a critical juncture.** Earlier recent operations have supported building Colombian competitiveness to drive the recovery (Competitiveness and Recovery DPF, P175801), strengthening resilience against natural disasters (Third Disaster Risk Management Development Policy Loan with a CAT DDO, P176650), and protecting and integrating Venezuelan migrants (Social and Economic Integration of Migrants DPF, P176505). This proposed operation supports a strong government program targeting longstanding challenges faced by Colombia (World Bank 2021). Moreover, the timing is crucial: this operation is supporting Colombia as its economic vulnerability has risen owing to the pandemic, and as it has ramped up its commitments to address climate change, reduce deforestation, and protect biodiversity (particularly in the context of the 26th UN Climate Change Conference [COP26] and the UN Biodiversity Conference [COP-15]). Finally, the operation signals World Bank support to key state policies as Colombia enters the runup to its 2022 election period.

8. **While the Covid-19 crisis hit Colombia's economy hard, with effects that will take time to absorb, the macroeconomic policy framework remains adequate for this operation.** Colombia has solid fundamentals and macroeconomic policy institutions. Before the crisis, Colombia's strong macroeconomic policy framework (a fully-fledged inflation targeting regime, a flexible exchange rate, and a rule-based fiscal policy) ensured gradual external and fiscal adjustments from the 2014–16 oil price shock. This allowed the building of the fiscal buffers that have helped respond to the COVID-19 crisis and partially mitigate the exogenous downside risks described above. In addition to causing an economic contraction and increase in poverty, the COVID-19 crisis has likely lowered the level of potential GDP durably through education losses and lower investment in physical capital. As a result of weak revenue collection and higher spending to support the economy and households during the crisis, the overall deficit of the general government increased to 7.2 percent of GDP and the general government debt-to-GDP ratio reached 66.9 percent of GDP, in 2020. The Social Investment Law approved in September 2021 improves the fiscal rule and institutes a fiscal council, thereby strengthening the fiscal framework and setting a strong basis for reducing the deficit over the medium term. On the external front, Colombia has ample reserves, and the precautionary credit line provided by the IMF, as well as the recent increase of Special Drawing Rights (SDR) holdings, provide ample liquidity buffers to respond to external shocks. Finally, institutions and commitment to prudence remain strong. In light of this situation, overall risks for the operation are judged to be moderate.

[5] The other commitments included are peace and strengthening the health care sector.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **The outbreak of the COVID-19 pandemic caused a large shock to economic activity in 2020 and led to a deterioration of fiscal deficit and government debt.** Strict lockdown and mobility restrictions, the repercussions of the pandemic on global demand and oil prices, and the ensuing uncertainty about the depth and duration of the crisis disrupted both domestic supply and demand, bringing manufacturing, construction, and commerce almost to a halt in March and April 2020.[6] The authorities promptly put in place a range of monetary and fiscal measures to support firms and households. The Central Bank progressively cut the monetary policy rate from 4.25 percent in March to 1.75 percent in September 2020, lowered reserve requirement ratios, purchased public and private securities, and activated U.S. dollar swap lines. To ensure adequate fiscal support, the suspension clause of the fiscal rule was activated for 2020 and 2021,[7] and the Government increased transfers to vulnerable groups through existing and new programs (*Ingreso Solidario* and a VAT reimbursement program for the poor), deferred tax collection for firms, and provided wage subsidy and liquidity support for businesses. These measures helped contain the contraction of GDP and of private consumption, but not that of gross fixed capital formation, which declined 20.6 percent as both private and public investment fell. Fiscal emergency measures and the fall in nominal GDP pushed the central government deficit to a record-breaking 7.8 percent of GDP, while the general government debt-to-GDP ratio hit a record high of 66.9 percent of GDP.[8] Despite this comprehensive response, the efforts were not enough to prevent an increase in poverty.

10. **The economic rebound in 2021 has been stronger than anticipated, and GDP grew 10.6 percent, reaching its 2019 level by the end of the year.** With the gradual easing of mobility restrictions, beginning in May 2020, economic activity quickly picked up, led by manufacturing and commerce, and, by March 2021, it reached 99.3 percent of the level attained in Q4 of 2019. Activity stagnated in April 2021, dragged by mobility restrictions to curb a third wave of COVID-19 and by protests and strikes in opposition to an ambitious fiscal reform package aimed at increasing revenues, expanding social protection, and reducing the deficit.[9] Although the government withdrew the package and started working on a new one, protests

[6] In Q1 of 2020 manufacturing contracted 21.6 percent q/q, construction 24.6 percent, and commerce 33.6 percent. These three sectors contributed to about 36 percent of GDP in 2019.

[7] Colombia's fiscal rule mandated a reduction of 0.8 percentage points of GDP in the central government fiscal deficit between 2019 and 2022, which would have brought the structural deficit of the central government to 1 percent of GDP in 2022. In May, the flexibility built into the fiscal rule allowed resetting the 2020 deficit ceiling to 6.1 percent of GDP (up from 2.2 percent established in the 2019 medium-term fiscal framework). On June 15, 2020, the Consultative Committee on the Fiscal Rule endorsed the Government's request to suspend the fiscal rule. The suspension clause of the fiscal rule does not set a ceiling to the fiscal deficit during the suspension period, nor does it set a duration for the suspension period.

[8] Central government debt increased to 64.8 percent of GDP at end-2020, while the additional debt of general government increased to 2.1 percent of GDP. This is about 14.9 percent of GDP higher than in a counterfactual scenario without COVID-19, of which lower nominal GDP growth contributed about 6.6 percent of GDP, while the depreciation of the peso explains roughly another 1.1 percent of GDP.

[9] The package was ambitious in scope and scale. It proposed revenue measures of about 2 percent of GDP (in particular, expanding

and blockades continued well into May, depressing economic activity. Activity in most sectors recovered in June, reverting either to pre-pandemic levels or pre-pandemic trends. The exceptions to this recovery were mining and construction, which had been weak even before the COVID-19 crisis. The vaccination program accelerated in June,[10] and the economy was effectively fully open by September. Activity continued to pick up in the third and fourth quarters, climing in Q4 6.9 percent above the level reached in Q4 of 2019. When compared to 2019, it is as if GDP has grown at an annual average 2.8 percent. Likely reflecting a recovery of repressed consumption in 2020, consumption grew strongly (14.6percent relative to the first three quarters of 2020), bouncing back above 2019 levels and driving GDP growth. Conversely, the growth of fixed capital formation (11.2 percent) was not enough to return to 2019 levels. Electricity demand points to stagnant activity in January and mid-February relateive to Q4 of 2021.

11. **The labor market recovered some of, but not all the jobs lost in 2020.** At the peak of the crisis, there were 5.3 million jobs less than before the crisis. Employment losses have been greater for women than man: while the male unemployment rate increased 9.8 percentage points, female unemployment rate increased 11.5 percentage points. Employment has recovered since then, but in Q4 of 2021 the number of people employed was 4.5 percent below mostly because female employment has not recuperated (while male employment was only 1.7 below 2019 level, female employment is still 8.4 percent below). At 12.5 percent, unemployment is still 2.0 percentage points above 2019 level and the inactive population remains 12.7 percent above 2019 level. Finally, about 81 percent of the employment created in 2021 is informal, and the informality rate among those employed is 1 percentage points greater than in 2019. The crisis has durably scarred human capital due to extended school closures during which learning stagnated, particulary for students from poorer households without Internet access. Moreover, it has widened inequalities, as the poorer, lower-educated and women have been more severely affected.[11]

12. **The increase of international input prices and transport costs, and the depreciation of the Colombian peso pushed annual inflation above the upper bound of the inflation targeting band, which prompted the Central Bank to increase the monetary policy rate.** Despite the large monetary stimulus, monthly inflation hovered around zero for most of 2020 and annual inflation dipped to 1.6 percent at the end of 2020. Monthly consumer price index (CPI) inflation started to increase in early 2021 and peaked at 1 percent month on month in May, as road blockades and an increase in international prices raised production costs. As price pressures from bottlenecks in international transport and strong domestic demand kept building, inflation reached 5.6 percent (year-on-year) at the end of 2021 and climbed to 6.9 percent in January 2022, driven primarily by food prices, the increase of which reflect high input costs and adverse weather conditions. In this context, the Central Bank began its monetary normalization process last September, and raised the policy rate to 4.0 percent in January 2022. To control inflationary pressures, the government announced a set of measures to reduce input costs, especially in the agricultural sector, including reducing tariffs on agricultural inputs, improving logistic and transport chains, and creating new credits for agro-producers.

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the base of the Personal Income Taxes and reducing exemptions on VAT), additional social spending of 0.6 percent of GDP (transforming the *Ingreso Solidario* program into a Guaranteed Minimum Income program, and expanding the coverage and amount of the program to compensate poor households for VAT), and a deficit reduction of 1.4 percent of GDP.

[10] As of February 20th, 66 percent of the population had has been fully vaccinated, and 70 percent has already received one dosis. In January 2022, an average of 241,247 doses per day were inoculated. At this rate of vaccination, the government's target of vaccinating 70 percent of the entire population will be reached in early March 2022.

[11] Data from World Bank High Frequency Phone Surveys, and from DANE.

13. **The current account deficit, which declined to 3.4 percent of GDP in 2020, reached 4.1 percent of projected annual GDP in September 2021, as imports returned to pre-pandemic levels while export receipts, especially from tourism, remained below pre-pandemic levels**. In 2020, lower profitability of foreign firms operating in Colombia compressed external payments to foreign investors, and remittances remained robust (especially from the U.S. and Spain). This led to a reduction of the current account deficit as a proportion of GDP. In the first three quarters of 2021, current account flows returned to pre-crisis levels, except for tourism receipts and oil exports. Buoyed by a sharp increase in prices and the recovery of domestic demand, imports of goods and services exceeded by 1 percent the level of the first three quarters of 2019, while exports of goods, in spite of the recovery of oil prices and external demand, only reached 90 percent of their value over the same period of 2019. Moreover, with tourism receipts at only 41 percent of the 2019 level, the trade deficit reached 4.7 percent of annual GDP. At the same time, following the reactivation of activity, distribution of profits restarted. As a result, and despite remittances hitting a record high, the current account deficit reached 4.1 percent of 2021 GDP by September 2021, and recent trade data suggest that it could reach 5.8 percent of GDP by the end of the year. Foreign direct investment (in particular, to the oil and mining sector) and net portfolio inflows (US$7.2 and US$5.8 billion, respectively) were more than enough to finance the current account deficit (US$12.6 billion) and allow reserve accumulation (US$0.5 billion).

14. **The strong rebound of nominal GDP in 2021 allowed reducing the central government's deficit to 7.1 percent of GDP, well below previous projections.** Spending in 2021 increased 19.5 percent, in nominal terms, relative to 2020. The drivers were vaccine spending, greater coverage of *Ingreso Solidario* and the VAT compensation program, the carryover and execution of health spending appropriated but not executed in 2020, and investment spending (primarily on infrastructure) as part of the reactivation plan. However, strong nominal GDP growth (17.8 percent, against 8.5 in the budget) led to a lower than projected spending-to-GDP ratio. Also, the economic reactivation has buoyed tax revenues, which amounted to 13.8 percent of GDP. In addition, the government raised about 1.1 percent of GDP from the sale of the Government's shares in public companies (which the government records as revenues).[12] .

15. **On September 7, 2021, Congress approved a fiscal reform law (*Ley de Inversion Social*), which contains revenue and spending measures, reduces the deficit, and strengthens the fiscal rule**. In particular, the law: (i) increases the corporate income tax (CIT) rate to 35 percent and introduces a three percent surcharge on the CIT of the financial sector until 2025; (ii) maintains 50 percent of the payment of the turnover tax (ICA) as a CIT credit (reversing a previous commitment to allow full crediting of the ICA); (iii) strengthens measures to combat tax evasion; (iv) increases the annual revenue qualification threshold for the "simple" tax regime, from about US$750,000 to about US$ one million; (v) extends the *Ingreso Solidario* transfer program until 2022, expanding the transfer to 4.1 million families as of April 2022; (vi) subsidizes, for one year, employers hiring women and young adults; (vii) broadens the wage subsidy program (PAEF) until December 2021; (v) mandates free tuition in tertiary education for low-income students (695,000 students) in public institutions; and (vi) requires the Government to present annual austerity plans for the next ten years.[13] The law also strengthens the fiscal rule by introducing an anchor

[12] The largest source of these resources arises from the sale of the Government's participation in ISA (an electric company) to Ecopetrol, in August, for 14,2 trillion Colombian pesos.

[13] The law also eases the administration of seized goods, extends the list of VAT-free goods during the VAT holiday, allows financing up to 50 percent of the operational deficit of mass transportation systems, extends subnational government access to liquidity credits and increases their debt ceilings, exempts restaurants and bars classified in the SIMPLE from VAT and consumption taxes.

for central Government debt, setting net primary structural deficit targets for 2022–25 (moving from a deficit of 4.7 percent of GDP in 2022 to a surplus of 0.5 percent of GDP in 2025), and mandating the institution of a fiscal council. The reform is estimated to have a fiscal cost of about one percent of GDP in 2021 and 0.4 percent of GDP in 2022, while contributing to reducing the deficit by one percent of GDP on a permanent basis starting in 2023.

16. **Driven by the central government deficit, general government gross debt declined to 66.3 percent of GDP at the end of 2021**.[14] The central government successfully tapped financial markets in 2021. In January, April, and October 2021, the government issued bonds for US$1.3 billion, US$3 billion, and US$1 billion respectively, with a 4.2 bid-to-cover ratio in October (Table 4). The government's financing needs for 2021 amount to 9.4 percent of GDP. In addition to the deficit, these include amortization (2.0 percent of GDP) and payment for judicial rulings (0.3 percent of GDP). Financing raised allowed to increase the government's year-end deposits and pre-finance the 2022 budget.

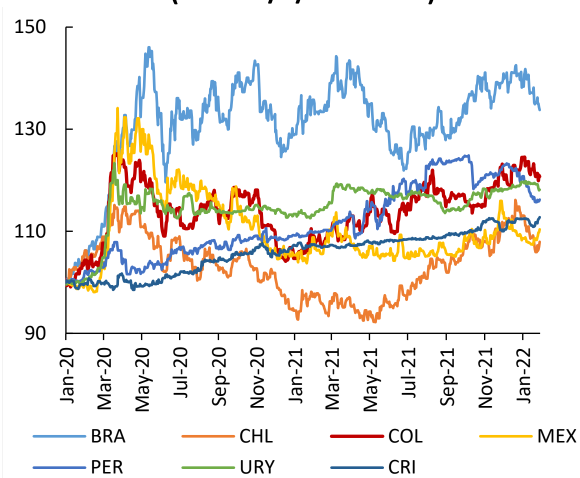
17. **Markets reacted to the strikes and the withdrawal of the fiscal reform package, and two credit rating agencies downgraded Colombia's sovereign debt**. After a strong reaction when the pandemic broke out, market conditions stabilized, and by end-2020, most indicators had returned to close to their levels at the beginning of 2020. Since the beginning of 2021, the Colombian peso has been on a depreciating trend, apparently disengaging from oil price developments. The four percent depreciation soon after protests began in late April was only temporary, but the decline in oil prices and higher risk aversion in international financial markets as a new variant of Sars-Cov-2 emerged at end-November accelerated the depreciation in November. In 2021, the Colombian peso depreciated 20 percent vis-à-vis the U.S. dollar. On the Global Emerging Markets Bond Index (EMBIG), Colombia's spreads, stable during January–March 2021 around 230 basis points, have been increasing since mid-March, possibly in anticipation of difficulties in passing a reform package, and in the last week of January 2022 reached around 373 basis points, one of the largest increases among Latin American and Caribbean countries over this nine-month period (see Figure 2). S&P and Fitch downgraded Colombia to below investment grade (in May and July, respectively) owing to the deterioration in public finances, as well as reduced confidence in the Government's capacity to reduce the debt trajectory. Nonetheless, net foreign purchases of Government bonds reached historic highs in May and August 2021, which led to accumulating net purchases during the year, despite the net outflows recorded in the last quarter. In October, Moody's did not change its credit ratings, as it assessed that the fiscal reform approved in September and the strong economic rebound will help reduce the debt-to-GDP ratio.

18. **The financial sector remains resilient to the deterioration in lending portfolio quality.** With the expiration of borrower relief measures in January 2021, the non-performing loans (NPL) ratio, including write-offs, reached the highest value in the indicator's history in May (11.1 percent). However, the NPL ratio, including write-offs, declined slightly to 10.3 percent in November (latest available data), and banks remained well capitalized in 2021. The capital adequacy ratio (CAR) of banks reached 21.7 percent in November 2021 after dropping to 13.7 percent in April 2020 (the lowest since 2008), with no individual institution in single digits. Immediate financial stability risks are mitigated by the significant build-up of additional provisions, which reached 158 percent of NPLs (excluding write-offs) in November 2021, and by the implementation of additional capital buffers following Basel III standards (to be gradually introduced over a four-year period starting in January 2021). Although corporates' financial conditions have improved

[14] The consolidated debt of the general government was 57.8 percent of GDP.

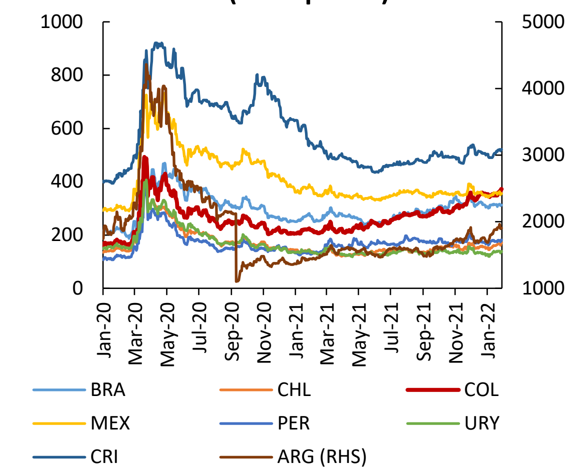
since the beginning of the pandemic, 14 percent of firms were experiencing difficulties servicing their debt on time as of December 2021.

Figure 1. Exchange Rates (Index 1/1/2020=100)



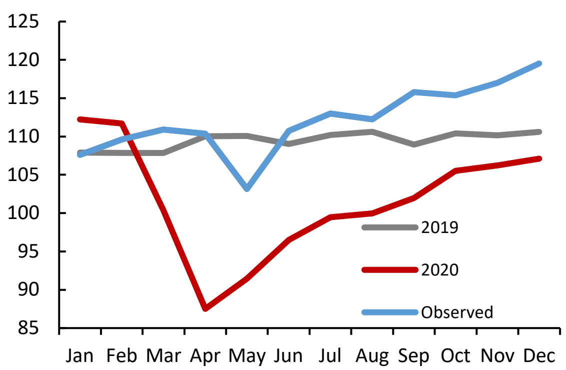
Source: Bloomberg

Figure 2. EMBI Sovereign Spread (basis points)



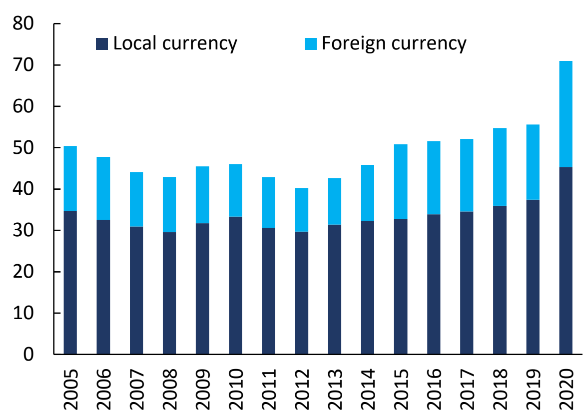
Source: Bloomberg

Figure 3. Monthly economic activity index (2015 = 100), 2019–2021



Source: DANE and World Bank staff calculations.

Figure 4. Gross Non-Financial Public Sector Debt (percent of GDP)



Source: Ministry of Finance and World Bank staff calculations.

Table 1. Colombia: Key Macroeconomic Indicators, 2016–2024

					Proj.	Proj.	Proj.	Proj.
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Real sector	Annual percentage change, unless otherwise indicated							
Real GDP	1.4	2.6	3.2	-7.0	10.6	4.5	3.5	3.3
Contributions:								
Private Consumption	1.4	2.2	2.8	-3.5	10.4	3.2	2.4	2.3
Government Consumption	0.5	1.1	0.8	-0.1	2.1	0.3	0.1	0.1
Investment	0.4	0.2	0.5	-5.1	2.0	0.9	0.7	0.7
Exports	0.4	0.1	0.5	-3.4	1.8	1.4	1.6	1.0
Imports	-0.2	-1.2	-1.6	4.7	-5.4	-1.2	-1.2	-0.8
Exports	1.0	5.8	7.3	-20.5	27.5	5.4	5.3	3.6
Imports	2.6	0.6	3.1	-22.7	14.2	11.0	11.5	6.7
Unemployment rate (nat. def.)	8.6	9.7	9.5	13.4	11.0	…	…	…
GDP deflator	5.1	4.6	4.0	1.4	6.6	5.9	3.6	3.2
CPI (average)	4.3	3.2	3.5	2.5	3.5	6.2	4.0	3.1
Fiscal accounts (Central Government)	Percent of GDP, unless otherwise indicated							
Revenues*	15.7	15.1	16.2	15.2	16.3	16.0	16.1	16.4
Expenditures	19.3	18.3	18.7	23.0	23.4	22.1	20.3	19.8
Fiscal balance (CG)	-3.6	-3.1	-2.5	-7.8	-7.1	-6.1	-4.2	-3.4
Fiscal accounts (General Government)	Percent of GDP, unless otherwise indicated							
Revenues	24.8	26.5	27.5	25.9	27.1	28.4	28.1	28.2
Expenditures	27.3	29.1	30.1	33.1	34.4	35.3	32.5	31.5
Fiscal balance	-2.5	-2.6	-2.6	-7.2	-7.3	-6.9	-4.4	-3.3
Gross public debt**	48.5	51.3	52.2	66.9	66.3	65.5	65.2	64.0
Selected monetary accounts	Annual percentage change, unless otherwise indicated							
Base money	5.0	10.4	12.3	17.9	…	…	…	…
Credit to private sector	12.1	4.4	7.8	7.6	…	…	…	…
Policy interest rate (end-of-period)	4.8	4.25	4.25	1.75	…	…	…	…
External sector	Percent of GDP, unless otherwise indicated							
Current account balance	-3.2	-4.2	-4.6	-3.5	-5.8	-5.0	-4.9	-4.6
Exports GNFS	15.8	16.1	15.9	14.1	16.2	17.2	16.4	16.2
Imports GNFS	18.6	19.3	20.3	19.0	23.1	22.6	21.7	20.9
Foreign direct investment (net)	-3.2	-1.8	-3.4	-2.1	-2.3	-2.6	-3.0	-3.2
Gross reserves (US$ billion, eop)	47.6	48.4	53.2	59.0	58.6	59.9	61.2	62.6
In months of next year's imports	9.1	9.0	12.4	12.3	9.1	9.0	9.0	10.3
As % of short-term external debt	290	239	237	265	…	…	…	…
External debt	40.0	39.7	42.9	55.4	55.3	55.2	55.2	55.1
Terms of trade (% change)	9.3	5.8	0.1	…	…	…	…	…
Exchange rate (COP/US$, average)	2,951	2,956	3,281	3,693	3,746	3,784	3,787	3,791
Memo items								
Nominal GDP (US$ million, current)	311,890	334,124	323,055	270,415	314,112	344,119	368,667	392,546
Nominal GDP (COP billion, current)	920,471	987,791	1,060,068	998,719	1,176,694	1,301,995	1,396,268	1,488,195
Oil production (hundred thousand barrels/day)	854	865	886	781	735	772	813	847
Oil price (crude oil average, US$/barrel)	53	68	61	41	70	76	65	65

* In 2019 includes extraordinary Ecopetrol dividend. Since 2019 includes profits of Banco de la Republica.
**Gross pulic debt is unconsolidated debt and it includes Ecopetrol.
Source: Colombian autorities and WB staff estimates and projections.

Table 2. Balance of Payments, 2017-2024

	2017	2018	2019	2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024
				U.S. dollars millions				
Current account balance	**-9,924**	**-14,041**	**-14,801**	**-9,568**	**-18,255**	**-16,998**	**-17,935**	**-17,882**
Trade balance	-8,762	-10,556	-14,146	-13,157	-21,412	-18,518	-19,163	-18,229
Exports of goods and services	49,322	53,724	51,324	38,146	50,727	58,930	60,376	63,357
of which, oil	13,308	16,843	15,962	8,755	13,348	16,164	15,816	16,290
of which, tourism	4,921	5,621	5,682	1,581	2,856	4,586	5,818	6,387
Imports of goods and services	58,083	64,280	65,470	51,304	72,139	77,448	79,539	81,587
Primary income balance	-8,046	-11,442	-9,710	-5,198	-8,319	-9,130	-9,383	-10,697
of which: distribution of dividends to foreign direct	6,929	10,163	8,917	2,802	6,954	7,963	8,703	9,589
of which: external interest payments	9,211	11,709	11,573	7,968	9,898	10,707	11,303	12,669
Secondary income balance	6,883	7,957	9,055	8,788	11,477	10,651	10,612	11,045
of which: workers' remittances	5,784	6,636	7,087	6,909	8,597	7,912	8,340	8,613
Financial account (net lending/borrowing)	**-9,625**	**-12,954**	**-13,298**	**-8,191**	**-17,508**	**-16,816**	**-17,934**	**-17,882**
Direct investment, net	-10,011	-6,172	-10,836	-5,802	-7,304	-8,748	-11,069	-12,358
of which: foreign direct investment	13,701	11,299	13,989	7,459	10,183	12,501	15,001	16,735
Portfolio investment, net	-1,800	862	24	-1,792	-6,172	-4,953	-3,921	-2,756
Financial derivatives and employees stock options	365	21	84	-513	-84	-38	-110	-130
Other investment	1,276	-8,852	-5,904	-4,411	-4,593	-4,393	-4,165	-4,032
Reserve assets	545	1,187	3,333	4,328	645	1,316	1,331	1,394
Net errors and omissions	299	1,087	1,503	1,377	747	182	0	0
				Percent of GDP				
Current account balance	**-3.2**	**-4.2**	**-4.6**	**-3.5**	**-5.8**	**-5.0**	**-4.9**	**-4.6**
Trade balance	-2.8	-3.2	-4.4	-4.9	-6.9	-5.4	-5.2	-4.7
Exports of goods and services	15.8	16.1	15.9	14.1	16.2	17.2	16.4	16.2
of which, oil	4.3	5.0	4.9	3.2	4.3	4.7	4.3	4.2
of which, tourism	1.6	1.7	1.8	0.6	0.9	1.3	1.6	1.6
Imports of goods and services	18.6	19.3	20.3	19.0	23.1	22.6	21.7	20.9
Primary income balance	-2.6	-3.4	-3.0	-1.9	-2.7	-2.7	-2.6	-2.7
of which: distribution of dividends to foreign direct	2.2	3.0	2.8	1.0	2.2	2.3	2.4	2.5
of which: external interest payments	3.0	3.5	3.6	2.9	3.2	3.1	3.1	3.2
Secondary income balance	2.2	2.4	2.8	3.2	3.7	3.1	2.9	2.8
of which: workers' remittances	1.9	2.0	2.2	2.6	2.8	2.3	2.3	2.2
Financial account (net lending/borrowing)	**-3.1**	**-3.9**	**-4.1**	**-3.0**	**-5.6**	**-4.9**	**-4.9**	**-4.6**
Direct investment, net	-3.2	-1.8	-3.4	-2.1	-2.3	-2.6	-3.0	-3.2
of which: foreign direct investment	4.4	3.4	4.3	2.8	3.3	3.6	4.1	4.3
Portfolio investment, net	-0.6	0.3	0.0	-0.7	-2.0	-1.4	-1.1	-0.7
Financial derivatives and employees stock options	0.1	0.0	0.0	-0.2	0.0	0.0	0.0	0.0
Other investment	0.4	-2.7	-1.8	-1.6	-1.5	-1.3	-1.1	-1.0
Reserve assets	0.2	0.4	1.0	1.6	0.2	0.4	0.4	0.4
Net errors and omissions	0.1	0.3	0.5	0.5	0.2	0.1	0.0	0.0

Source: Central Bank of Colombia and WB staff estimates and projections.

Table 3. Balance of Payments financing requirements and sources, 2017-2024 (USD million)

					Proj.	Proj.	Proj.	Proj.
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Financing requirements	**41,536**	**47,529**	**51,823**	**49,517**	**54,663**	**49,736**	**53,144**	**54,895**
Current account deficit	9,924	14,041	14,801	9,568	18,255	16,998	17,935	17,882
External debt amortization	31,067	32,301	33,689	35,621	35,763	31,422	33,878	35,619
Medium and long term	16,215	15,711	13,230	14,400	13,710	11,133	12,575	13,250
o/w Multilateral and Bilateral institutions				825	974	966	966	966
Short term	14,852	16,590	20,458	22,932	22,054	20,289	21,303	22,369
Gross reserve accumulation	545	1,187	3,333	4,328	645	1,316	1,331	1,394
Financing sources	**41,536**	**47,529**	**51,823**	**49,517**	**54,663**	**49,736**	**53,144**	**54,895**
FDI (net)	10,011	6,172	10,836	5,802	7,304	8,748	11,069	12,358
o/w inward (net)	13,701	11,299	13,989	7,459	10,183	12,501	15,001	16,735
External debt disbursements	33,638	40,551	39,714	51,055	39,131	33,550	36,201	38,062
Medium and long term	17,047	20,093	16,782	29,001	18,842	12,247	13,833	14,575
o/w Multilateral and Bilateral institutions	1,228	3,145	1,781	10,300	4,942	4,522	4,522	4,522
Short term	16,590	20,458	22,932	22,054	20,289	21,303	22,369	23,487
Other capital flows (net)	-2,113	805	1,273	-7,340	8,228	7,438	5,873	4,475
Memo items								
Remittances (net)	5,515	6,345	6,761	6,660	7,084	7,487	7,656	7,821

Source: Central Bank of Colombia and WB staff estimates and projections.

Table 4. Colombia: Key Fiscal Indicators for the Central Government, 2017-2024 (percent of GDP)

					Proj.	Proj.	Proj.	Proj.
	2017	2018	2019	2020	2021	2022	2023	2024
Total revenues *	**15.7**	**15.1**	**16.2**	**15.2**	**16.3**	**16.0**	**16.1**	**16.4**
Tax revenues	13.8	13.7	14.0	13.0	13.8	14.4	14.9	15.3
Net income tax and profits	5.7	6.5	6.4	6.1	5.9	6.3	6.9	7.3
Value-added tax	5.5	5.7	5.8	5.4	5.9	6.1	5.9	5.9
International trade	0.4	0.4	0.4	0.3	0.4	0.4	0.5	0.5
Financial transactions tax	0.7	0.7	0.8	0.7	0.8	0.9	0.9	0.9
Stamp and other taxes	1.4	0.5	0.7	0.5	0.7	0.7	0.8	0.8
Non-tax revenues	0.6	0.1	0.1	0.2	0.1	0.2	0.2	0.2
Capital revenues *	1.1	1.2	1.9	1.9	2.2	1.3	0.9	0.8
o/w Ecopetrol dividends	0.1	0.3	1.1	0.7	0.1	0.4	0.5	0.5
Other	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1
Total expenditures	**19.3**	**18.2**	**18.7**	**23.0**	**23.4**	**22.1**	**20.3**	**19.8**
Current expenditures	16.0	15.6	15.6	19.4	20.0	18.6	17.4	17.0
Wages and salaries	2.2	2.3	2.1	2.4	2.2	2.0	2.0	2.0
Goods and services	0.6	0.7	0.7	1.2	1.4	0.9	0.8	0.7
Interest	2.9	2.8	2.9	2.8	3.4	3.6	3.3	3.3
Current transfers	10.2	10.2	10.1	13.6	13.0	12.1	11.2	11.0
Other	0.1	-0.3	-0.1	-0.5	0.0	0.0	0.0	0.0
Capital expenditures	3.3	2.6	3.0	3.5	3.4	3.6	3.0	2.8
Fixed capital formation	2.1	1.5	1.8	2.2	2.0	2.4	2.1	1.9
Capital transfers	1.2	1.1	1.2	1.3	1.4	1.2	0.9	0.9
Primary balance	-1.1	-0.3	0.4	-4.9	-3.7	-2.5	-0.9	-0.1
Overall fiscal balance *	**-3.7**	**-3.1**	**-2.5**	**-7.8**	**-7.1**	**-6.1**	**-4.2**	**-3.4**
Financing needs and end-year deposits	**8.3**	**8.0**	**8.4**	**13.7**	**11.3**	**-7.2**	**7.2**	**6.7**
Overall fiscal balance	3.7	3.1	2.5	7.8	7.1	6.1	4.2	3.4
Amortizations	2.5	1.0	2.8	1.1	2.0	1.1	2.2	2.3
Arrears, judicial claims and other	0.2	0.6	1.2	1.5	0.3	0.4	0.0	0.0
Stock of deposits at the end of the year	2.0	3.4	1.9	3.3	1.9	0.9	0.8	1.0
Financing sources and previous year deposits	**8.3**	**8.0**	**8.4**	**13.7**	**10.2**	**8.5**	**7.2**	**6.7**
Domestic	5.1	5.0	4.1	3.4	4.2	5.0	4.6	4.1
Use of saving to capitalize FOME	…	…	…	1.3	1.1	…	…	…
"Titulos de Solidaridad"	…	…	…	1.0	…	…	…	…
External	1.7	1.2	1.2	5.9	3.2	1.8	1.8	1.8
Stock of deposits at the end of the previous year	1.6	1.8	3.2	2.1	2.8	1.7	0.8	0.8
Memo items								
Nominal GDP (COP billion, current)	920,471	985,931	1,061,730	998,719	1,176,694	1,296,859	1,390,713	1,482,260

*In 2021, this includes privatization receipts from the sale of participation in ISA.
Source: Ministry of Finance and WB staff estimates and projections.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY[15]

19. **Real GDP is projected to grow 4.5 percent in 2022, supported by consumption on the demand side and commerce and manufacturing on the supply side.** Consumption growth is projected to decelerate in mid-2022 and reach 3.8 percent for the year, as the bout from repressed private consumption ends and public consumption growth slows down (Table 1). As firms slowly heal the losses suffered in 2020 and monetary policy keep tightening, gross fixed capital formation is projected to grow 5.0 percent, entirely supported by private investment. The resumption of external demand is projected to push exports of goods and services up 11 percent.

20. **Over the medium term, growth is projected to slow gradually to 3.3 percent in 2024**. A recovery of external demand, private consumption growth, the 4G road infrastructure projects,[16] and the Bogota Metro project[17] are all expected to support economic recovery over the medium term. However, our baseline projection assumes that COVID-19 has a long-lasting effect on the *level* of potential GDP and a mild effect

[15] Projections as of February 22, 2022, and subject to change for the upcoming April 2022 Macro Poverty Outlook.
[16] Supported by the World Bank Capital Markets Strengthening Facility – ASA (P167816).
[17] World Bank Project P165300.

on *long-run growth* (3.3 percent instead of 3.5 pre-pandemic), as the losses in educational achievements suffered in 2020 and 2021 (especially in tertiary education) will dent human capital, and gross fixed capital formation returns to pre-COVID levels only in 2025. Under this optic, higher than potential growth in 2021 and 2022 imply that the output gap will likely close in 2023. Hence, GDP is projected to grow at a moderate 3.5 percent in 2023, and at the potential growth rate of 3.3 percent starting in 2024.

21. **The current account deficit is projected to decline to 5.0 percent of GDP in 2022 and then stabilize at 4.6 percent of GDP by 2024**. The trade deficit is projected to decline to 5.4 percent of GDP in 2022. Imports of goods and services are projected to decline slightly in percent of GDP (following the moderation of domestic consumption growth), while exports of goods and services are projected to remain at 2021 levels supported by the slow recovery of tourism. Redistribution of dividends to foreign direct investors is projected to continue growing, reflecting the recovery of firms' profitability, while remittances are expected to decline gradually and revert to pre-pandemic levels. As these trends are expected to continue in 2023 and 2024, the current account deficit is projected to stabilize at 4.6 percent of GDP by 2024. Net Foreign Direct Investment (DFI) inflows are projected to finance most of the current account deficit over the medium term. With rollover rates slightly above 100 percent, external borrowing is projected to provide the bulk of external financing (Table 2 and 3).

22. **While the output gap narrows and consumption remains strong, inflation is projected to remain above the center of the inflation targeting band (3 percent) for most of 2022 and will decline to 3 percent in 2024.** Assuming that the exchange rate stabilizes, that international transport costs and bottlenecks decline, and that consumption moderates, inflation is projected to reach 5.0 percent, y/y, by end-2022, leaving annual average inflation at 6.2 percent for the year. Interest rates are projected to keep increasing in 2022, with the amount and timing depending on the persistency of inflation and the speed at which world's major central banks normalize their rates.

23. **The central government deficit is projected to decline to 6.1 percent of GDP in 2022 and reach 3.4 percent of GDP in 2024.** Medium-term growth is projected to ignite a mild cyclical pickup of revenues (in percent of GDP), which (because corporate and personal income taxes are based on the previous year's income) would strengthen in 2022 (Table 4). Revenues are also projected to increase as the effects of the tax increases in the Social Investment Law will kick in already in 2022. Spending on goods and services is projected to start declining in 2022, assuming zero growth in real terms in compliance with the requirements of the Social Investment law. Similarly, the extension of the transfer program *Ingreso Solidario* to 2022 is projected to slow the decline in the transfers-to-GDP ratio (the nominal increase in GDP would cause a decline of 1.3 percentage points, relative to 2020) but this decline will resume in 2023 as *Ingreso Solidario* expires. Investment spending (primarily on infrastructure) is expected to increase by about 0.4 percent of GDP as part of the reactivation plan. Over the medium term, deficit reduction is expected to be driven by strengthening tax collection and tight control of spending, which are required to comply with the deficit limits set by the renewed fiscal rule.

24. **Government financing needs are projected to amount to 8.5 percent of GDP in 2022 and are fully covered.** The decline in the deficit, amortization (debt operations conducted in 2021 allowed to extend the maturiryt of debt), and payment for judicial rulings are expected to reduced financing needs relative to 2021. Sources of financing include domestic private sector borrowing (5.0 percent of GDP), private sector external borrowing for 0.8 percent of GDP, borrowing from multilateral organizations (1 percent of GDP—US$3.2 billion, of which the World Bank is expected to provide US$1.5 billion, the Inter American

Development Bank (IADB) US$1 billion, the Development Bank of Latin America (CAF) US$500 million, and others US$150 million), and drawdown of deposits (0.8 percent of GDP).

25. **Debt sustainability analysis indicates that, in the baseline scenario, general government debt remains high but sustainable**. In the baseline scenario, the general government's debt to GDP ratio is projected to keep declining and fall to 61.1 percent of GDP by 2026 on the back of a favorable growth-interest rate differential (Figure 5) as the primary balance is projected to remain in deficit over the medium term. Standard sensitivity analyses on the baseline scenario show that slower than expected economic growth by one standard deviation in the short run, or a one standard deviation shock to the exchange or the interest rate would increase public debt levels to a peak of 74.0 percent of GDP in 2024. A combined macro-financial shock would cause public debt to peak at 83.1 percent of GDP in 2024 and decline from 2025 onwards.[18]

26. **External debt sustainability analysis suggests that Colombia's external debt is projected to fall gradually in the medium term**. Colombia's external debt rose to 56.9 percent of GDP in 2020 due to adverse exchange rate effects and fiscal pressures. As these shocks fade, external debt is projected to be 55 percent of GDP in 2021 and to start declining in 2022, reaching 52 percent of GDP by 2025 (Figure 6). Debt service is projected to increase in the medium term but remains manageable. Colombia has an excellent track record of meeting its financial obligations, and its refinancing risks are mitigated by a diversified foreign investor base. Stress tests indicate that under an exchange rate shock[19] or a combined macro-financial shock,[20] the trajectory of external debt would shift upward but still decline after reaching its peak in 2022.

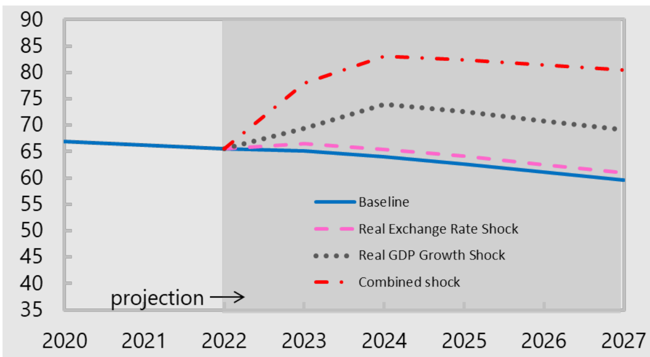
27. **The risk profile is tilted to the downside over the medium term.** There are risks that new Sars-Cov-19 variants emerge, prolonging health alerts, that it takes longer for labor market and households to recover the losses from the pandemic (including in human capital), that the yield from the Social Investment Law (in particular, from measures to strengthen tax collection) is less than expected, that spending pressures materialize, or that the cyclical recovery of tax revenue is not as strong as expected. If any of these risks materialize, or if financing conditions tighten abroad (including due to renewed geopolitical tensions), or if the government is not able to reduce the deficit and debt, confidence could weaken, credit rating agencies could further downgrade Colombia's rating, and the government could be forced either into an aggressive contraction of spending (especially, on investment) to comply with the fiscal rule and safeguard fiscal sustainability, or into formulating a new tax package. Either way, this could reduce growth. Finally, if export receipts, especially from tourism, do not pick as projected, a correction of the current account deficit might happen through a depreciation of the peso, which would increase the burden of external public sector debt and require a further fiscal tightening. The strengthening of the fiscal rule and the institution of a fiscal council provide a solid anchor for fiscal policy, impart predictability and continuity to fiscal policy after the presidential election and over the medium-term, and therefore constitute a mitigating factor to this risk.

28. **The macroeconomic policy framework is adequate for the purpose of the operation.** Colombia has solid fundamentals and macroeconomic policy institutions founded on a fully-fledged inflation targeting regime, a flexible exchange rate, and a rule-based fiscal policy. Also, Colombia has ample reserves, and the precautionary credit line provided by the IMF, as well as the recent increase of SDR holdings, provide ample

[18] Standard shocks applied to interest rate, exchange rate and GDP growth rate simultaneously.
[19] One-time real depreciation of 30 percent occurs in 2022.
[20] Permanent 1/4 standard deviation applied to real interest rate, growth rate, and current account balance.

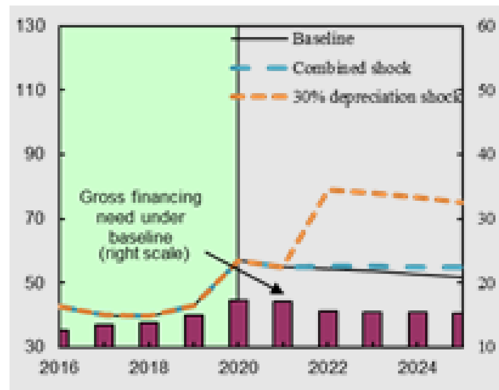
liquidity buffers to respond to external shocks. Finally, institutions and commitment to prudence remain strong. The changes to the fiscal rule and the institution of a fiscal council approved in September 2021 greatly strengthen the fiscal framework and institutions.

Figure 5. Debt Sustainability Analysis (General Government debt, percent of GDP)



Source: WB Staff projections.

Figure 6. External Debt Sustainability Analysis (External debt, percent of GDP)



Source: WB Staff projections.

2.3. IMF RELATIONS

29. **The IMF Board approved a US$17.2 billion Flexible Credit Line (FCL) for Colombia, concluded the 2021 Article IV consultation with Colombia on March 19, 2021, and the review of Colombia's performance under the FCL on April 28, 2021**. Colombia has had access to FCL arrangements since 2009, and it last renewed its FCL on May 1, 2020, for about US$10.8 billion, which were augmented to US$17.2 billion in September 2020. The authorities made a drawing of US$5.1 billion in December but intend to treat the rest of the credit line as a precautionary. In their October 2021 World Economic Outlook, IMF staff project that GDP will grow 7.6 percent in 2021, and another 3.8 percent in 2022, reaching pre-pandemic levels at end-2021. They also project that the current account deficit will increase to 4.4 percent of GDP in 2021 and stabilize at 3.9 percent of GDP thereafter. Finally, they project that the general government's fiscal net borrowing will reach 8.4 percent of GDP in 2021 and decline to 6.4 in 2022, on the back of strong revenues (29 percent of GDP). At the conclusion of the Review under the FCL, the IMF Board recognized that Colombia's very strong policy frameworks, anchored by a flexible exchange rate, credible inflation targeting-regime, effective financial sector supervision and regulation, and medium-term fiscal framework, continue to serve the country well and have allowed the authorities to deliver a coordinated and timely response to the COVID-19 pandemic. They also recognized that Colombia remains exposed to elevated external risks given the uncertainty about the path of the pandemic and that the authorities continue to show their firm commitment to maintaining sound and prudent policies going forward. At the conclusion of Article IV consultation, the IMF Board emphasized the need to sustain policy support in the near term both to protect the most vulnerable segments of the population, and to support economic activity, while safeguarding financial stability and fiscal sustainability. It stressed that, as the pandemic subsides,

emergency measures should be gradually phased off. Finally, it agreed that return to the fiscal rule would help anchor the fiscal framework and provide confidence over the medium term. In this respect, it indicated that striking the right balance between flexibility and credibility will be important, and it encouraged considering measures to strengthen the fiscal framework and the fiscal rule. Finally, the IMF Board encouraged efforts to support employment, reduce informality, and raise productivity and welcomed recent measures to formalize Venezuelan migrants. The IMF and World Bank maintain close collaboration.

GOVERNMENT PROGRAM

28. **Boosting equity was at the center of the policy agenda already before the COVID-19 crisis and is one of the three main objectives presented in Colombia's PND 2018-2022 - the Pact for Colombia- Pact for Equity**. The PND explicitly refers to the goal of reducing inequality in outcomes and promoting equality of opportunity by "removing the barriers in access to education, health, basic services and productive activity regardless of their circumstances at birth, geographic location, ethnic origin, gender and age, among other characteristics". The PND's Equity Pillar lays out policy lines directly related to the program supported by this DPF, including the development of effective and modern social policy tools to enhance the coordination, targeting and effectiveness of social policies, as well as the efficiency of social expenditure, including by strengthening the social protection response to natural disasters and climate change effects. Similarly, women's economic, political and social empowerment and the elimination of violence against women are cross-cutting areas of the PND.

29. **Colombia has also shown a strong commitment to addressing the challenges posed by climate change**. Through its updated NDC, submitted in December 2020 to the United Nations Framework Convention on Climate Change, the government has built on previous efforts to deepen and accelerate actions for climate mitigation and adaptation. These include a 51 percent reduction by 2030 of greenhouse gas emissions compared to a business-as-usual emissions scenario (with emissions peaking before 2030), a carbon neutrality goal for 2050, and a portfolio of 30 adaptation actions. The government is now in the process of formalizing this commitment and preparing its implementation through cross-sectoral and sectoral policy actions, including a law to enshrine the NDC's targets. With energy playing an important role in emission reductions efforts, the government has issued a short and medium-term roadmap, "*Misión de Transformación Energética*", which includes policy, regulatory, and institutional reforms to enable the development of new low-carbon technologies and increased competition for the allocation of Non-Conventional Renewable Energy (NCRE) capacity. Finally, the government also integrates biodiversity conservation in its climate agenda, given the importance of land use change in Colombia's greenhouse gas emissions profile. Land use change and climate change have been recognized as the main threats to biodiversity since the formulation of the 2012 National Policy for the Integrated Management of Biodiversity and its Ecosystem Services, and the Government's approach to climate regulation and biodiversity conservation is closely intertwined. The Government has continually expanded the country's protected areas and signed on to the 30x30 Initiative to place at least 30 percent of the earth's surface under protection by 2030 under the United Nations Convention on Biological Diversity framework.

30. **In light of the COVID-19 shock, the GoC has taken multi-pronged actions to foster inclusive and green economic growth**. In February 2021, it approved the CONPES 4023, "Policy for Economic Reactivation and Sustainable and Inclusive Growth", to support economic reactivation. The document presents a

comprehensive plan to bring the economy back to its pre-COVID-19 growth path in the short term while transitioning into more sustainable growth in the long term. The plan is structured around five areas or "*Compromisos*", including job creation, clean and sustainable growth by efficiently utilizing the country's natural capital, and support to the poor and vulnerable, including through better targeting and implementation of social programs.[21] The policy was prepared under the principles of sustainability (promoting short- and long-term growth that is socially inclusive and environmentally responsible), intersectoriality (recognizing the interconnectedness of challenges faced by different actors involved) and resilience (to secure a strengthened system to respond to, adapt and recover from shocks). As such, promoting a socially inclusive society continues to be a key principle in the Government's policy agenda.

PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

31. **The development objective of the proposed operation is to support measures that: (i) reduce income inequalities (including gender-related) and build resilience; (ii) promote economy-wide decarbonization and climate adaptation; and (iii) mitigate climate change by protecting biodiversity and reducing deforestation.**

32. **The proposed operation supports actions along three pillars:**

- **Pillar I - Reducing Income Inequalities (including gender-related) and Building Resilience**. This Pillar aims to promote equity by tackling inequalities and building households' resilience. It supports measures that improve the coverage and targeting of social transfers. It also supports reforms to parental leave, which will reduce the barriers to economic opportunities faced by women.
- **Pillar II - Promoting Economy-Wide Decarbonization and Climate Adaptation**. This Pillar advances and upgrades longstanding, cross-government climate mitigation and adaptation efforts to reduce Colombia's greenhouse gas emissions and adapt to climate change, including reducing the unequal distributional effects of climate change. It will do this by: (i) codifying in law Colombia's National Determined Contribution (NDC) commitments, including setting minimum emission reductions targets and adaptation actions and expanding carbon pricing; (ii) advancing critical reforms in support of Colombia's "Energy Transition Law", including policy and institutional reforms that consolidate large-scale adoption of NCRE; and (iii) mitigating investment risks through transparent, standardized disclosure of climate risks for investment operations.
- **Pillar III – Mitigating Climate Change By Protecting Biodiversity and Reducing Deforestation**. This Pillar advances Colombia's biodiversity conservation agenda, which is a key building block of the country's climate mitigation and adaptation strategy as expressed in the NDC; the United Nations Framework Convention on Climate Change recognizes the inseparability of biodiversity and carbon sequestration and climate adaptation. It will do so by adopting a long-term policy to strengthen the country's protected areas system as the primary sanctuary of critical ecosystems and increasing the incentives for forest conservation by formalizing the production of non-timber forest products.

[21] The other commitments included are peace and strengthening the health care sector.

33. **The proposed DPF directly supports key components of the Government's strategy**. First, the DPF aims to promote equitable access to assets and economic opportunities through policies focused on the poor and vulnerable by increasing the distributional impact of fiscal policies, particularly social spending, and by narrowing gender gaps. The DPF is aligned with the 2018-22 PND and its equity pillar, which seeks to close horizontal inequalities by providing equal opportunities for all Colombians with a focus on social and productive inclusion, and with the economic reactivation plan (CONPES 4023). The equity pillar of the PND emphasizes access to labor markets, with special attention to the poor and vulnerable population. Second, the DPF directly supports the Government's climate strategy. This strategy is expressed at the highest level through the updated NDC submitted by this administration, which the proposed operation directly supports. The operation is also in line with the commitments included in the 2018-22 PND's Sustainability Pact and the economic reactivation plan. As a building block of the climate strategy, the DPF also supports the Government's Energy Transition strategy described in the strategy document "Mission for the Energy Matrix Transition and Modernization of the Power Sector in Colombia". The strategy promotes a shift towards low-carbon energy through increased participation in the electricity market of NCRE, digitalizing the energy sector, incentivizing demand-side management, closing the electricity access gap, and modernizing the institutional and regulatory framework.

34. **Several measures supported by this operation contribute to structural reforms in areas where the World Bank has been actively engaged with the GoC**. Actions in Pillar I are aligned with policy options in the World Bank Equity Flagship for Colombia (World Bank 2021), the Public Finance Review (World Bank, 2022), and technical assistance for social protection. Actions in Pillar II build on longstanding dialogue on the NDC through the NDC Deep Dive (ASA P173651), which conducted mitigation options modeling, provided technical assistance on improving electricity market design, energy efficiency as energy access using renewable energy, and informed NDC design, and on carbon markets through the Partnership for Market Readiness (ASA P170038), which provided options for emission trading system design. The energy transition actions in this Pillar complement policy and institutional reforms supported under the Resilient and Sustainable Infrastructure for Recovery DPF series (DPF P173424 and P175126). Actions in Pillar III have benefited from engagement through the Forest Conservation and Sustainability in the Heart of the Colombian Amazon Projects (IPF P144271/171227) and the Orinoquia Sustainable Landscapes Project (P167830).

35. **Lessons learned in the implementation of previous development policy operations have been reflected in the design of this operation**. The experience of previous DPFs, including the COVID-19 Crisis Response DPF (P174118), the Resilient and Sustainable Infrastructure for Recovery DPF series (P173424 and P175126), the Competitiveness and Recovery DPF (P175801), the Third Disaster Risk Management Development Policy Loan with a Cat DDO (P176650), and the Social and Economic Integration of Migrants DPF (P176505) suggests that: (i) the World Bank's ability to provide cross-sectoral support through a DPF is an effective tool to address the client's cross-cutting challenges; (ii) supporting specific policy actions through DPFs can help broaden the dialogue to related policy areas increasing the effectiveness of World Bank support; and (iii) use of the World Bank's analytical work can further strengthen the content of policy actions and help monitor their impact during implementation. Additionally, past DPF support has emphasized the value of responding quickly to Government needs with flexibility and creativity while focusing on impact in close collaboration with counterparts. These lessons are reflected in the proposed operation, which: (i) supports a crosscutting but interlinked set of reforms

to improve equity and environmental sustainability; (ii) is based on strong policy dialogue and technical assistance; and (iii) is founded on the knowledge generated by the World Bank Group, based on international experience and good policy practices. The proposed operation has been developed in close collaboration with the Colombian Government, reflecting a key lesson from other DPFs on the importance of country ownership and commitment to achieve the program's objectives.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar I: Reducing Income Inequalities (including gender-related) and Building Resilience

36. **Pillar I aims to promote equity by tackling income and gender inequalities and building households' resilience**. It supports measures that improve the coverage and targeting of social transfers and the assessment of household exposure to shocks. It also supports paternity and parental leave reforms and reduces gaps and access barriers women face regarding economic opportunities.

Prior Action #1. *The Republic of Colombia, through the Administrative Department for Social Prosperity (DPS) has: (a) extended the duration of Ingreso Solidario; (b) expanded the coverage of Ingreso Solidario and Compensación de IVA programs; and (c) mandated the use of a modernized targeting methodology through the Social Registry to improve the targeting of the flagship cash transfer program Familias en Acción, to provide support to low income and vulnerable households, as evidenced by the Social Investment Law No. 2155 of 2021, published in the Official Gazette on September 14, 2021, DPS Resolutions Nos. 00740 (dated April 21, 2021), 01043 (dated May 21, 2021), and 659 (dated April 13, 2021).*

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37. .[22] Transfers under regular programs are modest relative to household income.[23] Numerous evaluations have shown these programs to have positive economic and social impacts; gaps in coverage have meant that collectively their direct impact on inequality has been limited.[24] The Government introduced two new unconditional cash transfer programs to address these gaps: *Compensación de IVA* in 2019 and *Ingreso Solidario* in 2020. *Compensación de IVA* provides households living in poverty with a cash transfer equivalent to the average VAT paid by poor households.[25] Through the first iteration of the program, the government provided a bimonthly unconditional cash transfer of COP 76,000—equivalent to about US$20—to the poorest one million households of the two flagship cash transfer programs, *Familias en Acción* and *Colombia Mayor*.[26] It did not cover all poor households. Separately, *Ingreso Solidario* was

[22] World Bank, Colombia Public Finance Review (World Bank, 2022).
[23] Compared with the 2019 national extreme poverty line (COP 137,350), the amount of the CT benefits is low. Although the receipt of various programs in the same household may increase the total amount received by a household, the size of the *Familias en Acción* benefit is still relatively low compared to households total estimated income. For beneficiaries of this program in the first and second deciles of the income distribution, transfers represent 19.8 percent and 6.7 percent of their income, respectively. These values drop to 9.5 percent and 3.3 percent in the case of Colombia Mayor. Therefore, these CT programs have a limited contribution to poverty and inequality reduction (World Bank, PFR, 2022)
[24] World Bank, Colombia PFR, 2022.
[25] Unlike VAT refunds, which reimburse the amount households pay in VAT, Colombia's compensation program works as an expansion of cash transfers and income support for the poor.
[26] Originally, the government had planned to pilot *Compensación de IVA* in 2020 using the payment platform already available for *Familias en Acción* and *Colombia Mayor*, and subsequently expanding the program to households not already receiving transfers in 2021 (CONPES 3986, 2020). However, as a result of the COVID-19 pandemic, the government decided to launch the program at scale from the start.

introduced in 2020, initially as a temporary program to provide emergency cash relief during the COVID-19 pandemic. Through this program, the government provides bimonthly transfers of COP 160,000 – equivalent to US$42 – to nearly 3 million poor and vulnerable households who were not receiving regular cash transfers from other programs.[27] Both programs were implemented through a rapid adaptation of existing social protection delivery mechanisms and played a significant role in mitigating the poverty impact of the pandemic. However, despite a decline in COVID-19 infection and mortality rates, the economy and household incomes have not returned to pre-pandemic levels. Ongoing support to mitigate the impact of the crisis on the poorest and most vulnerable is warranted as well as structural measures aimed at improving targeting, increasing coverage and strengthening adaptation mechanisms of the social protection system.

38. Moreover, since 1995, the Identification System of Potential Beneficiaries (Sisbén) has been the main targeting instrument for social programs in Colombia.[28] The Government finalized data collection for Sisbén IV in December 2020. As of November 2021, Sisbén contained validated information for more than 27.7 million people, equivalent to approximately 54.3% of Colombia's population. This latest iteration of Sisbén aims to significantly improve the quality, accuracy and timeliness of Sisbén's information (CONPES 3877/2016).[29] Two important innovations to Sisbén IV are: (i) the inclusion of geo-referenced data on individual households and a module to assess household exposure to shocks; and (ii) its linkage to a new integrated Social Registry that encompasses other government databases and registries. The former offers highly relevant information in the presence of covariate shocks, such as natural hazards, and the latter allows for more accurate targeting of social protection programs.

39. The most recent cash transfer initiatives, *Compensación del IVA* and *Ingreso Solidario,* were able to leverage the improved targeting of Sisbén IV. Still, Colombia's core cash transfer programs, such as *Familias en Acción,* have not yet adopted the new methodology. *Familias en Acción*, a conditional cash transfer program, is Colombia's largest social assistance program. It was launched in 2000 to mitigate the impact of the 1999 economic crisis on the poorest families, and since then, it has progressively expanded its coverage, reaching 2.1 million households. The program targeting mechanism is outdated as it relies on Sisbén III, which is based on a 2013 survey. This means that many potentially eligible households, such as

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[27] In order to identify potential beneficiaries of *Ingreso Solidario* the DNP structured a Master Data Base (BMA) that cross-referenced multiple data bases: Sisbén III and IV, administrative registries from various institutions, and beneficiary registries from social protection programs. The aim was identifying those households not covered by cash transfers programs and assess eligibility conditions to access the new Program.

[28] Sisbén is defined by Decree 441 of 2017 as "an instrument of social policy, for targeting social spending, which uses statistical and technical tools that allow the population to be identified and ordered, for the selection and allocation of subsidies and benefits from entities and programs, based on the socio-economic conditions registered therein".

[29] The main features introduced in Sisbén IV are (i) changes on how welfare is calculated to incorporate estimations of both monetary and multidimensional household poverty into the new metric, aligning the instrument with official poverty measures; (ii) changes on how data is collected at the municipal level, moving from periodic census sweeps to on-demand registration only; (iii) implementation of a 'Social Contract' setting clear rules and responsibilities for both programs and potential beneficiaries; for beneficiaries to periodically update information for program eligibility, and for programs to provide more clarity regarding entry and exit criteria and duration of benefits, (iv) implementation of data inter-operability with other administrative databases and with program beneficiary registries to ensure that household information is as up-to-date as possible, ensuring more reliable targeting and further reducing opportunities for fraud and error, (v) integration of demand-side data with supply-side data so that the Government has an integrated picture of the coverage of social programs, at the national, local and household levels, (vi) mechanisms for the inclusion of groups who are partially or completely excluded from Sisbén, particularly the homeless population, and (vii) introduction of georeferenced household data, offering highly relevant information in the presence of covariate shocks, such as natural hazards.

households that did not exist in 2013 or newly poor households, have been excluded. By transitioning from Sisbén III to IV, *Familias en Acción* will reduce inclusion errors by 9 pp and exclusion errors by 8.7 pp.[30] Improving the targeting of existing cash transfer programs, which will entail a wholesale reassessment of eligibility of beneficiaries, is critical for improving the system's equity and ability to help poor households mitigate the impact of climate shocks.

40. **Substance of the prior action**. The Government has amended the targeting of *Compensación de IVA* to widen eligibility beyond the beneficiaries of *Familias en Acción* and *Colombia Mayor* to additional poor households.[31] The Government has also extended the *Ingreso Solidario* program until December 2022 and expanded the coverage to 1.1 million new households. Follow-up actions could include making *Ingreso Solidario* a permanent program or redesigning existing programs to ensure that the poor and vulnerable population covered by this program continues to be supported. Moreover, Resolution 659 regulates *Familias en Acción*'s transition from phase III to IV, establishing Sisbén IV as its main targeting instrument, and thus, modernizing the program targeting, reducing inclusion and exclusion errors, and making the program more dynamic. This is the first major step in adopting Sisbén IV for targeting many government programs, replacing both the earlier iteration of Sisbén III and parallel targeting systems.[32]

41. The Government will undertake multiple follow-up measures that will complement these reforms. Through a phasing approach, other cash transfer programs (such as *Jóvenes en Acción, Colombia Mayor*) are also expected to fully transition to Sisbén IV in 2022. The new programs, *Ingreso Solidario* and *Compensación de IVA*, already used the last iteration of Sisbén. As additional follow-up measures, the Government will approve the Sectoral Climate Change Management Plan (*Plan Integral de Gestion del Cambio Climatico*) for the social inclusion sector. This plan allows having an integrated social assistance response for management, adaptation, and mitigation of disasters or environmental, social or economic shocks. Also, to create an adaptive social protection system, the Government is working on integrating the Social Registry with the disaster prevention and response agency systems (Unidad Nacional de Gestion de Riesgos y Desastres) for effective and efficient deployment of social protection programs when climate shocks occur.

42. **Expected results.** The beneficiaries of *Compensación de IVA* will double to two million households in 2022. As a result, the number of households covered by at least one cash transfer program will increase by over one million. The extension of *Ingreso Solidario* will provide continued income support to 4.1 million households.[33] These changes in coverage will increase the percentage of poor households (as defined in the Sisbén IV) covered by both programs, including poor households without children, vulnerable households composed of middle-aged members, and migrants. By expanding the coverage and duration of

[30] Estimated inclusion errors were reduced from 22.3% to 13.3% and exclusion errors were reduced from 36.1 to 27.4%.

[31] New beneficiaries include: (a) households that according to Sisbén IV are classified in group A, are extreme poor and at least one of their members belong to *Familias en Acción* or *Colombia Mayor* who were not included in the first cohort of the program (in 2020); (b) extremely poor households according to Sisbén IV classified in group A or Sisbén III with maximum score of 10 points, who do not receive any aid or monetary transfer from other social assistance programs; (c) households that according to the information in Sisbén IV are classified in group B, are moderately poor and at least one of their household members belongs to *Familias en Acción*. It was agreed that beneficiaries of *Ingreso Solidario* are not eligible for the expansion of the *Compensación de IVA* program.

[32] It was estimated that as of 2020, 41% of the beneficiaries of *Familias en Acción* were targeted using Sisbén, while 34% were targeted using the *Registro de Victimas*, 20% the *Ficha Unidos*, and 5% using the Indigenous Census.

[33] Law No. 2155 stipulates that in December 2022 the government will evaluate the program and in light of that evaluation make provisions for continuing and modifying the program.

the programs, the government is expecting to provide needed support in the recovery process and thus contribute to limiting short-term but potentially permanent effects at the household level in terms of erosion of assets. The combined effect of these two programs will be to reduce poverty and income inequality. Transitioning to the updated Sisbén IV metric and its use as the main targeting instrument will contribute to improving the targeting of *Familias en Acción* beneficiaries.[34] It is expected that by the end of 2022, ninety percent of the program's beneficiaries will use Sisbén IV as the main targeting instrument.

Prior Action #2. *The Republic of Colombia has enacted measures that (a) prohibit discrimination against women's access to employment; and (b) increase the length of paternity leave, introduce shared parental leave, and allow parental leave to be taken on a part-time basis, in order to encourage the sharing of responsibilities for unpaid care work and to support women's economic empowerment, as evidenced by Law No. 2114 of 2021, published in the Official Gazette on July 29, 2021.*

43. **Rationale. Gender gaps are observed in labor force participation, employment, and wages**. Colombia still trails some countries of the region in terms of gender gaps in labor force participation (56 percent for women compared to 80 percent for men in 2019). A gender wage gap is also observed despite laws mandating nondiscrimination in the workplace.[35] In 2020, Colombian women also registered the third-highest unemployment rate in the region, at 19 percent, also high when compared to men in Colombia (12 percent).[36] Even though the labor market is showing signs of recovery from the pandemic, gender gaps persist, with an average unemployment rate of 18.1 percent for women and 10.6 percent for men during June-August 2021. A major contributing factor for women's low participation rates and high levels of unemployment is the disproportionate responsibility they have for household tasks and care work, particularly in rural areas. In 2017 over 82 percent of women participated in non-remunerated domestic and care work, compared to only 37 percent of men.[37] On average, women work on these tasks 34.1 hours per week, while the figure for men is 18.4 hours.[38] Across all age groups, women dedicated more hours to care and household tasks than men, on average. The largest gap exists among younger cohorts (18-24 years old), where the difference between men and women amounts to 19.3 hours per week. Furthermore, in 2017, 28.6 percent of women and 1.1 percent of men said that family reasons prevented them from looking for a job. More recently, in June 2021 data collection through World Bank high-frequency phone surveys, 13 percent of women reported experiencing unfair treatment at work due to having children. Finally, access to childcare services in Colombia has improved over time, and it is relatively high for LAC standards; yet it remains far from the levels observed in other OECD countries (World Bank, 2019). It is estimated that the potential economic losses over the long term due to gender gaps in Colombia's labor market amount to 17.6 percent in gross income per capita (Cuberes and Teignier, 2016).

[34] As of 2015 DNP estimated that as many as 65 percent of people including in Sisbén III were mistakenly identified as poor (inclusion errors) and 17 percent were mistakenly excluded (exclusion errors).
[35] Colombia Gender Assessment - World Bank, 2019 and Women, Business and the Law – World Bank, 2021.
[36] World Bank's Gender Data Portal based International Labour Organization (ILO), ILOSTAT database. Figures refer to national estimates using household surveys.
[37] Colombia Gender Assessment - World Bank, 2019
[38] This is higher than the average number of hours per week that women and men spend on unpaid domestic and care work in peer countries such as Brazil (19.5 and 8.6 hours, respectively) and South Korea (24.5 and 6.6 hours, respectively) (World Bank's Gender Data Portal using data from National statistical offices or national database and publications compiled by United Nations Statistics Division).

44. **Substance of the prior action**. The government has adopted legislation to promote female labor force participation, reduce women's unemployment, and foster shared responsibility of caring responsibilities between men and women. The legislation introduces two main elements to improve women's labor market outcomes and foster shared responsibility in childcare. First, the law introduces measures to prevent discrimination in access to employment, including that employers may not require a pregnancy test as a condition of employment nor question employees or applicants about their plans for childbearing. Second, the law introduces changes to parental leave. A new shared parental leave provision now allows parents to distribute the last 6 weeks of maternity leave (18 weeks total and two additional weeks for mothers with disabled children) between the two parents. It also expands paternity leave from 8 days to 2 weeks, with the potential to increase it up to 5 weeks over time, as determined by reductions in structural unemployment. Specifically, based on a methodology defined by the Ministry of Finance, the Central Bank of Colombia, and the National Planning Department (DNP), one week of paternity leave will be added for each percentage point reduction in structural unemployment. Finally, the law allows the use of parental leave on a part-time level, e.g. using two weeks of leave to work part-time for four weeks. Fathers will be able to use it before week two of their paternity leave and mothers after week 13 of their maternity leave. These reforms impact women formally employed.

45. As part of the law's mandate, the Government will conduct communication campaigns to disseminate the new provisions on parental leave among the general public, including through television and commissions comprised of employers, unions and territorial entities; also, educational campaigns to promote fathers' co-responsibility in the care of the children among formal and informal workers. The Law closes the remaining gaps in the Parenthood dimension of the World Bank's Women, Business and the Law indicator for Colombia (World Bank, 2021). As follow-up efforts to this measure, the DNP is developing the National Care Policy, which will consolidate efforts to recognize, reduce and redistribute unpaid care work and support women's empowerment by covering public actions to guarantee the rights of caregivers and care recipients.[39] Moreover, the government is expected to issue the Public Gender Policy to set the foundation for the gender agenda across dimensions. This is expected to be a CONPES with five lines of action, including institutional framework, productive and social development, health and participation, as well as a plan to guarantee a life free of violence for women.

46. **Expected results.** The Law supported under this measure provides a critical anchor to advance the agenda of women's access to economic opportunities. In the short-term, progress will be measured through the adoption of the regulatory framework for anti-discrimination measures and parental leave and through the formal introduction of the methodology for the gradual increase of paternity leave (based on the definition of the structural unemployment rate, as defined by the Ministry of Finance, the Central Bank and the DNP). In the medium and long terms, the introduction of non-discriminatory provisions is expected to gradually narrow gender gaps in access to jobs. It is also expected that the establishment of new parental leave policies will improve the gender balance in the distribution of care responsibilities within the household. Together, these measures are expected to contribute to increasing female labor force participation and access to quality jobs.

Pillar II: Promoting Economy-Wide Decarbonization and Climate Adaptation

[39] The policy consists of four pillars: i) Creation of a robust institutional framework for care; ii) Overcome the disequilibrium between supply and demand for care services; iii) Create financing instruments to guarantee the sustainability of the care policy; and iv) Increase the visibility and value of care as an economic sector.

47. **Pillar II advances and upgrades longstanding, cross-government efforts to reduce Colombia's greenhouse gas emissions and adapt to climate change, including reducing the unequal distributional effects of climate change.** It will do this by: (i) making Colombia's NDC commitments legally binding, including taking further steps toward expanding carbon pricing; (ii) consolidating the low-carbon energy transition; and (iii) facilitating the flow of private and public capital to support the country's environmental priorities, and mitigating investment risks through transparent, standardized disclosure of climate risks for investment operations.

Prior Action #3: *The Republic of Colombia, through its Ministry of Environment and Sustainable Development, has submitted to Congress for approval a draft of the Law (Ley de Acción Climática) to formalize the minimum goals and measures to achieve carbon neutrality, low carbon development and climate resilience in alignment with the updated NDC issued in 2020, as evidenced by the Letter from the Ministry of Environment to Congress dated September 29, 2021.*

48. **Rationale**: The government has a track record of building its climate mitigation and adaptation response, including, among others, through its ratification of the Paris Agreement (Law 1844/2017), its National Plan for Adaptation to Climate Change, the 2018 Climate Change Law (Law 1931/2018), and the 2018-2022PND. In addition to a wide array of sectoral decarbonization measures, the country applies a carbon tax and is developing a pilot emissions trading system. Through its updated NDC, submitted in December 2020 to the United Nations Framework Convention on Climate Change, the government has built on these previous efforts to deepen and accelerate actions for climate mitigation and adaptation. The NDC includes a 51 percent reduction of greenhouse gas emissions by 2030 compared to a business-as-usual emissions scenario (a marked increase in ambition from the first NDC), a carbon neutrality goal for 2050, and a portfolio of 30 adaptation actions.

49. **Substance**: The government is formalizing its commitment and preparing the NDC's implementation, including the Ley de Acción Climática, which contains the NDC's targets, thus reinforcing the actions and their potential for implementation. Following this measure, the law was approved by Congress with broad support across the political spectrum and published as Law No. 2169 in the Official Gazette on December 22, 2021. The law makes the NDC commitments legally binding, providing an implementation obligation for future governments. It is structured around three pillars: (i) mandating the achievement of, at minimum, the mitigation targets in the NDC, including the 2030 emissions target of 169.44 MtCO2e and sub-goals such as achieving zero net deforestation by 2030, as well as the 2050 carbon neutrality goal, and 37 adaptation actions (30 from the NDC plus seven additional ones) spanning housing, cities and territory; health; mining and energy; industry, commerce and tourism; transport; agriculture; and environment; (ii) laying the foundations for an emissions trading system by mandating the reporting of GHG emissions by private and public companies, adjusting the scope of the National Registry of Greenhouse Gas Emissions Reductions , and creating an expert commission to advise on how to implement an Emission Trading System; and (iii) mandating the adoption of an NDC implementation and monitoring plan, and a labor force transition strategy. Furthermore, possible deepening of this process could include an NDC CONPES to advance sectoral implementation of the NDC, as well as regulations underpinning a pilot Emission Trading System and a corporate emissions reporting system.

50. **Expected Results**: In the short term, the law is expected to lead the consolidation of the government's collective action to address climate mitigation and adaptation by providing planning certainty on the country's low-carbon development path to the public and private sectors. In the medium-term, by 2030, the actions which the law mandates are expected to facilitate the achievement of emission reductions and adaptation actions in line with the targets set forth in the NDC. In keeping with the NDC timeline and its economy-wide transformational goals, the law's impact is expected to be concentrated in the second half of this decade. As an intermediary goal that can be assessed within the timeframe of this operation, the law's implementation will be evaluated by the official issuance of the monitoring and reporting requirements to be followed in the Implementation and Monitoring Plan for Carbon Neutrality and Climate Resilience by the Intersectoral Commision on Climate Change , which is expected to occur in 2022.

Prior Action #4. *The Republic of Colombia has updated its legal and fiscal framework with the approval of an Energy Transition Law which supports increased use of non-conventional renewable energy (NCRE) resources and energy storage, low-carbon hydrogen production and use, and incentivizes greater demand for energy efficiency, to consolidate and further advance the low-carbon transformation of its energy system, as evidenced by the Law No. 2099, 2021 published in the Official Gazette on July 10, 2021.*

51. **Rationale**. Colombia embarked on an ambitious path to increase NCRE generation and modernize its energy system. There have been substantial advances in implementing the country's "Energy Transition". Published in 2021 by the Ministry of Mines and Energy (MME), the "*Misión de Transformación Energética*" developed a comprehensive roadmap of reforms to modernize the institutional and regulatory framework for the sector. The reform program aims to enable the entry of new market agents, mainstream new NCRE technologies, and introduce new market mechanisms to enhance competitiveness, reliability, and compliance with emission reduction targets. The Roadmap has been complemented by the implementation of low-carbon programs. A good example is the successful NCRE auction conducted in 2019. Despite these positive developments, the legal framework did not evolve at a pace compatible with the developments of new low-carbon technologies that would enable the implementation of the country's Energy Transition vision. Currently, 74 percent of the energy consumed in Colombia comes from fossil sources. Overall, energy sector GHG emissions amount up to 34 percent of total emissions. Emissions in the electricity sector are relative low--7 percent of all emissions (CAIT, 2018)--due to the high level of hydro generation (78 percent). However, this high penetration of hydro has resulted in a climate vulnerability for the country, as only 6 percent of this generation has long-term reservoir capacity and thus is highly vulnerable to climate shocks. Further integration of NCRE in the electricity sector (from 1 percent in 2019 to 12 percent expected in 2022) is, thus, expected to reduce electricity sector emissions further and increase the sector's resiliency to climate shocks. Finally, increased penetration of NCRE in the electricity sector would allow the country to decarbonize the rest of the energy matrix, by allowing increased electrification of energy uses and production of green hydrogen.

52. **Substance of the prior action**. The Energy Transition Law updates Colombia's legal framework to enable the country's shift toward low-carbon fuels. The Law lays the foundations for Colombia to initiate a broad economy-wide decarbonization by supporting the development of NCRE technologies as well as new technologies, such as hydrogen and electromobility, which will enable the decarbonization of hard-to-abate sectors such as industry and transport. Specifically, the Law (i) provides an attractive fiscal framework for energy generation projects from NCRE sources; (ii) strengthens the regulation of geothermal energy generation and low-carbon hydrogen production; (iii) introduces measures to stimulate the electricity

market, speed up and facilitate the procedures and licenses required for the development of new low-carbon projects; and (iv) incorporates provisions to encourage zero and low-emission transportation.

53. The Law also enables the implementation of targeted programs to close the electricity access gap, in line with promoting equitable access, and supports energy efficiency interventions, particularly on the demand-side. The fiscal framework includes measures such as import tax exemptions and accelerated depreciation for NCRE assets. These incentives are deemed sufficient to ensure the penetration at scale of mature technologies such as wind and solar electricity generation. In addition, the Law defines geothermal and hydrogen as NCRE technologies and establishes that the tax benefits currently available for NCRE projects will also apply to these technologies. As follow-up measures, secondary legislation and regulations are being developed by the MME and the regulator to support the development of low-carbon resources including low-carbon hydrogen and geothermal energy. In the case of geothermal, for example, the government is developing a registry to reduce investor's exploration and development risks. Furthermore, the government is working on a Energy Transformation CONPES which is expected to identify specific programs and actions to meet the policy objectives set out in the Law.[40]

54. **Expected results**. The Law supported under the DPF is expected to anchor Colombia's low-carbon Energy Transition. In the short-term, it is expected that the penetration of NCRE projects will accelerate under an attractive fiscal regime. In the medium and long-terms, subsequent policy and regulatory updates mandated in the Law are expected to further improve the energy sector resilience and environment for the deployment and transition to a low-carbon growth path for the country. This is expected both through the decarbonization of the electricity matrix and the decarbonization of the energy matrix in general through the enabling of the production of green hydrogen. It is expected to do so while simultaneously supporting the revitalization of the energy market, digitalization of electricity distribution services, and overall economic recovery.

Prior Action #5: *The Republic of Colombia, through the Ministry of Mines and Energy (MME) and Colombia Regulatory Energy and Gas Commission (CREG), has enabled the large-scale development of NCRE resources in the electricity system by: (a) adopting a more efficient and competitive mechanism for awarding long-term electricity generation purchase agreements of NCRE projects, and (b) increasing regulatory certainty on the remuneration scheme for battery storage projects, as evidenced by the Ministry of Mines and Energy Resolutions No.40141 (dated May 7, 2021) and No.40179 (dated June 9, 2021); and by CREG's Resolution No.070 (dated June 4, 2021).*

55. **Rationale**. Colombia is highly vulnerable to climate change. El Niño and la Niña events greatly affect the availability of hydropower generation, which accounts for over 80 percent of the country's electricity output. The country is endowed with abundant clean energy resources that could contribute to enhancing the resilience of the sector and reducing GHG emissions. These resources remained, until recently, largely untapped. The country completed in 2019 its first successful auction for the procurement of 1,374MW of NCRE capacity. The prices obtained in the auction were among the lowest regionally. Despite this initial success, additional efforts are needed to consolidate the large-scale penetration of NCRE in the power mix.

[40] The CONPES will lay out a vision for Colombia's energy transition policy and sets out inter-sectoral strategies for its implementation focusing on technology innovation, digitalization, end-user empowerment, and low-carbon energy development. Low-carbon growth strategies and actions are identified in the mining, hydrocarbons, electricity, and electromobility.

In 2020, the share of NCRE in the mix was still below 4 percent. The recent experience demonstrated the importance of implementing competitive mechanisms underpinned by long-term contracts to create an adequate environment to develop NCRE at scale and at low cost. At the same time, the implementation of NCRE projects underscored transmission infrastructure bottlenecks to evacuate electricity. Private sector developers identify difficulties to connect to the electricity grid as one of their major concerns. Both the lack of technical capacity and administrative bottlenecks contribute to this perception.

56. To overcome these constraints, Colombia's energy transition, including NCRE scale-up, will require the resolving transmission constraints and the adoption of storage technologies to help address generation variability. Battery storage systems connected to the electricity grid have multiple advantages, including load shifting (reducing peak demand); congestion reduction (deferring the need for transmission investments); backup power; NCRE energy integration; and associated reduced GHG emissions. These advantages allow batteries to effectively complement NCRE technologies and allow for higher levels of NCRE generation connected to the electricity grid, thus enhancing the country's mitigation and adaptation to climate change. In the medium to long term, Colombia's Generation and Transmission Expansion Plan 2020-2040 identified the need for energy storage systems as an efficient mechanism to ensure reliable electricity supply in certain areas– particularly in congested areas where significant delays are anticipated in the construction of distribution and transmission lines (i.e. the Atlántico region).

57. **Substance of the prior action**. To increase penetration of NCRE generation, Ministerial Resolution 40179 defines the mechanism to promote long-term NCRE Power Purchase Agreements (PPA) through an auction scheme. The scheme was built on the experience of the one implemented in 2019 and, based on lessons learned, included the following improvements: (i) a two-sided auction design where both sellers and buyers participate by placing bids; (ii) an obligation for the demand-side to participate in the auction (retailers must contract 10 percent of their energy requirements from renewable sources by 2022); (iii) structured long term 15-year PPAs; (v) technology-specific for NCRE and reduced project's minimium size criteria; and (vi) mechanisms to mitigate transmission risk by providing flexibility through a grace period to enter into operation.

58. To increase the development of energy-storage systems and build on the regulatory framework in the Energy Transition Law, the CREG Resolution 070 updates the regulatory framework for battery storage systems to enable their deployment and enhance the conditions at which they operate. Specifically, two key aspects of the remuneration scheme for this technology have been revised: the payment profile and the source of income. These allow electricity storage system projects to improve their economic and financial profiles, thus enhancing their feasibility and allowing them to support a cleaner and more resilient electricity grid. As a follow-up measure, and to further develop energy storage solutions, the government is working to implement its low-carbon Hydrogen Roadmap, including a detailed plan to guide actions in the short, medium, and long term, aiming to facilitate the development and implementation of low-carbon hydrogen countrywide. As an additional follow-up measure to facilitate the integration of NCRE, the CREG issued a Resolution (CREG Resolution 075, 2021) and has initiated the process to review existing transmission capacity allocation to free up capacity reserved for conventional generation projects that is not being used.

59. **Expected results**. In the short-term, the reforms supported under this prior action are expected to: (i) support the penetration of NCRE at scale with an additional 750 MW of NCRE capacity contracted by the

end of 2022; and (ii) spur the development of battery storage systems in the short term, with a 45 MW storage system expected to be implemented in the Atlantico region as an early result of the regulatory updates. In the medium to long term, it is expected that the specific policy and regulatory measures identified in the hydrogen roadmap will support the development of low-carbon hydrogen production in Colombia. The above results, which are complementary, are expected to allow the country to continue integrating NCRE generation into its energy matrix, decarbonizing electricity generation and thus mitigating GHG emissions, and increasing the resilience to climate impacts of the Colombia Electricity matrix.

Prior Action #6. *The Republic of Colombia, through CREG, has established clear connection procedures for de-centralized generators and criteria for the valorization of their energy surplus injected into the electricity system, to support the development of de-centralized grid-connected electricity generation from NCRE resources, as evidenced by the adoption of CREG's Resolution No.174 (dated October 7, 2021).*

60. **Rationale**. Distributed generation refers to various technologies that generate electricity at or near where it will be used, such as solar panels and combined heat and power. When connected to the electric utility's lower-voltage distribution lines, distributed generation can help support the delivery of clean, reliable power to additional customers and reduce electricity losses along transmission and distribution lines. Over the past few years, cost decreases in NCRE technologies, such as solar panels, made distributed generation a cost-effective solution for homeowners and businesses. In Colombia, several local governments are also advancing policies to encourage greater deployment of distributed NCRE generation due to their benefits, including energy security and emissions reductions. The regulatory framework for distributed generation is from 2018 (CREG Resolution 030). Since then, the regulator has observed a lower deployment of these solutions compared to other countries and identified the following barriers to its development: low-capacity thresholds for projects (maximum 0.1 MW for small-scale distributed generators), burdensome administrative processes to connect to the electricity grid, unattractive remuneration schemes for excess power produced by distributed generators, insufficient clarity and precision in some of the definitions, procedures and regulatory requirements.

61. **Substance of the prior action**. The CREG updated the regulatory framework for the development of distributed generation. Key changes include: (i) increased thresholds from a maximum installed capacity for low-scale distributed generators from 0.1 MW to 1 MW; ii) increase in the threshold at the power substation, circuit, or power transformer to enable the connection of different distributed generation resources from an aggregated maximum of 15 percent of the capacity to 50 percent of the capacity; and (iii) improved terms for the remuneration of excess power from distributed systems. In addition, the regulation foresees improved clarity of application, connection and inspection processes; simplified procedures to be implemented by distribution companies; and an independent audit of such processes by the *Consejo Nacional de Operaciones*. The draft of the CREG Resolution was issued for consultation in January 2021, and the final Resolution was approved on November 22, 2021. As a follow-up action, the government is working on a program to further incentivize distributed generation in off-grid systems. Specifically, the implementation of an electrification program using solar PV systems is being developed to provide electricity access to the vulnerable and isolated population.

62. **Expected results**. In the short term, the implementation of the Resolution is expected to reduce the regulatory burden making the processes clearer and more streamlined for new projects, thus reducing the costs and timeline for their implementation. This will increase the number of distributed NCRE generation

projects and the overall installed capacity of distributed NCRE generation while immediately lowering electricity costs for users who install these systems. In the medium term, the increased distributed generation is expected to result in lower distribution losses for the overall electricity system. The higher renewable energy generation installed capacity and losses reductions will reduce GHG emissions from the electricity sector, and (at a lower scale) increase the resiliency of the electricity grid to climate impacts such as heatwaves.

Prior Action #7. *The Republic of Colombia, through its Financial Superintendence of Colombia (SFC), has: (a) issued requirements for integrating Environmental, Social and Governance (ESG) and climate risks in the investment policy and governance arrangements of pension funds and insurance companies, as evidenced by Circular Externa 007 (dated April 26, 2021); and (b) set ESG and climate risk reporting requirements for voluntary pension funds, to create the conditions for improved climate-related risk management in the financial sector and for mobilizing green investment for sustainable growth and low-carbon development, as evidenced by Circular Externa 008 of May 10, 2021.*

63. **Rationale**. A financial sector resilient to the impacts of climate change plays a crucial role in promoting sustainable growth and low-carbon development. Climate change can affect the Colombian economy and destabilize its financial sector through the materialization of physical risks (i.e., risks that emanate from natural disasters and global warming and can lead to economic costs and financial losses) and transition risks (i.e., risks associated with economic adjustment costs during the transition towards a greener, carbon-neutral economy). Colombia is exposed to both risks. For instance, Colombian large-scale riverine floods of 2010 and 2011 led to combined damages of US$7.0 billion (2% of the GDP), which induced a significant increase in banks' loan loss provisions.[41] The decarbonization plan in Colombia considers a reduction of greenhouse gas (GHG) emissions by 51 percent in 2030 compared to 2010; during that transition, banks may face write-offs on loans to polluting companies who face additional costs or cannot comply with regulations. At the same time, climate change represents an opportunity to mobilize new and greater resources for climate resilient and low-carbon investment. For instance, in October 2021, Colombia became the first LAC country to issue local currency green bonds on the domestic market, with COP 750 billion raised.[42] In recent years, other financial institutions have issued green bonds,[43] and institutional investors (i.e., pension funds and insurance companies) have invested in private and government-issued green bonds.

64. A supportive regulatory environment is essential for facilitating capital mobilization towards the climate finance agenda and enhance the financial sector's role in managing climate-related risks. In that regard, the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommended that countries adopt a framework for consistent, comparable and decision-useful disclosure of firms' exposures to climate-related risks and opportunities, including in the areas of governance,

[41] Furthermore, projections based on scenario analysis show that floods (and potentially coinciding with other shocks) can lead to declines in banks' capital adequacy of up to 3.7 percentage points. The above is compounded by the country's low penetration of the insurance market - historically, between 2 to 4 percent of damages after major flood events in Colombia were insured.
[42] The initial amount of COP500 billion was upsized to COP750 billion in response to major investor demand (bid to cover of 4.6x).
[43] For instance, Bancoldex issuances of green bonds have allowed the institution to allocate more than COP500 billion into green projects, mostly associated with energy efficiency and pollution control.

strategy, risk management, measurement and targets.[44] The Network of Central Banks and Supervisors for Greening the Financial System (NGFS)[45] encouraged all companies issuing debt or equity and financial institutions to follow TCFD recommendations.[46] At the same time, reporting on ESG risks has increasingly become a standard practice among financial institutions and firms.[47,48] Among others, this reporting can make domestic markets and companies more attractive to international investors and can help steer investment towards greener and more sustainable assets, an objective that is closely aligned with the government efforts to promote climate change adaptation and mitigation policies, such as the Policy for Economic Reactivation and Sustainable and Inclusive Growth.

65. **Substance of the prior action**. The SFC established in its 2019 action plan related to climate change that better understanding of climate-related financial risk is a key priority. The SFC action plan focuses on: (i) establishing a taxonomy; (ii) integrating ESG risk in risk evaluation and disclosure; (iii) increasing transparency on climate-change-related risks; and (iv) delivering capacity building. Regarding ESG integration, the SFC is seeking to incentivize professional investors to adopt ESG and climate criteria in their investment choices. To that end, on April 26, 2021, the SFC issued Circular Externa 007, instructing pension funds and insurance companies to include ESG and climate-related factors in their investment portfolios risk evaluation and integrate them into their investment decision-making process. In particular, investment policies and roles and responsibilities regarding risk management must include ESG considerations. On May 10, 2021, the SFC issued Circular Externa 008, instructing voluntary pension funds to include ESG and climate-related risks in their investment portfolios' policies to provide clear justification for the labeling of investment portfolios as ESG oriented. In addition, it mandates them to report the impact of ESG factors on the disclosure of their investment portfolio performance and composition.[49] This action is one element of a more extensive set of upcoming regulations to green the Colombian financial sector and includes the following follow-up actions: (i) the adoption of the

[44] Recommendations of the Task Force on Climate related Financial Disclosures, Final Report, TCFD, 2017.

[45] The NGFS is a group of Central Banks and Supervisors willing, on a voluntary basis, to share best practices and contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy. The SFC and Banco de la República are members of the NGFS.

[46] See Recommendation 5 of the First Comprehensive Report: A Call for Action, Climate Change as a Source for Financial Risk, NGFS, 2019.

[47]For companies, the process of analyzing, managing and publicly reporting sustainability performance allows them to identify the business risks and opportunities associated with ESG and climate-related issues. For investors, understanding how companies respond to macroeconomic and long-term trends such as climate, demographic and technological changes, as well as global political and social developments, provides them with a broader, more comprehensive and accurate view of the performance of a company and of its value. This facilitates an efficient allocation of capital in the transition to a low-carbon and climate-resilient economy. For governments, ESG and climate reporting can help ensure that the private sector's activities align with national policy goals on sustainability, climate change and wider economic development.

[48] Notwithstanding the common nature of many climate and environmental risks, ESG and climate-related risks have a different nature, particularly with respect to their management. While ESG risks are typically related to damages that could arise within the time of operation of the economic activity, the time horizons of climate risks tend to go beyond the activity's useful life. Climate-related risks are focused not only on the direct impact caused by the activity on the adjacent environment but also on damages due to the activity's exposure to incremental and extreme climatic events. Therefore, the forward-looking perspective of climate risk assessment considers scenarios such as the frequency of floods in the future, unlike more traditional ESG assessments.

[49] In addition, the SFC recently published a Circular Externa for public consultation instructing issuers to incorporate ESG and climate-related risks into their policies. Besides, the SFC plans to issue guidance for banks in the coming months and is finalizing a green taxonomy. The latter seeks to facilitate the identification of projects with environmental objectives, develop green capital markets, and promote the effective mobilization of private and public resources towards investments that allow the fulfillment of the country's environmental commitments.

Comprehensive Climate Change Management Plan for the Finance Sector; (ii) the development of a national Green Taxonomy; and (iii) the definition of ESG reporting requirements for listed companies.

66. **Expected results**. The issuance of the two Circulars is expected to increase the number of financial institutions integrating ESG and climate risks in their investment decision-making processes, and of financial institutions applying ESG and climate-related reporting requirements. Each Circular established a transition period for implementing the respective requirements. In the case of Circular Externa 007, pension funds and insurance companies must implement its requirements by April 25, 2022. In the case of Circular Externa 008, voluntary pension funds had until June 30, 2021, to present implementation plans, while ESG reporting requirements begin to apply for disclosure of investment portfolio performance and composition as of end-2021. The implementation of both Circulars will create conditions for improved climate-related risk management in the financial sector and for mobilizing green investment for sustainable growth and low-carbon development.

Pillar III: Mitigating Climate Change By Protecting Biodiversity and Reducing Deforestation

67. **Pillar III advances Colombia's biodiversity conservation agenda, a key building block of the country's climate mitigation and adaptation strategy as expressed in the NDC**. The United Nations Framework Convention on Climate Change recognizes the inseparability of biodiversity and carbon sequestration and climate adaptation. In line with this, Colombia is adopting a long-term policy to strengthen the country's protected areas system as the primary sanctuary of critical ecosystems. It is also formalizing the production of non-timber forest products, increasing the incentives for forest conservation and, therefore, climate change adaptation and mitigation actions.

Prior Action #8. *The Republic of Colombia, through DNP, has approved the Policy for the Consolidation of the National System of Protected Areas (SINAP) to reduce the risk of loss of biodiversity, to secure preservation, restoration and sustainable use of landscapes, ecosystems, species, and genetic resources, as evidenced by CONPES document No. 4050 (dated September 27, 2021).*

68. **Rationale**: Colombia's 1,366 protected areas included in the SINAP are governed by Decrees 2371/2010 and 1076/2015. They cover 31.5 million hectares, or 16.6 percent of the country's terrestrial surface area and 13.4 percent of the marine area. They are administered by the Ministry of Environment and Sustainable Development, National Natural Parks Colombia, and the Regional Autonomous Sustainable Development Corporations. Protected areas constitute the core of Colombia's biodiversity conservation efforts, often covering ecologically sensitive areas. They provide crucial ecosystem services: The network of protected areas provides climate regulation services through its more than 13 million hectares of forests, as well as its large expanses of wetlands and peatlands, all of which serve as important carbon sinks. In addition, they regulate the water supply for some 25 million people and 52 percent of the country's hydroelectricity supply, an ecosystem service valued in 2014 at some US$3.5 billion annually and crucial in future climate adaptation. The integrity of this network and of the biodiversity that it harbors are threatened by illegal incursions and land use change (6 percent of deforestation in the last 18 years took place in protected areas), illegal trade of wildlife, insertion of invasive species, and climate change, including gradually diminishing and/or shifting habitats as a result of altered precipitation patterns and temperatures. As a result of this dynamic and of changes occurring outside protected areas, Colombia's biodiversity has deteriorated. Its Red List Index, which measures aggregate extinction risk (0.74 in 2021),

has decreased by 0.03 points over the past 20 years. The underlying drivers of this decline, especially in protected areas, include insufficient representativity of the protected area system, insufficient connectivity, governance weaknesses (including insufficient involvement of productive actors and insufficient benefits for local communities), and insufficient financing.

69. **Substance:** CONPES 4050 is designed to reduce the risk of loss of nature in the SINAP by 2030, to protect biodiversity and ecosystem services that support the social, economic, and cultural development of Colombia. As such, its main objectives are to increase the protection of nature, improve protected area connectivity, increase management effectiveness of the SINAP, increase the co-responsibility of productive sectors in the management of protected areas, and increase the benefits accruing to local communities from protecting designated areas. To this end, to address the drivers of biodiversity decline and their role in climate regulation, it prescribes a series of 65 actions across 12 sectors and 21 entities of the national government. The CONPES focuses on ensuring the integrity of sensitive ecosystems, many of which (forests, wetlands, and grasslands, among others) not only serve as important reservoirs of carbon but also play important functions for climate adaptation, including regulation of water provision, levels and quality, as well as run-off. Hence, this CONPES is a key element in Colombia's climate mitigation and adaptation strategy. Downstream reforms to complement this instrument could include regulations for sustainable forest management in natural forests.

70. **Expected Results**: The actions set forth in the CONPES are expected to increase the overall effectiveness of the SINAP along several strategic axes, as reflected by the ecosystem representativity of the SINAP, the protected area coverage and connectivity, the living conditions for people inhabiting protected areas, and the degree of involvement of productive actors in protected area financing. This is expected to contribute to reducing land use change, deforestation, and forest degradation in the ecosystems covered by the SINAP, as well as preserve the resilience of its ecosystems in the face of a changing climate. The combined effects are expected to reduce greenhouse gas emissions and preserve carbon sequestration potential. They are also expected to preserve regulating ecosystem functions such as water supply and flood regulation, which are important elements of the capacity of Colombia's landscapes to contribute to climate adaptation. A key element is the effectiveness of protected area management. This will be measured through the median percentage change in the management effectiveness index of public protected areas, which is expected to increase from 0.09 percent to 3 percent by the end of 2022. The index provides a standardized assessment methodology for the assessment of protected area management effectiveness of public protected areas in Colombia.[50]

Prior Action #9: *The Republic of Colombia, through the Ministry of Environment and Sustainable Development (MADS), has approved new binding and harmonized regulations for the sustainable management of wild flora and non-timber forest products, to support the protection of biodiversity and the reduction of deforestation, as evidenced by Decree No. 690 of 2021 (dated June 24, 2021).*

[50] The management effectiveness index is a composite index comprising 31 indicators (including on protected area health, governance, planning, management resources, and planning, among others) that is being rolled out to all public protected areas in Colombia. For a definition of the index as monitored by DNP and Parques Naturales Nacionales, see Action and Monitoring Plan for CONPES 4050, Results Indicator 3: https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/PAS%204050.xlsx For additional details, see Ministerio de Ambiente y Desarrollo Sostenible (2021): Guía para la Planificación del Manejo en las áreas protegidas del Sinap Colombia.

71. **Rationale**: This prior action complements Prior Action 8 by supporting the sustainable use of forests outside protected areas. Colombia has more than 13 million hectares of forests, which are key to its climate mitigation due to carbon sequestration and its adaptation capacity due to regulating ecosystem services they provide, such as water retention and regulation. Nevertheless, these forests face significant pressure, with deforestation reaching 172,000 hectares in 2020. One reason for this pressure is that forests are too often seen as a resource that cannot be sufficiently monetized, which provides an implicit incentive for their destruction to make place for other economic activities. Colombia has significant potential for non-timber forest product (NTFP)[51] production owing to its biodiversity: It is estimated that 3.9 million hectares of Colombia's forests have the potential for NTFP production, but that only 113,000 hectares currently are used for this purpose. In addition, the sector is primarily informal, and production is generally not based on technical studies that underpin their sustainable management.

72. **Substance:** Decree 690 of 2021[52] is expected to contribute to the government's 2030 net zero-deforestation goal as communities living in natural forests will have a strengthened basis for economic alternatives to deforestation. The decree introduces new binding and harmonized regulations for the sustainable management of wild flora and NTFPs, to be applied by the regional autonomous corporations (*corporaciones autónomas regionales, CARs,* the decentralized environmental management institutions) and all actors involved in their production. It provides harmonized requirements to the CARs and users on obtaining permits. Interested parties may use wild flora and NTFPs by applying for permits, concessions, or authorizations to be granted by the CARs. These need to be underpinned by technical studies to safeguard the sustainability of the suggested use. Permits can be issued for domestic or commercial use, with varying regulatory requirements depending on the size of the proposed enterprise. The decree further provides indigenous peoples and Afrocolombian communities priority in decision-making over wild flora utilization, granting them the right to participate in the use, management, and conservation of natural resources in their territories. Downstream complementary reforms could further strengthen the regulatory regime surrounding natural forests in an effort to continue increasing the value of standing forests.

73. **Expected Results:** The decree is expected to lead to increased formalization and sustainable use of wild flora and NTFPs, contributing to biodiversity protection by better regulating the production and trade in these goods, as well as to reducing deforestation – and therefore greenhouse gas emissions – by providing more value to standing forests as a source of livelihoods and income. The latter is a central element of Colombia's climate mitigation and adaptation strategy. Results will be measured by the number of permits issued for sustainable use of wild flora and NTFPs, which is expected to increase from an average of 75 per year between 2018 and 2020 to 85 in 2022.

Table 5: DPF Prior Actions and Analytical Underpinnings

Prior Actions	**Analytical Underpinnings**
Operation Pillar 1: Reducing Income Inequalities (including gender-related) and Building Resilience	

[51] NTFPs include food products (such as fruit, honey, beeswax), products for artisanal crafts (e.g. fibers, latex rubbers), dies, ornaments (flowers and live plants), etc.
[52] "Which adds and modifies Decree 1076 of 2015, of the Environment and Sustainable Development sector, with respect to the sustainable management of wild flora and non-timber forest products, and which adopts other decisions"

Prior action #1: *Ingreso Solidario* and *Compensacion IVA,* and Sisbén IV targeting	Departamento Nacional de Planeación. (2020). *Política para la reactivación, la repotenciación y el crecimiento sostenible e incluyente: Nuevo Compromiso por el futuro de Colombia* (Documento CONPES 4023). Bogotá DC, Colombia: DNP. Iguaran, C. (2016). "Lucha contra la pobreza y extensión de la cobertura social en Colombia." Universidad Externado de Colombia. OECD. (2020). Policy note on the introduction of VAT compensation for vulnerable households in Colombia. World Bank (2021). Building an Equitable Society in Colombia. Washington, DC: The World Bank. World Bank (2022). Public Finance Review. Washington, DC: The World Bank. Gentilini, U., Grosh, M., Rigolini, J. and Yemtsov, R. eds. (2020). "Exploring Universal Basic Income: A Guide to Navigating Concepts, Evidence, and Practices." Washington, DC: The World Bank. Lindert, K., Karippacheril, T., Caillava, I. and Chávez, K. eds. (2020). "Sourcebook on the Foundations of Social Protection Delivery Systems." Washington, DC: World Bank. Departamento Nacional de Planeación. (2016). Declaración de importancia estratégica del sistema de identificación de potenciales beneficiarios (SisbénIV) (Documento CONPES 3877). Bogotá DC, Colombia: DNP. World Bank Group. (2020). "Program Appraisal Document on a proposed loan for support to the development of Colombia's integrated social registry." Washington DC: The World Bank. Income inequality in Colombia is high and the fiscal policy does little to reduce it, despite reforms over the last decades. The VAT compensation is likely to help reduce poverty and inequality, as evidenced by international experience (e.g., Brazil) suggests that transfers can be targeted more effectively to specific groups than tax rebates or differential tax rates. However, in order for this reform to be successful, it is important to reform the targeting system. Targeting could be improved using administrative databases to increase automation and allow faster updates and recertifying of beneficiaries. The VAT compensation is also an opportunity for improving access to banking or basic payment services for the vulnerable population.
Prior action #2: Paternity leave and parental leave, and gender-based discrimination	Abreu, M.V., Soto, C. and Zumaeta, M. (2018). "Economía del Cuidado en Colombia: Elementos para el Diseño de un Sistema Nacional de Cuidados (SINACU)" The World Bank and the Umbrella Facility for Gender Equality.

Arango, L., Castellani, F. and Lora., E. (2016). "Desempleo femenino en Colombia". Banco de la República, Colombia.

Badel, A. and Pena, X. (2010). "Decomposing the Gender Gap with Sample Selection Adjustment: Evidence from Colombia". Revista de Análisis Económico 2010 25 (2).

Buitrago, P., Muller, M., Olivieri, S. and Pico, J. (2018). "Gender differences in poverty in Colombia." Washington, DC: The World Bank.

Cuberes, D. and Teignier, M. (2016). "Aggregate Effects of Gender Gaps in the Labor Market: A Quantitative Estimate." Journal of Human Capital 10 (1): 1-32.

Government of Colombia (2019). "Bases del Plan Nacional de Desarrollo".

Mateo Díaz, M. and Rodriguez-Chamussy, L. (2016). "Cashing in on Education. Women, Childcare and Prosperity in Latin America and the Caribbean". Latin American Development Forum.

Ramirez, N., Tribin, A. M. and Vargas, C. (2015). "Maternity and Labor Markets: Impact of Legislation in Colombia". Working Paper Series. IDB-WP 583.

World Bank. (2012). "World Development Report 2012: Gender and Development." Washington, DC: World Bank.

World Bank (2019). "Colombia Country Gender Assessment." World Bank, Washington, DC.

World Bank. (2021). "Women, Business and the Law." Washington, DC: World Bank.

Despite demographic changes and improvements in female labor force participation, women in Colombia are still less likely to participate in the labor market than men, and when they do work, their wages tend to be lower, and they experience higher rates of unemployment. In particular, married women experience unemployment rates twice as high as those of men during their peak reproductive years. This is partly due to the costs associated with paid maternity leave and the limited supply of childcare services. Moreover, in Colombia, the difference in poverty rates between women and men during their reproductive age is around six percentage points, while the global difference is only two percentage points.

Parental leave policies can contribute to enhancing the gender balance in the distribution of family and household responsibilities. Job protection may also lead to substantial increases in the participation of mothers with children under the age of 6.

Operation Pillar 2: Promoting Economy-Wide Decarbonization and Climate Adaptation	
Prior action #3: Climate Action Law submission	Ministry of Environment and Sustainable Development of Colombia and World Bank (2020): Update of Emissions Scenarios. World Bank, Washington, DC. World Bank (2021): From the Ground Up: A Decade of Learning on Carbon Pricing. World Bank, Washington, DC. World Bank (2020): Colombia ETS Design: Summary Report. World Bank, Washington, DC. National Planning Department of Colombia and World Bank (forthcoming): Costing of Adaptation Goals in Colombia's NDC. Bogota and Washington, DC. Colombia's emissions in 2030 under a business-as-usual scenario are expected to be 345.8 $GgCO_2eq$. Plausible emissions mitigation scenarios range from 37 percent to 51 percent reductions compared to this baseline scenario and require economy-wide action. Emissions trading systems can be effective in driving emission reductions and technological change, and Colombia has a blueprint for designing an emissions trading system pilot. The cost of adaptation actions in the NDC is estimated to be US$ 2.16 billion (NPV).
Prior action #4: Energy Transition Law	MME 2021 (supported by World Bank and IADB): Mision de Transformacion Energetica. Roadmap summarizing Phase I and Phase II
Prior action #5: NCRE penetration and storage	World Bank (2020): How to successfully design auctions to procure non-conventional renewable energy and increase competition: the Colombia case (Draft). IRENA and USAID (2021): Renewable energy auctions in Colombia: Context, design and results, International Renewable Energy Agency, Abu Dhabi University of NY (2006): Everything you wanted to know about double side actions, but you were afraid to ask. MME 2020 (supported by World Bank and IADB): Report pillar 5 of Mission of Transformation of the Energy Sector: Revision of the legal and institutional framework. MME 2020: (supported by World Bank) Report of working group 3 of Mission of Transformation of the Energy Sector: Regulatory roadmap for more efficient development of distributed resources. IRENA (2020), Electricity Storage Valuation Framework: Assessing system value and ensuring project viability,
Prior action #6: Decentralized generation	Technological University of Pereira and University of Chile (2019): Analysis for the design of monitoring and evaluation indicators for auto producers and distributed generators in the national interconnected electricity system.

	Technological University of Pereira (2020): Proposal of technical requirement and procedures for the connection of auto producers and distributed generators to the national interconnected electricity system.
Prior action #7: ESG and climate risks	TFCD (2017). Recommendations of the Task Force on Climate-related Financial Disclosures. Final Report. SFC (2021). Divulgación de Información de Sostenibilidad o ESG en Colombia. Documento Técnico. Financial Superintendence of Colombia, Bogotá. World Bank (2021). Colombia: Guidance Note on Governance, Risk Management and Disclosure of Climate-related Financial Risks. World Bank (2021). ESG Disclosure Assessment of Colombian Listed Companies and Recommendations for Policy Development. World Bank (2021). Not-so-magical realism: A Climate Stress Test of the Colombian Banking System. The disclosure of ESG and climate risk considerations by financial sector actors is a key priority of the SFC climate change action plan. Financial disclosures on ESG and climate-related risk considerations facilitate an efficient allocation of capital to transition to a low-carbon and climate-resilient economy. This is possible via enhanced market transparency and a better understanding of climate-related and environmental risks and opportunities that translate into informed investment processes and ease communication with clients, beneficiaries, and stakeholders.
Operation Pillar 3: Mitigating Climate Change By Protecting Biodiversity and Reducing Deforestation	
Prior action #8: Protected Areas	Alvarez, C. et al. (2021): Evaluación nacional de la biodiversidad y servicios ecosistémicos: Resumen para tomadores de decisión. Instituto Alexander von Humboldt, Bogotá, Colombia. Bonilla-Mejia, L. and Higuera-Mendieta, I. (2019). Protected areas under weak institutions: Evidence from Colombia. World Development, 122, 585-596. Castillo, L.S. et al. (2020). Connectivity of Protected Areas: Effect of Human Pressure and Subnational Contributions in the Ecoregions of Tropical Andean Countries. Land, 9(8), 239. Contraloria General de la Republica (2015). Evaluación de la Política Nacional de Consolidación del Sistema Nacional de Areas Protegidas (Sinap). Bogotá. Instituto Alexander von Humboldt (2019): Biodiversidad 2018. Estado y tendencias de la biodiversidad continental en Colombia. Bogotá. Colombia's biodiversity, the second richest of any country in the world, is under threat. The protected area network, while representing the keystone of Colombia's conservation strategy, is not delivering the level of biodiversity

	protection it is intended to. There are underlying systemic challenges to the contribution of the protected areas system, including insufficient ecological representation, governance, management, and financing.
Prior action #9: Non-Timber Forest Products	López Camacho, R. and Murcia Orjuela, G. (2020): Productos forestales no maderables -PFNM- en Colombia: consideraciones para su desarrollo. Bogotá: Universidad Distrital Francisco José de Caldas, 2020. While several factors impede the sustainable use of NTFPs, complex and fragmented legislation, and an inefficient system of regulation and control are identified as key bottlenecks.

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

74. **The proposed operation is aligned with the Country Partnership Framework (CPF) for Colombia (FY16-21) (Report No. 101552-CO) and its most recent Performance and Learning Review (April 23, 2019) (Report No. 135458-CO).** The proposed DPF is aligned with all three pillars of the CPF. It is aligned with Pillar II: Enhancing Social Inclusion and Mobility through Improved Service Delivery, which, in line with the measures supported in this DPF, deepens support to design and implement tools for a more efficient social protection system. The climate pillars of the proposed DPF are aligned with Pillar I: Fostering Balanced Territorial Development, in particular its objective of fostering enhanced capacity for natural resource management, as well as Pillar III: Supporting Fiscal Sustainability and Productivity, and its objective to deliver improved infrastructure. Reforms in the energy sector will foster the development of low-carbon infrastructure to reduce energy costs and improve security of energy supply to support economic reactivation.

75. **The DPF is aligned with the three dimensions set forth by the Development Committee paper "From COVID-19 Crisis Response to Resilient Recovery - Saving Lives and Livelihoods while Supporting Green, Resilient and Inclusive Development (GRID)" (2021):** (i) Green, to promote environmental, socio-economic and financial sustainability by investing in solutions and driving transitions that sustain natural capital, and mitigate and adapt to climate change; (ii) Resilient, investing in managing multiple risks, including natural hazards and climate change; and (iii) Inclusive, to ensure that in the process of recovery Colombia builds a more equitable society, including through increased economic opportunities for women and marginalized population groups. The DPF is also fully aligned with the approach set out in the World Bank Group's paper 'World Bank Group COVID-19 Crisis Response Approach Paper – Saving Lives, Scaling-Up Impact and Getting Back on Track' (WBG AP). Specifically, policies and programs supported under this DPF are consistent with Pillar 2 - Protecting Poor and Vulnerable People and Pillar 4 - Strengthening Policies, Institutions and Investments for Rebuilding Better of the Approach Paper.

76. **The proposed DPF will contribute to the achievement of the twin goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner**. The twin goals are at the core of all measures supported by this DPF, by promoting policies to better reach poor and vulnerable households, by contributing to narrowing inequalities, and by promoting sustainability in the development outcomes achieved. The proposed operation is aligned with the WBG's Maximizing Finance for Development (MFD) approach and includes multiple upstream policy measures that aim to increase private investment in NCRE power infrastructure. The DPF is in line with the World Bank's 2021-2025 Climate

Change Action Plan and its Gender Strategy (FY16-23). The DPF supports the low-carbon and resilient development pathway put forward in Colombia's NDC, system transitions in the energy and land use sectors, and increased mobilization of private capital for climate mitigation and adaptation. In terms of gender equality, the actions supported through this DPF are aligned with two of the pillars of the World Bank's Gender Strategy. First, removing key obstacles to more and better jobs for women and second, enhancing women's voice and agency by supporting public actions that aim to change social norms and engage men as key change agents in supporting care work.

77. **The proposed operation builds on recent, ongoing and planned World Bank analytical pieces that complement the lending operation.** The Colombia Equity Flagship (World Bank 2021) documents the high levels of inequality in Colombia, both income inequalities and inequalities between population groups, and proposes a menu of policy options to address the causes of inequality and to promote a more equitable society. In line with the transversal nature of the policies supported by this DPF, the report recognizes that inequality is a multidimensional phenomenon, including one that will grow more challenging in the face of climate change, and that the policy toolkit to reduce the imbalances must be equally multidimensional. It argues for well-targeted and monitored policies to close gaps between socioeconomic and population groups. The operation also builds on existing analytical work on carbon markets through the Partnership for Market Readiness and NDC design (including GHG emissions reference scenarios and adaptation costing) through the NDC Deep Dive. The proposed DPF also builds on the World Bank's long-term partnership with the GoC on low-carbon energy transition. Substantial analytical work undertaken on a variety of sub-sector topics, including renewable energy integration, energy storage, options to improve the design of short-term electricity markets. These analyses have also been implemented through the energy-sector-focused pillar under the NDC Deep Dive. Finally, the operation tackles central issues identified in the diagnostic of the ongoing Colombia Systematic Country Diagnostic Update, which has equity and climate among the 4 key themes identified.

4.4 CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

78. **The Government has undertaken consultations on the main measures supported by this DPF.** Legal reform projects are made publicly available and have an open consultation. This was the case, for example, for Pillar I reforms in the Social Investment Law and Shared Parental Leave Law. Moreover, in Pillar II and in developing its updated NDC, the government built on underlying consultations held for the development of the national REDD+ strategy, the Colombian Strategy for Low-Carbon Development, and the National Adaptation Plan, among others. The consultation process was guided by a participation and communication strategy. The government held technical workshops through the Regional Climate Change Nodes, including all levels of government, the private sector, academia, and civil society, with an emphasis on ethnic and gender diversity. It also conducted surveys among the general public, and conducted ten dialogues with Afro-descendants, farmers, indigenous, youth, and women's organizations. Regulations and the Hydrogen Roadmap supported under the DPF have been subject to public consultations in accordance with regular procedures by CREG and theMME. In the case of Circulares Externas on ESG risk disclosure, the SFC publishes draft Circulars on its website for public consultation. In Pillar III, the SINAP CONPES was developed through a participatory process that involved nearly 1,000 participants, 15 regional workshops, and seven public debate events. It also benefited from a pro bono committee of experts. The draft CONPES was subject to an intergovernmental consultation process constituting 80 meetings involving 21 government entities from 12 sectors and was open for public

consultation during July 12-27, 2021. The NTFP Decree is the result of recommendations made by four participatory workshops held in four cities at the end of 2019, with 183 participants drawn primarily from among NTFP producers, associations, and local environmental authorities.

79. **The preparation of all policy reforms to be supported under the proposed DPF reflects a dedicated consultation process with the GoC.** Consultation meetings were held with the relevant Government institutions for each of the explored areas and DNP as technical leader of the Government. This process relied on the ongoing engagement between the World Bank Group and counterparts. In addition to technical counterparts in DNP, exploratory and identification virtual meetings were held with the Ministry of Environment and Sustainable Development, the Financial Superintendence of Colombia, the Department of Social Prosperity.

80. **The DPF program, as part of the WBG's broader program of support to Colombia, has benefited from close coordination with development partners, including the IMF, Inter-American Development Bank (IADB) and other bilateral agencies.** Most prior actions supported by this program are informed by long-standing technical assistance by the World Bank and other international partners. Bank staff has met regularly with staff of other international institutions to coordinate efforts and align messages. For example, support for Colombia's NDC is coordinated through the NDC Partnership. On Prior Actions 7 (ESG reporting requirements), reforms have built on advice from the World Bank as well as on recommendations put forward by the Network for Greening the Financial Sector and the Financial Stability Board's Task Force on Climate-related Financial Disclosures. The World Bank joined forces with the IADB to support the MME in elaborating the roadmap under the Mision de Transformacion Energetica, which informed reforms laid out in the energy transition prior actions.

81. **The Bank is also closely coordinating with the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).** The IFC is at the core of the WB support to the SFC on greening the financial sector-related aspects as part of a joint IBRD-IFC activity that delivers an advisory activity in the country. The activity includes, among others, supporting the development of a green taxonomy; an assessment of climate-related risks for the banking sector; and guidelines for risk management, governance, and disclosure in the banking sector.

OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

82. **The prior actions supported by this operation are expected to have significant positive effects on distributional outcomes over the short to long term, particularly through improved social spending, narrowing of gender gaps, and a reduction in the potential of climate change to exacerbate inequalities.** Findings suggest a positive impact on poverty reduction, equity, and social indicators, in line with one of the main objectives of this operation. The above is particularly relevant considering Colombia's reversal in poverty and inequality: poverty increased 6.8 pp in 2020, the Gini coefficient went from 0.526 in 2019 to 0.544 in 2020, and the gender gaps widened. Moreover, the effects of climate change are expected to further exacerbate inequalities.

83. **Policies supported in Pillar I aim to increase the impact of social spending on equity and inclusion and reduce inequalities between groups (namely gender inequalities). The two prior actions included in this pillar are expected to have direct and positive poverty and distributional effects in the short run and a considerable range of positive effects in the medium to long run**. Prior Action 1 sustains *Ingreso Solidario*, a program that has played a key role in mitigating the negative economic effects of the pandemic. DANE estimated that emergency government transfers prevented a further increase of 3.6pp the poverty rate; 61% of this effect is attributed to the role of extraordinary transfers, such as IS[53]. Microsimulation analysis estimates that IS cushioned the labor market shock the most at around 63%: in the absence of this program, poverty would have increased by around 1.7pp. IS was focused initially on 3 million poor households without any institutional transfer. With an economic recovery that hasn't fully materialized and that has been uneven within Colombia, extending the program is expected to avoid further poverty increases, but also the depletion of assets that could keep households subsumed in a poverty trap with permanent implications. Hand in hand, Prior Action 1 also modifies the design of the cash transfer program called "*Compensacion de IVA*" making it available to a wider range of households not covered or insufficiently covered by other social transfers. Moreover, Prior Action 1 supports the introduction of a new methodology to target potential social programs recipients and applied to the largest program in Colombia (*Familias en Accion*), reducing inclusion and exclusion errors, and thus with positive impacts on reducing poverty and inequality. As described in the Equity Flagship (World Bank 2021), households in the top income quintiles benefit from this program.

84. **Finally, Prior Action 2 promotes gender equality, with positive effects in the short and long run.** It introduces shared parental leave, extends paternity leave, and incorporates provisions to protect women from discriminatory practices by employers. It supports women's economic empowerment by incentivizing the redistribution of care responsibilities, balancing time out of the workforce and opening economic opportunities on an equal footing with men. Removing barriers to women's economic participation can increase their capacity to generate income and thus help reduce poverty (for example, it is estimated that 24 percent of the progress in poverty reduction in Colombia from 2009 to 2019 can be attributed to increased earnings by women). Furthermore, it has positive distributional impacts by reducing gender gaps.

85. **Policies supported in Pillar II are expected to have limited short-term impacts and positive poverty and distributional impacts in the long run.** Measures under this pillar (Prior Actions 3 to 7) aim to reduce Colombia's greenhouse gas emissions and promote adaptation to climate change, thus reducing negative distributional effects. Recent analysis in the Colombia Equity Flagship (World Bank 2021) models the whole-economy and long-run effects (by 2050) of higher temperatures and increased weather variability on productivity at the sectoral level and on the productivity of labor, and how these developments impact wages, prices, and ultimately, the welfare of individuals across the income distribution. It shows that climate change is expected to widen inequalities if its impacts are not addressed. Specifically, modeling suggests that poor, rural Colombians will see their wages decrease substantially more than wealthier and urban segments of the population (World Bank 2021). In addition, it suggests that gaps between urban and rural areas, formal and informal workers, and men and women will widen. At the sectoral level, climate change is expected to hit fisheries and land transportation hardest, followed by agriculture and livestock; the latter already suffers from low productivity and accounts for a

[53] There is included another local and in-kind transfers.

large share of employment in Colombia (15 percent). Furthermore, Prior Action 4 is expected to have positive equity implications by enabling access to electricity services in non-interconnected areas for populations currently without electricity supply.

86. **Pillar III measures are expected to have moderate short-term impacts, and positive poverty and distributional impacts in the medium to long run.** Prior Actions 8 to 9 promote the recovery and conservation of important ecosystems in which ethnic communities now live, with positive social impacts, as well as the proper use of natural resources in remote regions, thereby ensuring the livelihoods of the inhabitants. Moreover, given their long-term objective of reducing emissions, and as in Pillar II, the measures are expected to have positive effects by reducing the negative impacts of climate change which affect vulnerable groups the most.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

87. **A general environmental analysis was carried out to assess if the proposed DPF is likely to cause significant adverse or positive effects on the environment, forest, and natural resources.** The assessment was based on a secondary data review of the program, including the description of each prior action, evidence from the literature, legal evidence, and a comparative analysis between existing and proposed actions.

88. **The Prior Actions supported under Pillar I are not likely to result in any significant impact on the environment, forests, or natural resources.** Prior Action 1 supports extreme poor, poor, and vulnerable households through a solidarity income and introduces a new methodology to increase the impact of social spending on the poorest. Prior Action 2 supports women's economic empowerment and incentivize the sharing of unpaid care work. No potential positive nor negative environmental impacts and risks have been identified under this Pillar.

89. **The Prior Actions supported under Pillar II and Pillar III have positive effects on the environment, forests, and other natural resources.** In Pillar 2, Prior Action 3 will promote climate change mitigation by reducing and removing GHG emissions and increasing climate adaptation and resilience, as policy measures align with national efforts for low-carbon- development in line with NDC requirements. The intersectoral approach (financing, housing, forestry, industry, transport, agriculture) incorporates sustainable practices promoting resource efficiency, preventing the pollution of natural resources, promoting, and strengthening biodiversity conservation efforts.

90. **Prior Actions 4, 5 and 6 will lead to a net reduction of GHG emissions, improved air quality, and enhanced resource efficiency due to a shift to new and cleaner technologies for a low-carbon energy transition.** These policy measures promote and incentivize the development and diversification of NCRE projects which contribute to climate change mitigation by reducing fossil fuels exploitation and minimizing impacts related to oil and coal extraction. Compared to business-as-usual energy sources, NCRE emits less atmospheric pollutants such as particulate matter, nitrogen oxides, and sulfur oxides, among other primary and secondary pollutants, reducing air pollution and negatively impacting human health in cities. It also promotes climate change adaptation as diverse NCRE projects (solar photovoltaic, wind, biomass and PCH) have the capacity to produce energy during adverse climate conditions (such as droughts and/or inundations). A major advantage of NCRE projects is their capacity to generate energy in periods

when hydroelectric plants may have low energy production periods. In Colombia, these periods are associated with natural hydroclimatic phenomena affecting energy supply, such as El Niño that produces precipitation shortfalls, thus reducing water availability in dams and/or reservoirs. Prior Action 7 promotes sustainability integration and climate-related risk management in public and private investments deriving on environmental benefits such as biodiversity conservation and management of natural resources, reduction of air, water, and soil pollution, and providing measures for mitigation and adaptation to climate change by including ESG risk management considerations in investments.

91. **In Pillar III, Prior Action 8 provides regional, national and intersectoral strategies to: (i) increase conserved natural and cultural heritage areas; (ii) enhance the connectivity of protected areas in broader landscapes and seascapes; (iii) increase the effectiveness in the management of SINAP and its protected areas, and (iv) increase the co-responsibility of the productive sectors and the remuneration to local communities.** It will additionally promote the sustainable management of living natural resources, biodiversity conservation and prevent the introduction of threatened species. The measure intends to protect the core ecological functions of terrestrial and aquatic habitats and the biodiversity they support, including forests and oceans. It will also promote the efficient use of natural resources as the non-living environment (freshwater, soils, and abiotic elements) supports assemblages of living organisms and their interactions. Indirectly, positive impacts on biodiversity can improve the delivery of ecosystem services and therefore promote sustainable development. Prior Action 9 promotes the sustainable management of wild flora and NTFP as it requires the use of permits supported by technical studies for its use, applicable in the public and private sectors and domestic and commercial use. It will reduce the pressure of deforestation and regulate the ecosystem's services by promoting biodiversity conservation and the protection of natural resources.

92. **Potential risks of negative environmental effects related to NCRE projects in Pillar II may include the increase of Waste Electrical and Electronic Equipment (WEEE) generation and specific direct and indirect impacts** such as: (i) Wind Power: potential land use change, and to reduction, fragmentation or degradation of habitats for wildlife including changes on bird migration routes and collision threats of birds with spinning turbines; (ii) Solar Photovoltaics: potential impacts on land use and habitat loss, and water use; (iii) Biomass: potential land-use change and habitat loss due to deforestation to accommodate increased demand for feedstock, potential pollution of natural resources (soil, groundwater, and runoff water) using pesticides and other agrochemicals, potential soil erosion and soil sterilization due to monocultures, increased demand for freshwater for crops growth, and air emissions of harmful toxins that could be released during combustion, affecting the human health; and (iv) Geothermal: potential land-use changes associated with exploration and plant construction, noise and sight pollution, air and water pollution including the production of foul odors and increased water usage for drilling, and soil subsidence.

93. **Thus, environmental risk management instruments for the preparation and implementation of NCRE projects are necessary to properly identify and manage any potential negative environmental risks and impacts that may derive from the deployment of these technologies.** This assessment included a review of Colombia's legal and institutional framework for environmental management.

94. **The Ministry of Environment and Sustainable Development (MinAmbiente) is the national regulatory entity** in charge of formulating, implementing, and enforcing environmental policies and regulations to ensure environmental protection and sustainable development.

95. **Regarding the potential negative effect generated from WEEE, Resolution 098 of 2019 (CREG), requires compliance with the environmental regulation regarding final disposal of batteries and other electrical equipment, and the emission of pertinent environmental licenses or permits**. Decree 1076 of 2015 determines that WEEE should be treated as a different type of waste and prohibits its final disposal in sanitary landfills. WEEE is collected and managed by the waste producers and consequently managed by companies with an environmental license. Also, according to the WEEE National Policy, recycling, reuse and return to the producer are prioritized activities in companies that manage WEEE in Colombia, allowing for the reduction of exploitation, and preservation of natural resources. WEEE National Policy requires prioritization of recycling, reuse and return in companies that manage WEEE in Colombia. Limitations with waste transportation in remote locations and lack of waste management companies with environmental licenses may increase the risk of pollution due to poor practices for storage and disposal of WEEE. Projects in remote locations temporarily store significant quantities of WEEE before transportation to the authorized company (even if it is in another municipality) increasing the risk of pollution due to poor storage practices of this type of waste.

96. **The national environmental regulation requires NCRE projects (solar photovoltaics, wind, biomass, and hydroelectric) to develop the Environmental Impact Assessment according to the Terms of Reference[54] for the environmental license[55] and be established and maintained through the Environmental National Licensing Agency[56] and Regional Environmental Authorities**[57]. Currently, environmental regulation for geothermal energy projects is not yet issued by MinAmbiente. As mitigation measures for potential geothermal environmental impacts supported under Pillar II, article 21 of Law 2099 requires MinAmbiente to determine the environmental parameters that geothermal energy projects must comply with, the measures to mitigate potential environmental impacts, and the terms of reference to obtain the environmental license. The article also stipulates that geothermal energy projects will not be developed in the areas of the national protected areas system. The Ministry of Mines and Energy, also identified as a stakeholder in this DPF, has the necessary environmental management systems in place to identify and manage potential risks resulting from energy-related projects. The Office of Environmental and Social Affairs at the Ministry of Mines and Energy coordinates environmental and social matters with the environmental agencies, territorial authorities, communities, and those responsible for environmental and risk management of projects.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

[54] The terms of reference are the general guidelines that the environmental authority requires for the preparation and execution of the Environmental Impact Assessments (EIA) and the Environmental Diagnosis of Alternatives to obtain an environmental license.
[55] Terms of Reference for developing the Environmental Impact Assessment for: construction and operation of hydroelectric, use of Eolic continental energy, use of photovoltaic solar energy, electric energy transmission systems, construction and operation of energy generation by thermoelectric (>100 MV of installed capacity), construction of dams and water reservoirs (>200 millions of cubic meters of water capacity), Terms of Reference for request new material source for transport infrastructure projects.
[56] ANLA is responsible for the environmental licensing process and monitoring at a national level and has issued the terms of reference to carry out the necessary risk management instruments needed throughout the life of the project.
[57] CARs are in charge of managing the environmental licensing processing within their jurisdiction and are responsible for the management, enforcement, and monitoring of environmental permits/licenses.

97. **Public financial management (PFM).** A Public Expenditure and Financial Accountability Assessment for Colombia, finalized in 2016[58], concluded that Colombia's PFM system exhibits reasonable alignment with international good practices at the national government level. The more recent Fiscal Transparency Evaluation completed in 2018 reaches a similar conclusion[59]. The budget is comprehensive, well documented, and implemented as planned, with actual expenditures deviating on average from initially planned levels for 2020 and 2019 7.5 percent. The National Planning Department applies a multiyear perspective, with a Medium-Term Fiscal and Expenditure Framework in place since 2003, though these instruments have yet to be integrated with the budget process[60]. Nonetheless, the budget reflects a mostly well-functioning policy-based system[61]. Execution of budgeted expenditures suggests an overall credible budget that is published and accessible on the Ministry of Finance's website. The GoC has published its annual budget in a timely fashion[62].

98. **Fiscal transparency** is generally aligned with good practices except for inconsistent budget classification systems, the ongoing transition to public sector international accounting standards[63] and lack of disclosure of internally available information on macroeconomic scenarios, long-term projections, and public corporations. The Government has committed to addressing these weaknesses through a comprehensive reform plan. A trust-funded project was established in 2020 with the objective to "improve the quality of public financial management information and the efficient allocation of public resources through the development and implementation of tools and methodologies in selected sectors. Revenue and expenditure controls are comprehensive. Records and controls on cash flows, balances, and public debt support sound fiscal management and provide public institutions with the tools for predicting funding to execute their budgets in an orderly manner.

99. **Consolidated public accounts** are prepared within six months after the end of the fiscal year. They include full information on revenues, expenditures, financial assets, and liabilities. Year-end accrual-based financial statements are issued by the Accountant General and 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 procedures consistent with national government auditing standards. Audit reports are submitted before July 1 of the following fiscal year to Congress and the President.

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[58] Public Expenditure and Financial Accountability Assessment (PEFA) 2015 of Colombia's Public Financial Management Systems, October 14, 2016

[59] Colombia Fiscal Transparency Evaluation report (*https://www.imf.org/en/publications/cr/issues/2018/08/02/colombia-fiscal-transparency-evaluation-46148)*

[60] CONPES 4008 of October 26,2020 "National Information Policy for the PFM" the National Development Plan (PND) 2018-2022 Pact for Colombia, Pact for equity, included the proposal to reengineer the PFM. The conditions provided by the PND are materialized through the two strategic axes of this policy, oriented to the production of information from PFM in quality conditions and harmonized with international references. This, to cover the information needs of the entities (governing or executing agencies); plus, to improve the quality, transparency, and efficiency of PFM information in the country. The planned actions have an estimated cost of 135,141 million pesos, which will run from 2020 TO 2029.

[61] Colombia: Fiscal Transparency Evaluation report; (2018) PEFA 2015, IMF 2012.

[62] National Decree No. 2411 of December 30, 2019.

[63] SECO Trust Fund Program for the Strengthening of Public Finance Management will supporting transitional activities in process of agreement with CGN. The Adoption Status of IPSAS in Colombia, July 2017, annex E, calculation of the overall level of accrual alignment according to IPSAS reached 84 percent. (Colombia_Estudio+BID+EY_estatus+de+adopción+NICSP.pdf).

100. **Public Procurement.** Colombia has made significant progress over the past years in strengthening the performance of the procurement systems. Procurement is based on the legal framework provided in the 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 has consolidated its role and its principal programmatic priorities include the adoption of a more strategic approach to procurement as an essential component of public sector expenditure management; the universalization of the use of the transactional electronic procurement system SECOPII (according to the *Informe de Gestion Institucional* 2020 of CCE - the target, for 2020, was to have transactions for 40 billion of Colombian pesos; in 2019, transactions for 24.15 billion were processed and 57.74 billion in 2020); and professionalizing the procurement staff. On June 15, 2021, CCE launched the Open Contracting Board Portal, which includes descriptive information on public Procurement. This is an important milestone as it will allow comparative analysis in the future. For example, based on the information available, it can be determined that on average, between 2017 and 2020, 55.69% of the procurement activities are awarded following non-competitive methods (direct contracting, limited contracting, and selective contracting), which represents 48% of the amount of public procurement. The current principal priority of CCE is the promotion of the use of Standard Procurement Documents (SPD). In April 2019, the first kit of SPD, in this case for roads, was launched, its use is mandatory, and so far, results have been very positive. The Congress of Colombia has recently approved the Procurement Documents Law, Law 2022 of 2020, which mandates that Colombia Compra Eficiente (CCE) will adopt Standard Bidding Documents (SBD) that will be mandatory in the contractual activity of all entities subject to the General Contracting Statute of the Public Administration.

101. **Foreign Exchange Control Environment.** Fiduciary due diligence was conducted to cover the GoC bank account at Citibank N.Y used for depositing the proceeds of the DPF operations from the last three years. The external audit of the Consolidated Financial Statements of Citigroup Inc. and Subsidiaries for 2019-2020 had an unmodified opinion, and the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, was confirmed, this financial institution Citibank N.Y. is acceptable to the Bank. The due diligence did not reveal any fiduciary risks to the development objectives. Therefore, the fiduciary due diligence concluded that the FOREX internal control environment does not pose risks to the development objectives of this operation.

102. **The proposed loan will follow the World Bank's standard disbursement procedures for development policy support.** Upon approval of the operation, the effectiveness of the Financing Agreement, and the submission of a signed withdrawal application, the proceeds of the loan will be disbursed into an account denominated in U.S. dollars in a commercial bank, controlled by the National Treasury and part of the Government's foreign exchange reserves, acceptable to the WB for subsequent credit of the equivalent amount in Colombian Peso into the Treasury Single Account of the Ministry of Finance, thus becoming available to finance budgeted expenditures. The Borrower shall, within thirty (30) days after the withdrawal of the Loan report to IBRD: (i) the exact sum received into the FOREX account in the Citibank N.Y./Central Bank; (ii) the details of the account to which the Colombian Pesos equivalent of the Loan proceeds have been credited; and (iii) the record that an equivalent amount has been accounted for in the Borrower's budget management systems. This confirmation will include the applied rate of exchange and the date of transfer. The financial support provided under this operation is not intended to finance goods or services on the list of "Excluded Expenditures". If any portion of the credit is used to finance ineligible expenditures as so defined in the current General Conditions applicable to DPFs, the Bank

shall require the borrower to refund the amount, and such payments made for excluded expenditures would be canceled.

103. **Overall Integrated Fiduciary Risk is considered low.** As detailed in the PFM, Disbursement and Auditing Aspects section, the analysis of Colombia's PFM system, including public procurement, reveals strengths to support the transparent management of budget resources in a reliable manner, and the identified PFM weaknesses are being addressed through a reform plan and do not pose risks to the achievement of the program development objectives. The internal control environment over FOREX at the Citibank NY does not pose risks to the achievement of the program development objectives. On this basis, no specific audit of the deposit of the credit proceeds will be required, and no additional fiduciary arrangements are considered necessary.

104. The closing date of the proposed operation is March 24, 2023.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY[64]

105. **The Ministry of Finance (MHCP) and DNP are responsible for collecting and monitoring information related to program implementation and progress towards the achievement of results for this DPF**. MHCP and DNP are further responsible for coordinating necessary actions among the agencies involved in the reform program supported by this DPF. The World Bank is working with MHCP, DNP and sector agencies to confirm the results framework. The MHCP and DNP have long-standing experience collecting and monitoring information through several DPFS. Monitoring and evaluation of the operation will also be carried out through the ongoing policy dialogue and the technical assistance programs.

106. **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 World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel, which determines whether harm occurred, or could occur as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

SUMMARY OF RISKS AND MITIGATION

107. **This operation entails an overall residual risk level after mitigation of moderate. Macroeconomic**

[64] SECO Trust Fund Program for the Strengthening of Public Finance Management will supporting transitional activities in process of agreement with CGN. The Adoption Status of IPSAS in Colombia, July 2017, annex E, calculation of the overall level of accrual alignment according to IPSAS reached 84 percent. (Colombia_Estudio+BID+EY_status+de+adopción+NICSP.pdf).

risks and political and governance risks are rated as moderate in affecting the achievement of the operation's development objectives. Risks related to sector strategies and policies, technical design of the program, and institutional capacity for implementation and sustainability are assessed as moderate, in light of the high institutional capacity of implementing agencies and of the high degree of political ownership of the reform program, which is in large part derived from the findings of the Government's Taskforces on Capital Markets, Employment and Internationalization. Risks will be monitored throughout the implementation period of the DPF.

108. **Macroeconomic risk is considered moderate**. Colombia enjoys a track record of solid macroeconomic policies, which the recent strengthening of the fiscal rule reaffirms. There is still uncertainty whether the COVID-19 crisis has permanently affected both the level and the slope of the potential GDP trend. This has implications for determining the sustainability of macroeconomic policies and the recovery of employment. Also, new strains of SARS-CoV-2 could extend the health emergency and require another round of mass vaccination or lockdown measures, which could dampen confidence and weaken activity. Moreover, if export receipts, especially from tourism, do not pick up as projected, the correction of the current account deficit could happen through a large depreciation of the Colombian peso. Finally, the fiscal package approved in September could yield less fiscal adjustment than anticipated. The materialization of these exogenous shocks could directly affect Colombia's short- and medium-term growth prospects, lead to an increase in the cost of borrowing, and erode Colombia's fiscal capacity to support firms, households, and the recovery. However, it is not expected to cause the Government to back away from the policies supported by this operation or derail the achievement of its objectives. The strengthening of the fiscal rule, which now sets a clear and declining path for the fiscal deficit, and the institution of a fiscal council will anchor policies over the medium term, mitigating the exogenous risks described above. The Government is working closely with international financial institutions to mitigate macroeconomic risks further to secure fiscal buffers and formulate a balanced reactivation plan for the economy.

109. **Political and governance risks after mitigation is assessed as moderate**. Congressional and presidential elections scheduled for March and May 2022, respectively, create the possibility of a shift in development priorities. However, the platforms of presidential candidates do not suggest disagreement with the policy objectives supported by this operation, which have broad political support. At the operational level, the success of the program supported by this operation does not fully depend on high-level political decisions, and few of the actions underpinning the operation could be reversed easily. To mitigate the political risks, the World Bank will ensure continued close coordination with the Government to ensure the reform program outlined under this operation receives the necessary attention and prioritization. The World Bank will also engage early on with the incoming administration to help ensure continuity of the policies supported by the DPF.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Low
6. Fiduciary	Low
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	Low
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions	Results		
	Indicator Name	**Baseline**	**Target**
Pillar I - Reducing Income Inequalities (including gender-related) and Building Resilience			
Prior Action 1: The Republic of Colombia, through the Administrative Department for Social Prosperity (DPS) has: (a) extended the duration of *Ingreso Solidario;* (b) expanded the coverage of *Ingreso Solidario* and *Compensación de IVA* programs; and (c) mandated the use of a modernized targeting methodology through the Social Registry to improve the targeting of the flagship cash transfer program Familias en Acción, to provide support to low income and vulnerable households, as evidenced by the Social Investment Law No. 2155 of 2021, published in the Official Gazette on September 14, 2021, DPS Resolutions Nos. 00740 (dated April 21, 2021), 01043 (dated May 21, 2021), and 659 (dated April 13, 2021).	Results Indicator #1A: Percentage of poor households covered by Ingreso Solidario Results Indicator #1B: Percentage of poor households covered by Compensacion del IVA Results Indicator #1C: Percentage of beneficiary households of Familias en Accion identified using Sisbén IV	48% [2021] 16% [2021] 40.7% [2021]	61% [2022] 30% [2022] 90% [2022]
Prior Action 2: The Republic of Colombia has enacted measures that (a) prohibit discrimination against women's access to employment; and (b) increase the length of paternity leave, introduce shared parental leave, and allow parental leave to be taken on a part-time basis, in order to encourage the sharing of responsibilities for unpaid care work and to support women's economic empowerment, as evidenced by Law No. 2114 of 2021, published in the Official Gazette on July 29, 2021.	Results Indicator #2A: Regulatory framework for anti-discrimination measures and parental leave adopted for use Results Indicator #2B: Issuance of the methodology for the gradual increase of paternity leave	0 [2021] 0 [2021]	1 [2023] 1 [2022]
Pillar II - Promoting Economy-Wide Decarbonization and Climate Adaptation			

Prior Action 3: The Republic of Colombia, through its Ministry of Environment and Sustainable Development, has submitted to Congress for approval a draft of the Law (*Ley de Acción Climática*) to formalize the minimum goals and measures to achieve carbon neutrality, low carbon development and climate resilience in alignment with the updated NDC issued in 2020, as evidenced by the Letter from the Ministry of Environment to Congress dated September 29, 2021.	Results Indicator #3: Issuance of the monitoring and reporting requirements to be followed in the Implementation and Monitoring Plan for Carbon Neutrality and Climate Resilience	0 [2021]	1 [2022]
Prior Action 4: The Republic of Colombia has updated its legal and fiscal framework with the approval of an Energy Transition Law which supports increased use of non-conventional renewable energy (NCRE) resources and energy storage, low-carbon hydrogen production and use, and incentivizes greater demand for energy efficiency, to consolidate and further advance the low-carbon transformation of its energy system, as evidenced by the Law No. 2099, 2021 published in the Official Gazette on July 10, 2021.	Results Indicator #4: Grid-connected NCRE additional capacity contracted in utility (large-scale) projects	0 MW [2021]	750 MW NCRE additional capacity (PPAs signed) [2022]
Prior Action 5: The Republic of Colombia, through the Ministry of Mines and Energy (MME) and Colombia Regulatory Energy and Gas Commission (CREG), has enabled the large-scale development of NCRE resources in the electricity system by: (a) adopting a more efficient and competitive mechanism for awarding long-term electricity generation purchase agreements of NCRE projects, and (b) increasing regulatory certainty on the remuneration scheme for battery storage projects, as evidenced by the Ministry of Mines and Energy Resolutions No.40141 (dated May 7, 2021) and No.40179 (dated June 9, 2021); and by CREG's Resolution No.070 (dated June 4, 2021).	Results Indicator #5: 45 MW battery storage project in Atlántico region achieves financial closure by 2023	0 MW [2021]	45 MW battery storage capacity achieving financial closure [2023]
Prior Action 6: The Republic of Colombia, through CREG, has established clear connection procedures for de-centralized generators and criteria for the valorization of their energy surplus injected into the electricity system, to support the development of de-centralized grid-connected electricity generation from NCRE resources, as evidenced by the adoption of CREG's Resolution No.174 (dated October 7, 2021).	Results Indicator #6: Grid-connected NCRE additional capacity installed in decentralized (low-scale, less than 5 MW) projects.	40 MW [2021]	75 MW [2023]

Prior Action 7: The Republic of Colombia, through its Financial Superintendence of Colombia (SFC), has: (a) issued requirements for integrating Environmental, Social and Governance (ESG) and climate risks in the investment policy and governance arrangements of pension funds and insurance companies, as evidenced by Circular Externa 007 (dated April 26, 2021); and (b) set ESG and climate risk reporting requirements for voluntary pension funds, to create the conditions for improved climate-related risk management in the financial sector and for mobilizing green investment for sustainable growth and low-carbon development, as evidenced by Circular Externa 008 of May 10, 2021.	Results Indicator #7A: Number of pension funds and insurance companies integrating ESG and climate risk into their risk management frameworks Result Indicator #7B: Number of financial institutions that manage voluntary pension funds reporting ESG and climate risks exposures	5 [2021] 0 [2021]	37 [2023] 14[2023]
Pillar III – Mitigating Climate Change By Protecting Biodiversity and Reducing Deforestation			
Prior Action 8: The Republic of Colombia, through DNP, has approved the Policy for the Consolidation of the National System of Protected Areas (SINAP) to reduce the risk of loss of biodiversity, to secure preservation, restoration and sustainable use of landscapes, ecosystems, species, and genetic resources, as evidenced by CONPES document No. 4050 (dated September 27, 2021).	Results Indicator #8: Median percentage change in the management effectiveness index of public protected areas	0.09% [2021]	3% [2022]
Prior Action 9: The Republic of Colombia, through the Ministry of Environment and Sustainable Development (MADS), has approved new binding and harmonized regulations for the sustainable management of wild flora and non-timber forest products, to support the protection of biodiversity and the reduction of deforestation, as evidenced by Decree No. 690 of 2021 (dated June 24, 2021).	Results Indicator #9: Number of permits issued for sustainable use of wild flora and non-timber forest products	75 [average 2018-2020]	85 [2022]

ANNEX 2: FUND RELATIONS ANNEX

Colombia – Staff Concluding Statement of the 2022 Article IV Mission

(Available at: https://www.imf.org/en/News/Articles/2022/02/15/colombia-staff-concluding-statement-of-the-2022-article-iv-mision)

Changing Gears—From Recovery toward Expansion and Policies to Sustain Inclusive Growth

Washington, DC: Among the fastest recoveries in the region, Colombia's economy rebounded strongly, driven by private consumption, in 2021. With progress on vaccinations and continued reopening of the economy, strong growth momentum is expected to continue in the near term, although risks remain to the downside given that the pandemic has not ended. Despite the rapid recovery in economic activity, the recovery in jobs has lagged and key imbalances have emerged. Higher food and commodity prices, amid supply bottlenecks, have led to rising inflation and the consumption led recovery has resulted in a wider external deficit. Going forward, carefully recalibrating Colombia's policies will help sustain economic momentum and contain higher inflation, while strengthening public finances and reducing external imbalances. To aid job creation and equitably raise living standards, advancing key structural reforms and climate policies remain instrumental to secure sustainable and inclusive growth.

Colombia has experienced one of the fastest recoveries in the region, underscoring its resilience to the pandemic. Colombia's very strong policy frameworks and comprehensive policy response to Covid-19 helped create the conditions for the handoff to private demand that is underway. Fiscal measures provided insurance and support to vulnerable households and firms, enabling many to replenish or build up their savings in 2020, and allowed for pent-up consumer spending to propel the recovery in 2021. This year, the economy is expected to expand by 4½ percent—with above-trend growth led by robust household consumption, as the labor market continues to gradually recover while a resilient financial system and the credit cycle enter into a new upswing. Investment and export prospects should also support growth amid higher commodity prices.

Uncertainty around the pandemic, however, still clouds the outlook. Vaccination progress has reached 64 percent of population, but further inroads into vaccination rates are still needed. New variants of the virus are still a threat and the need for renewed containment measures still looms. Amid ongoing supply chain disruptions, inflation continues to rise—reaching almost 7 percent in January—which will challenge the central bank to rein in prices without unduly dampening growth. With higher external financing needs due to a wider current account deficit, Colombia is vulnerable to a sharp rise in global risk premia and other external shocks in a context of elevated global uncertainty. Other downside risks include a slower implementation of the infrastructure agenda and peace accord, while upcoming elections generate political uncertainty.

A window of opportunity to strengthen public finances

Alongside the recovery, Colombia's public finances are showing signs of improving with scope to make further gains. As highlighted in the government's financial plan for 2022, a lower fiscal deficit (-6.2 percent of GDP) than in the medium-term fiscal framework (-7 percent of GDP) appears within reach this year given higher tax collections. Following a narrower-than-anticipated fiscal deficit in 2021, continued policy efforts would further reduce fiscal financing needs that were elevated due to the pandemic. Moreover, the unwinding of pandemic-related support measures so far has been effective, helping put public debt on a downward trajectory already in 2021 (three years earlier than previously expected). With excess capacity diminishing, added fiscal revenue from higher-than-expected GDP and tax collections should be saved and further targeting and phasing out of exceptional pandemic measures should be considered (including public loan guarantees).

A sustained reduction in the fiscal deficit will be key to reducing internal and external imbalances. The Social Investment Law (SIL) is an important step in the right direction and the mission welcomes the strengthening of the fiscal framework—by explicitly outlining a transition path towards a structural balance rule with a new debt anchor. This objective, underpinned by underlying fiscal efforts, would help support external adjustment and ensure that fiscal deficit limits established in the medium-term fiscal framework are respected. Strong, independent oversight by the new Autonomous Fiscal Rule Committee (CARF) will be important for guiding the goals for deficit reduction and meeting or exceeding the targets, including in 2022. Fiscal consolidation would also lessen the burden on monetary policy to ease demand pressures and help ease sovereign borrowing costs by reducing debt.

Colombia would benefit from deeper fiscal reforms. While the robust economic recovery has improved Colombia's fiscal outlook, the mission believes that securing new revenue sources will be paramount to safeguarding key social protection programs and public investment, while supporting a faster reduction in the debt level. Beyond the revenue gains from the SIL and DIAN modernization, further raising revenues durably by an additional 1 – 1 ½ percent of GDP over the medium term would be desirable. Revenue mobilization efforts should aim to reduce tax distortions and loopholes, increase progressivity, improve fairness, and protect poorer households using compensating measures where needed. To complement higher revenues, spending efficiency gains can be achieved by better utilizing the social benefit system (SISBEN IV) and by building a new social registry to better identify recipients, further implementing energy subsidy reforms, and advancing initiatives to improve public procurement.

Recalibrating the pace of monetary normalization

To control rising consumer prices and prevent second-round effects from supply side factors, accelerated monetary tightening by the central bank is appropriate. Amid low excess capacity and real interest rates, faster monetary policy tightening is welcome. Added steps to raise interest rates in the first half of the year to sufficiently tighten monetary and financial conditions should guide inflation lower. This will help safeguard central bank credibility, anchor inflation expectations, insure against upside inflation risks, and help contain external imbalances. Monetary policy decisions and the balance of risks should continue to be clearly communicated to help guide market expectations. With high external financing needs and exposures, international reserve accumulation over time should continue to help maintain reserve adequacy and insure against external liquidity risks. The IMF's Flexible Credit Line (FCL) provides additional external buffers and enhances market confidence.

Reinforcing financial stability

Colombia's banks have withstood the pandemic remarkably well and the financial system remains sound. Financial regulatory support measures were introduced in 2020 to help borrowers through the pandemic and have since been successfully rolled back. Loan forbearance measures, including the Programa de Acompañamiento a Deudores (PAD), have been phased out. With a more favorable macroeconomic environment in 2021, banks exhibit strong capital and liquidity buffers, and operational profitability has recovered. Credit institutions appear well positioned to extend credit even as interest rates rise. Basel III implementation continues on track and banks have further strengthened capital adequacy.

The Colombian authorities have developed robust supervisory and regulatory frameworks to safeguard financial stability and certain steps would further enhance them. The IMF's Financial Sector Assessment Program (FSAP) team finds that Colombia has considerably strengthened its regulatory and supervisory system since the previous IMF assessment in 2012. Data availability and certain institutional arrangements for bank resolution and macroprudential frameworks can be enhanced. Given the upswing in credit, it would be important to continue closely monitoring the behavior of riskier loans and ensure that household and corporate leverage do not become excessive.

Structural reforms for job creation and to sustain inclusive growth.

Structural reforms are key to set the foundation for a sustainable and inclusive expansion. To aid job creation and bring employment closer to pre-pandemic levels, lowering barriers to firm and labor formalization would help reduce structural unemployment and enhance productivity. To extend the social safety net, the mission welcomes the introduction of the Social Protection Floor (SPF), which grants access to social security benefits for nearly 10 million workers earning less than minimum wage. The commendable Temporary Protection Status (TPS) program for Venezuela migrants should strengthen their integration and raise Colombia's economic potential. In other areas of social protection, retaining cash transfers for families but on a more targeted basis going forward can sustain income support for Colombia's most vulnerable households, particularly given the uncertain path of the pandemic. Pursuing a green recovery, identified as a key pillar of the sustainable recovery strategy within the Compromiso por Colombia plan and the recently approved Carbon Neutrality and Climate Resilience Law, will be critical for sustainable growth. Here, the successful launch of sovereign green bonds last year and the introduction of new environmental taxes, can support the government's green recovery plans by creating room for continued investment in key climate-related areas.

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The mission would like to thank the Colombian authorities for their cooperation and open discussions throughout our virtual visit.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

El emprendimiento es de todos — Minhacienda | El futuro es de todos — DNP Departamento Nacional de Planeación

Bogotá D.C., 15 FEB 2022

Señor:
DAVID MALPASS
Presidente
Banco Mundial
Washington, D.C.

Asunto: Carta de Política. Apoyo al Programa de Recuperación Equitativa y Verde

Apreciado Presidente Malpass,

Mediante la presente, deseamos manifestar el compromiso del Gobierno de Colombia en avanzar hacia un país con una recuperación equitativa y verde, haciendo frente a algunos de los grandes retos exacerbados por el impacto de la pandemia por el COVID-19. Tal como lo plantea nuestro Plan Nacional de Desarrollo 2018-2022 "*Pacto por Colombia, Pacto por la Equidad*", estamos plenamente convencidos de la necesidad de promover medidas enfocadas, especialmente, en la protección y apoyo a la población en situación de pobreza y vulnerabilidad, a través de la reducción de brechas de ingreso, eliminado barreras de acceso con un enfoque de género y con políticas de descarbonización, protección de la biodiversidad, así como acciones de mitigación y adaptación al cambio climático.

Como es de su conocimiento, la pandemia causada por el COVID-19 trajo efectos importantes en el crecimiento económico del pais. Para responder a la crisis, el Gobierno nacional expidió, en febrero de 2021, su Política para la Reactivación Económica, con una inversión estimada de US$ 998 millones, de los cuales un 44,76 % son destinados al sector social y un 14 % estarán destinados al compromiso con un crecimiento limpio y sostenible. Así, la política de reactivación del Gobierno nacional se enmarca en el objetivo de largo plazo de impulsar mayor equidad y de migrar hacia una senda de crecimiento más sostenible, en la medida en que se fomentan iniciativas como las soluciones basadas en la naturaleza; la producción pecuaria sostenible; los negocios verdes; la economía circular, y el uso de fuentes no convencionales de energía renovable, entre otros.

Una de las respuestas del Gobierno nacional ante la pandemia fue implementar transferencias monetarias a la población más vulnerable que vio afectados sus ingresos. Para la focalización de estas ayudas fue necesario construir una Base Maestra que integró el Sisbén III y Sisbén IV, El emprendimiento es de todos | Minhacienda

El futuro es de todos | DNP Departamento Nacional de Planeación

además de otros registros administrativos de programas sociales, con el propósito de identificar la población no cubierta por los programas nacionales. Esta base se constituyó como el inicio del Registro Social de Hogares planteado en el PND 2018 – 2022 y creado en el Decreto 812 de 2020, que integra la información socioeconómica de los hogares y los subsidios entregados a cada persona u hogar. Esta información es un insumo adicional que hace más eficiente el gasto social, evitando duplicidades en la asignación de subsidios y que permite identificar a la población excluida que requiere el apoyo por parte de los programas sociales. Lo que se espera es que, con esta información, exista complementariedad en las intervenciones sectoriales y con ello, mejorar cada una de las condiciones en las que los hogares presentan dificultades.

Adicionalmente, en Colombia persisten brechas entre mujeres y hombres, que reflejan menores oportunidades de autonomía económica y mayor vulnerabilidad, frente a la pobreza, para las primeras. Diferentes estudios muestran que las brechas de género en el mercado laboral están asociadas a las responsabilidades que asumen, mayoritariamente, las mujeres en torno a las actividades del cuidado. Una de las políticas señaladas, desde distintos referentes internacionales, tiene que ver con el otorgamiento de licencias de paternidad que se igualen o se acerquen más a las licencias de maternidad, las cuales pueden reforzar el papel de las mujeres como únicas responsables del cuidado, con consecuentes prácticas de discriminación hacia ellas en el mercado laboral. Estas situaciones se han profundizado y, por ello, resulta importante mantener las estrategias que permitan entender dichas situaciones diferenciales.

Para el Gobierno nacional, la transición energética se considera un elemento determinante para la reactivación económica, al promover nuevas inversiones y asegurar el abastecimiento energético, asegurando el uso racional y eficiente de los diferentes recursos. A partir de las Leyes 14267 y 14368 de 1994, dentro de los planes de expansión del sistema eléctrico se ha promovido la implementación de Fuentes No Convencionales de Energía Renovable (FNCER) para la diversificación de la matriz energética. Dichos esfuerzos han sido continuos en iniciativas como la Ley 1715 de 2014 y el Plan Nacional de Desarrollo 2018-2022, que incluye un Pacto por la sostenibilidad; además, han permitido, por ejemplo, realizar la primera subasta de contratos de largo plazo para proyectos renovables en 2019.No obstante, es necesario impulsar acciones específicas que permitan llevar estas tecnologías, de manera coordinada, a regiones que aún no cuentan con el servicio.

Contexto macroeconómico

La senda positiva de crecimiento económico que el país venía logrando por décadas sufrió un fuerte impacto derivado de la pandemia del COVID-19, lo que afectó los indicadores de reducción de pobreza, desempleo e informalidad. Sin embargo, las diversas medidas implementadas han permitido observar señales claras de recuperación y reactivación en Colombia. La previsión actual de crecimiento del PIB es del 9,7 % para el 2021, muy por encima del 6 % estimado en el Marco Fiscal de Mediano Plazo (MFMP) que fue publicado en junio de dicho año. Así mismo, se destaca que, por primera vez en el tercer trimestre del año, el nivel del PIB se ubicó por encima de los niveles previos a la pandemia.

El desempeño positivo reciente se ve reflejado, además, en el Indicador de Seguimiento de la Economía (ISE) que registró una tasa de crecimiento anual del 9,6 % a noviembre de 2021. Adicionalmente, la tasa de desempleo anual en 2021 fue del 13,7 %, lo cual representa una reducción de 2,2 puntos frente a 2020. En términos fiscales, el déficit en 2021 cerraría en 7,1 % del PIB, cifra inferior a la registrada en 2020 y sustancialmente menor a la proyectada en junio de dicho año (8,6 % del PIB), lo cual es resultado del repunte del recaudo tributario y los niveles prácticamente estables en los que se mantuvo el gasto, garantizando así la extensión de diversos programas dirigidos a contrarrestar los efectos negativos de la pandemia durante el 2021.

Se espera que Colombia continúe consolidando su proceso de reactivación en los próximos años, lo cual permitirá avanzar en el cierre de brechas y lograr que los indicadores sociales retomen los niveles previos a la pandemia. Para el 2022, se espera un gran dinamismo de la economía, alcanzando un crecimiento del 5 %, la tasa más alta entre las principales economías de la región. Así mismo, el país seguirá trabajando en un manejo macroeconómico responsable, reflejado en su compromiso con la sostenibilidad de las finanzas públicas. La senda decreciente de la deuda bruta del Gobierno Nacional Central inició en 2021, tres años antes de lo previsto en el MFMP. Este esfuerzo continuará en el 2022 con un déficit fiscal estimado del 6,2 % del PIB.

Situación actual de equidad y recuperación verde

A pesar de que Colombia ha avanzado en estrategias que fortalecen la política social y están encaminadas al cierre de brechas sociales, existen aún retos y desafíos en este sentido. Entre ellos, transitar a la consolidación del Registro Social de Hogares, que asigne el gasto social a partir de un enfoque socioeconómico, llevando a una mayor eficiencia del gasto y (micro) focalización de los recursos invertidos en toda la oferta social del país. El registro integrará información de caracterización socioeconómica auto-reportada por potenciales beneficiarios (Sisbén IV), información de registros administrativos disponibles, e información de la oferta de las entidades que proveen programas sociales o subsidios.

A través de la puesta en marcha del registro social se busca maximizar los impactos de la oferta social en la población más vulnerable, incluyendo acciones directas de la Nación para la reducción de la pobreza y la mejora en la calidad de vida de la población, así como estrategias de articulación y fortalecimiento institucional de los diferentes niveles de gobierno, de tal manera que se complementen los esfuerzos para la generación de entornos de desarrollo sostenibles y

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favorables, que faciliten el progreso de la población y de las regiones. Así mismo, permitirá que se valide y actualice la información socioeconómica de las personas y hogares de manera periódica, lo que, a su vez, facilitará: (i) la inclusión de beneficiarios a los programas sociales (y la exclusión de aquellos que no son elegibles); (ii) la asignación eficiente y efectiva de subsidios, a partir de la integración de la información de oferta y demanda de los programas sociales o subsidios, y (iii) el seguimiento nominal y trazabilidad de las personas y hogares que han sido beneficiarios de programas sociales o subsidios.

En cuanto a las estrategias para el cierre de brechas de género en el mercado laboral, específicamente aquellas asociadas a las cargas de cuidado que enfrentan las mujeres en el hogar, en Colombia se aprobó recientemente la Ley 2114 de 2021. Esta Ley establece la ampliación de la licencia de paternidad y crea la licencia parental compartida y la licencia parental flexible de tiempo parcial. Adicionalmente, establece medidas antidiscriminatorias en materia laboral, como la prohibición de la prueba de embarazo para acceso o permanencia en cualquier actividad laboral, así como de la realización de preguntas relacionadas con planes y reproductivos.

En resumen, la Ley plantea que el padre tendrá derecho a dos semanas de licencia remunerada de paternidad, que los padres podrán distribuir libremente entre sí las últimas 6 semanas de la licencia de la madre y, por último, que la madre y/o padre podrán optar por una licencia parental flexible de tiempo parcial, en la cual podrán cambiar un periodo determinado de su licencia de maternidad o de paternidad por un periodo de trabajo de medio tiempo, equivalente al doble del tiempo correspondiente al periodo de tiempo seleccionado. Este tipo de medidas, que buscan contribuir a la participación de las mujeres en la fuerza laboral, deberán ir acompañadas de cambios de mentalidad. Se deberá dar una eliminación de estereotipos de género que reproducen las desigualdades y de prácticas discriminatorias basadas en los roles de género, impulsadas por procesos educativos y transformaciones culturales.

La situación actual en materia de acceso a energía eléctrica evidencia la necesidad de cerrar las brechas en materia de cobertura del sistema eléctrico colombiano, para impulsar la recuperación económica a nivel nacional. De acuerdo con el Índice de Cobertura Eléctrica (ICEE), en el 2018 el 3,55 % de la población aún no contaba con cobertura de energía eléctrica. Para esta población, el desarrollo de FNCER constituye una oportunidad para cerrar estas brechas. Dichas iniciativas permitirían, no sólo impulsar la recuperación económica limpia y sostenible, sino que brindarían mejores condiciones de vida para dichas poblaciones. El potencial que brindan las FNCER se articulan con el Plan de Acción Indicativo de Eficiencia Energética (PAI-PROURE) 2017-2022, expedido por la Unidad de Planeación Minero-Energética, que estableció los potenciales de ahorro energético por sectores, así como las medidas específicas que requieren ser fortalecidas y desarrolladas de manera coordinada; es necesario consolidar herramientas de seguimiento y monitoreo para cumplir con dicho propósito.

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El programa de crédito

Si bien el Gobierno de Colombia ha venido mostrando, de manera decidida, su compromiso por contar con una recuperación equitativa y verde, esta operación, bajo la modalidad de Préstamo Programático de Apoyo a Reformas de Política (PBP), será fundamental para contribuir a mejorar la planificación, gestión y financiación, tanto de la política pública de protección social, como de acción climática y de crecimiento verde del país.

Gracias al acompañamiento técnico y financiero del BIRF, Colombia ha confirmado su compromiso con la importancia de avanzar en un crecimiento económico inclusivo y ambientalmente sostenible. No obstante, persisten necesidades, en materia de planificación, gestión y financiamiento, que deberán ser atendidas para reducir desafíos como la reducción de la tasa nacional de pobreza, que, durante 2020, aumentó de 35,7 % a 42,5 % y la probabilidad de pérdidas económicas anuales asociadas con el cambio climático y que han sido estimadas en 0,49 % del PIB anual hasta 2100.

A través de este préstamo programático, Colombia se compromete a impulsar medidas de política estratégicas, en tres componentes, que buscan aportar a los objetivos del Programa y están en línea con las políticas fiscales del país, velando por el mantenimiento de un entorno macroeconómico apropiado.

El primer componente de este programa busca promover la equidad en ingresos y género y desarrollar resiliencia en los hogares, a partir del apoyo de medidas que buscan mejorar la focalización y cobertura de transferencias sociales y que brindan herramientas de protección social más solidas, así como a reformas normativas relacionadas con la licencia de paternidad. Lo anterior se enmarca en acciones de política como la extensión del periodo de duración y la ampliación de la cobertura de programas *"Ingreso Solidario" "Compensación del IVA"*; así como la prohibición de la discriminación de género en el acceso de las mujeres a opciones de empleo y la introducción de la licencia parental compartida, aumentando el tiempo de duración de la licencia de paternidad.

El segundo componente tiene como objetivo la promoción de la descarbonización y la adaptación climática en la economía, a partir de acciones en el marco de los compromisos de la Contribución Determinada a Nivel Nacional de Colombia (NDC), con miras a regular las medidas para la reducción de las emisiones de gases de efecto invernadero y adaptación al cambio climático. Adicionalmente, se promueven políticas como la Ley de Transición Energética a través de la cual se apoya el aumento del uso FNCER e incentiva la demanda energética eficiente.

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Como acciones de política adicionales en este segundo pilar, se encuentra la adopción de un mecanismo más eficiente y competitivo para la adjudicación de contratos de compra de generación de electricidad a largo plazo de proyectos FNCER, y el aumento de la certeza regulatoria sobre el esquema de remuneración para los proyectos de almacenamiento de baterías, así como la definición de procedimientos claros de conexión para los generadores descentralizados; criterios para la valorización de su excedente de energía, y la regulación de normas que permitan mitigar a través de una mejor gestión del riesgo climático en el sector financiero y movilizar una más eficiente inversión verde sostenible.

Finalmente, el tercer componente del programa busca apoyar la mitigación del cambio climático mediante la protección de la biodiversidad y reducción de la deforestación, a partir de acciones de política como lo son la aprobación de la *"Política de Consolidación del Sistema Nacional de Áreas Protegidas (SINAP)"* y la expedición de normas vinculantes y armonizadas para el manejo sostenible de la flora silvestre y los productos forestales no maderables, para apoyar la protección de la biodiversidad y la reducción de la deforestación.

Sin otro particular y con lo expuesto en esta carta de política, esperamos haber dado cuenta de nuestra situación económica, así como de nuestra agenda de política pública, de corto y mediano plazo, para mejorar las condiciones para una recuperación equitativa y verde, proceso que esperamos seguir consolidando en el tiempo con el apoyo técnico y financiero del BIRF.

Sea esta la oportunidad para agradecer, una vez más, el apoyo incondicional del Banco Mundial para la consecución de las metas y objetivos estratégicos para el desarrollo integral y sostenible de Colombia.

Cordial saludo,

JOSÉ MANUEL RESTREPO ABONDANO
Ministro
Ministerio de Hacienda y Crédito Público

Alejandra Botero

ALEJANDRA BOTERO BARCO
Directora General
Departamento Nacional de Planeación

Unofficial translation of the Letter of Development Policy

In Bogotá. 15 February 2022

Mr
DAVID MALPASS
President
World Bank
Washington, D.C.

Reference: Policy Letter. Support to the Equitable Green Recovery Program

Dear President Malpass,

We hereby wish to express the commitment of the Government of Colombia to advance the country's equitable and green recovery and rise to its great challenges, further exacerbated by the impacts of the COVID-19 pandemic. As stated in our National Development Plan 2018-2022, the "Pact for Colombia, Pact for Equity", we are persuaded of the need to adopt measures to protect and support poor and vulnerable populations, including narrowing income gaps, removing gendered access barriers, and adopting policies for decarbonization, protecting biodiversity, and to mitigate and adapt to climate change.

The COVID-19 pandemic significantly impacted the country's economic growth. To respond to the crisis, in February 2021 the Colombian government issued its Policy for Economic Reactivation, at an estimated investment of US$998 million, of which 44.76% have allocated to the social sector and 14% will be destined to pursuing our commitment to clean and sustainable growth. Thus, the national government's reactivation policy is comprised in the long-term objective of promoting greater equity and following a more sustainable growth path, by fostering nature-based and similar solutions, including sustainable livestock production; green businesses; the circular economy, and the use of non-conventional sources of renewable energy, among others.

Colombia's national government responded to the pandemic, among other measures, through money transfers to the most vulnerable population whose incomes were adversely impacted. To target such assistance, it was necessary to build a Master Data Base including Sisbén III and Sisbén IV, in addition to other social programs' administrative records with a view at identifying the population not covered by national programs. This database laid the foundation for the Social Registry of Households proposed in the PND 2018 - 2022 and adopted by virtue of Decree 812 to combine households' socioeconomic data, and individual and household subsidy allocation records as an additional input to improving the efficiency of social spending and avoiding duplication in subsidy allocations, while making it possible to identify the excluded population that requires support from social programs. It is expected that, with this information, sectoral interventions will complement mutually and thereby address households' specific difficult conditions.

Additionally, subsisting gaps between Colombia women and men reveal the former's fewer opportunities for economic autonomy and greater vulnerability in the face of poverty. Various studies reveal that gender gaps in the labor market relate to care taking chores that mostly attributed to women. International references show the importance of granting paternity leave equal or closer to maternity leaves, as exclusively granting maternity leaves may strengthen women's role as sole responsible for care giving, resulting in discrimination practices against them in the labor market. These adverse situations have deepened and, therefore, it is important to keep in place strategies that allow understanding such different circumstances.

Colombia's national government regards the energy transition is a determining element for economic reactivation, including promoting new investments and ensuring the supply of energy, and the rational and efficient use of resources. By virtue of Laws 14267 and 14368 dating to 1994, the expansion plans of the electrical system have included promoting the implementation of Non-Conventional Renewable Energy Sources (FNCER) to diversify the energy matrix. These efforts have continued through initiatives such as Law 1715 of 2014 and the National Development Plan 2018-2022, including a Pact for Sustainability. In addition, these initiatives made possible, for example, organizing in 2019 the first auction of long-term contracts for renewables' projects. However, it is necessary to promote specific actions to bring these technologies, in a coordinated manner, to regions that do not yet receive these services.

Macroeconomic context

Colombia's economic growth of recent decades was severely impacted by the COVID-19 pandemic, as reflected in negative indicators for poverty reduction, unemployment, and informality. However, the various measures implemented have resulted in clear economic recovery and reactivation in Colombia, as shown by various indicators. GDP growth should have reached 9.7% in 2021, well above the 6% estimate included in the Medium-Term Fiscal Framework (MFMP) published in June that year. Likewise, it is noteworthy that in 2021's third quarter, GDP rose above pre-pandemic levels for the first time.

The recent positive performance is also reflected in the Economic Monitoring Indicator (ISE), which registered that grew at 9.6% annually, as of November 2021. Additionally, the annual unemployment rate in 2021 reached 13 .7%, or 2.2 points below 2020 figures. In 2021, the fiscal deficit is expected to close at 7.1% of GDP, a figure lower than in 2020 and substantially lower than the estimate from June of that year (8.6% of GDP), because of improved tax collection and practically unchanged spending. This has permitted to expand various programs aimed at counteracting the negative effects of the pandemic during 2021.

Colombia is expected to consolidate its economic recovery in coming years, making it possible to bridge remaining gaps and ensure restoring social indicators to their pre-pandemic levels. By 2022, Colombia's economy is expected to gain further momentum and reach 5% growth, the highest rate among the main regional economies. Likewise, the country will continue assuring responsible macroeconomic management, reflected in its commitment to the sustainability of public finances. The reduction of the Central National Government's gross debt began in 2021, three years earlier than forecast in the MFMP. This effort will continue in 2022 with an estimated fiscal deficit of 6.2% of GDP.

Equity and green recovery

Despite Colombia's progress in adopting strategies to strengthen its social policies aimed at closing social gaps, challenges remain in this regard. Among them, further consolidating its Social Registry of Homes, to allocate social spending based on a socioeconomic approach, for greater spending efficiency and (micro) targeting of the resources invested throughout the nation's social offering. The registry will incorporate potential beneficiaries' self-reported socioeconomic characterization data (Sisbén IV), administrative records' data, and information on the offerings by entities providing social programs or subsidies.

Creating the social registry seeks to maximize the impact of the social offer on the most vulnerable population, including direct actions by the national administration to reduce poverty and improve the quality of life of the people, but also coordination and institutional strengthening efforts at all levels of government, to thereby complement efforts already underway to create sustainable and favorable development environments that facilitate the people's and regions' advancement. Likewise, it will help to regularly update and validate individuals' and households' socioeconomic data. In turn, this will facilitate: (i) the inclusion of beneficiaries in social programs (and the exclusion of those who are not eligible); (ii) the efficient and effective allocation of subsidies, based on the merging of supply and demand data from social programs or subsidies, and (iii) the nominal monitoring and traceability of persons and households that have been beneficiaries of programs social or subsidies.

Regarding strategies to close gender gaps in the labor market, specifically those associated with women's home care burden, Colombia approved Law 2114 in 2021. This Law approved the extended paternity leave and creates shared parental leave and flexible part-time parental leave. Additionally, it establishes anti-discriminatory measures in labor matters, such as a ban on pregnancy tests for access to or permanence in any work activity, as well as asking questions related to reproductive plans.

The Law states that the father will have the right to two weeks of paid paternity leave, that parents will be able to freely distribute among themselves the last 6 weeks of the mother's leave and, finally, that the mother and/or father may opt for flexible part-time parental leave, in which they may exchange a certain portion of their maternity or paternity leave for a period of part-time work, equivalent to twice the time corresponding to the selected period. These types of measures, which seek to contribute to the participation of women in the labor force, must be accompanied by attitude changes. Gender stereotypes that reproduce inequalities and discriminatory practices based on gender roles need to be removed through education and cultural transformations.

In regards of access to electricity, Colombia needs to close grid coverage gaps to foster economic recovery at the national level. The Electricity Coverage Index (ICEE) shows in 2018 3.55% of the population lacked access to electricity. For these people, development of the FNCER is an opportunity to close these gaps as such initiatives would not only promote a clean and sustainable economic recovery but would also provide better living conditions for these populations. The potential offered by the FNCER is articulated with the Indicative Action Plan for Energy Efficiency (PAI-PROURE) 2017-2022, issued by the Mining-Energy Planning Unit, which established the potential for energy savings by sector, as well as the specific measures that need to be strengthened and developed in a coordinated manner. To accomplish this goal, it is necessary to consolidate follow-up and monitoring tools.

Credit program

Although the Government of Colombia has resolutely showed its commitment to an equitable and green recovery, this operation, comprised in the Programmatic Loan to Support Policy Reforms (PBP), will be essential to help improve the planning, management and financing the country's public social protection policy and climate action and green growth.

Thanks to IBRD's technical and financial support, Colombia has confirmed its commitment to the importance of advancing inclusive and environmentally sustainable economic growth. However, needs remain in terms of planning, management, and financing, which must be addressed to reduce challenges such as the reduction of the national poverty rate, which, during 2020, increased from 35.7% to 42.5%, and likely annual economic losses associated with climate change estimated at 0.49% of annual GDP through 2100.

Through this programmatic loan, Colombia will pursue its commitment to promoting strategic policy measures through three components that seek to contribute to the objectives of the Program and are in line with the country's fiscal policies, ensuring an appropriate macroeconomic environment will be preserved.

The first component of this program seeks to promote equity in income and gender and enhance households' resilience through support to measures aimed at improving the targeting and coverage of social transfers and to build more robust social protection tools, as well as regulatory reforms in paternity leave. The foregoing is part of policy actions such as the extension of the period and coverage of the "Solidarity Income" and "VAT Compensation" programs, and a ban on gender-based discrimination in women's access to employment and the adoption of shared parental leave, together with longer paternity leave.

The second component aims to promote decarbonization and climate adaptation throughout the economy, based on actions framed by the commitments made in the Nationally Determined Contribution of Colombia (NDC), with a view to regulating measures for the reduction of greenhouse gas emissions and adaptation to climate change. Additionally, policies such as the Energy Transition Law are promoted and thereby support expansion of FNCER use and incentivize efficient energy demand.

Additional policy actions in this second pillar include adopting a more efficient and competitive mechanism for the award of long-term electricity generation purchase contracts for FNCER projects, and improved regulatory certainty on the scheme to remunerate battery storage projects, as well as definig clear connection procedures for decentralized generators; criteria for the valuation of its surplus energy, and the regulation of standards that allow mitigation through better management of climate risk in the financial sector and mobilizing more efficient sustainable green investments.

Finally, the third component of the program seeks to support climate change mitigation by protecting biodiversity and reducing deforestation, through policy initiatives such as the approval of the *"Policy for the Consolidation of the National System of Protected Areas (SINAP)"* and proclaiming binding and harmonized regulations for the sustainable management of wild flora and non-timber forest products, and to support the protection of biodiversity and reduce deforestation.

We expect this policy letter outlines Colombia's economic circumstances and our short- and medium-term public policy agenda aimed at improving the conditions for an equitable and green recovery, through a process that we hope to continue consolidating over time with IBRD's technical and financial support.

We want to seize the opportunity to convey our gratitude once again for the unconditional support of the World Bank to achieve Colombia´s goals and strategic objectives conducive to our country's integral development.

Yours sincerely,

JOSÉ MANUEL RESTREPO ABONDANO	**ALEJANDRA BOTERO BARCO**
Minister	Director General
Finance and Public Credit	National Planning Department

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Reducing Income Inequalities (including gender-related) and Building Resilience		
Prior action #1: *Ingreso Solidario* and *Compensacion IVA*, and Sisbén IV targeting	There are no environmental effects expected, neither positive nor negative.	Positive poverty, distributional and social impacts expected
Prior action #2: Paternity leave and parental leave, and gender-based discrimination	There are no environmental effects expected, neither positive nor negative.	Positive poverty, distributional and social impacts expected
Operation Pillar 2: Promoting Economy-Wide Decarbonization and Climate Adaptation		
Prior action #3: Climate Action Law submission	Positive environmental effects expected	Positive distributional and social impacts expected
Prior action #4: Energy Transition Law	Positive environmental effects expected. Potential negative environmental risks are mitigable.	Positive distributional and social impacts expected
Prior action #5: NCRE penetration and storage	Positive environmental effects expected. Potential negative environmental risks are mitigable.	Positive distributional and social impacts expected
Prior action #6: Decentralized generation	Positive environmental effects expected. Potential negative environmental risks are mitigable.	Positive distributional and social impacts expected
Prior action #7: ESG and climate risks	Positive environmental effects expected	Positive distributional and social impacts expected
Operation Pillar 3: Mitigating Climate Change By Protecting Biodiversity and Reducing Deforestation		
Prior action #8: Protected Areas	Positive environmental effects expected	Positive distributional and social impacts expected
Prior action #9: Non-Timber Forest Products.	Positive environmental effects expected	Positive distributional and social impacts expected

ANNEX 5: DETAILED POVERTY AND SOCIAL IMPACT ANALYSIS

Pillar I. Reducing Income Inequalities (including gender-related) and Building Resilience

1. **Policies supported in Pillar 1 aim at strengthening the impact of social protection response on equity (gender and income). The two prior actions included in this pillar are expected to have direct and positive poverty and distributional effects in the short run, and a considerable range of positive effects in the medium to long run**. Income inequality, which had been increasing since 2018, increased further due to the pandemic. The Gini Index at the national level went from 0.526 in 2019 to 0.544 in 2020. The economic effects of the crisis resulted in an increase in poverty, which went from 35.7% to 42.5%, with 3.5 million people pushed into poverty in 2020 and 2.7 million into extreme poverty. The latter stood at 15.1% at the national level in 2020.[65]

Prior action #1: *Ingreso Solidario and Compensacion IVA*, and Sisbén IV targeting

2. **Social transfers support households' income and contribute to reducing poverty and vulnerability**. *Ingreso Solidario* was created mainly to mitigate the negative effects of the pandemic on family's incomes and populations without social protection. Nearly 3 million households received a monthly transfer in 2020. *Ingreso Solidario* not only cushioned the fall in labor but also increased households' spending on education, food, hygiene, and health during the pandemic and even improved financial inclusion[66]. The government also launched the VAT compensation social transfer, a program aimed at reducing the regressive nature of the VAT tax for households living under poverty. The government has been able to reach nearly 970,000 households (more than 3,7 million people) with this unconditional cash transfer, that is delivered every two months to the poorest beneficiary households of *Familias en Acción* and *Colombia Mayor,* registered in Sisbén.

3. **Extraordinary public transfers have played a central role in mitigating the effects of the pandemic on poverty** (Figure 1). Without these measures, poverty would have increased by an additional 3.6pp, with 1.3 million additional people falling into poverty. Similarly, the poverty gap and inequality would have increased further (Figure 3). It is estimated that IS explains nearly 63 percent of the total mitigation effect of social transfers on poverty, while VAT Compensation 9 percent (Figure 2).

4. **The measure supported in Prior Action 1 would contribute to reducing poverty and inequality.** Considering the new phase of the program, estimates suggest that expanding IS and VAT compensation up to 4.1. and 2.1 million households, respectively, would contribute to further mitigating the negative impact of the COVID-19 shock, reducing the poverty headcount by 2.9pp, the poverty gap by 2.6pp, and income inequality measured by Gini Index by 0.02 (Figure 3 and 4).

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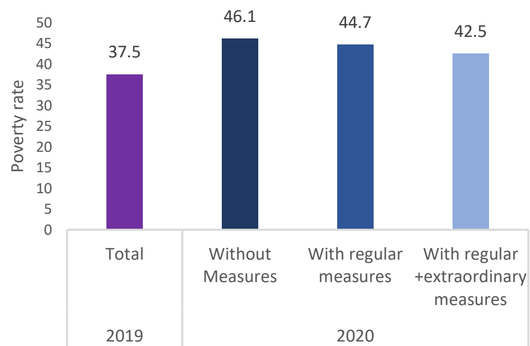
[65] Within the main cities and metropolitan areas, the increase in inequality measured by the Gini was almost 2.5 times greater than the increase in the national aggregate, going from 0.495 to 0.540; in the same way, in other urban areas inequality went from 0.505 to 0.537. Income inequality increased in Colombia, explained by the stronger impact of the crisis on those with the lowest income (even if the transfers mitigated part of the effect). This is due both to falls in income among the employed and also to job losses.

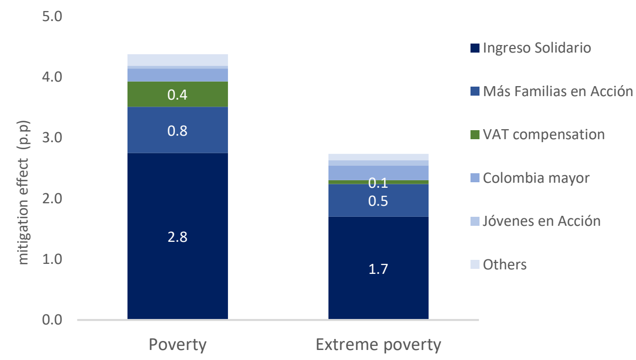
[66] Gallego, J., Hoffmann, B., Ibarrarán, P., Medina, M. P., Pecha, C., Romero, O., Stampini, M., Vargas, D., Vera-Cossio, D. A. (2021). Impactos del programa Ingreso Solidario frente a la crisis del COVID-19 en Colombia. Banco Interamericano de Desarrollo. http://dx.doi.org/10.18235/0003261

Figure 1. Mitigating effects of public transfers



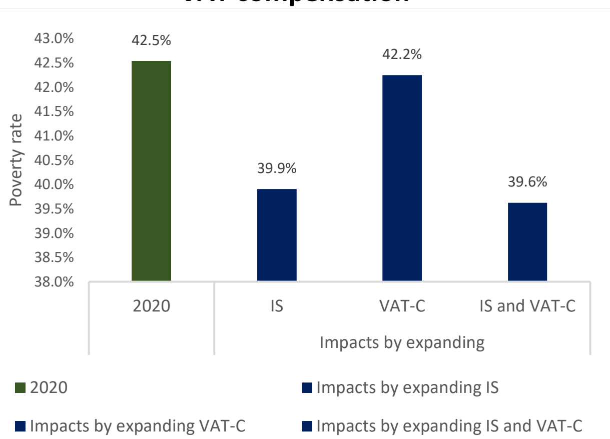
Source: DANE-Poverty report 2021

Figure 2. Impact of Ingreso Solidario and VAT devolution programs on poverty



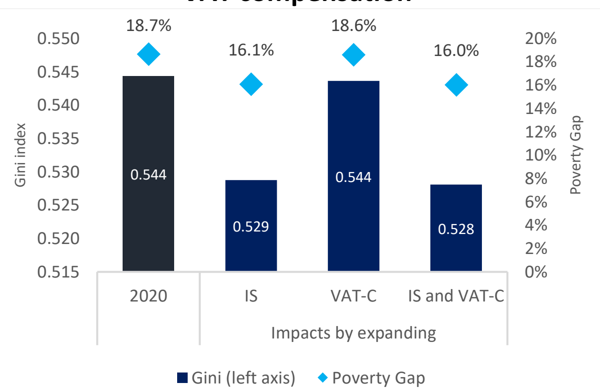
Source: COVID-19 microsimulations based on GEIH 2019

Figure 3. Poverty headcount from expanding IS and VAT compensation



Source: Own estimates based on GEIH 2020

Figure 4. Impacts on inequality of expanding IS and VAT compensation



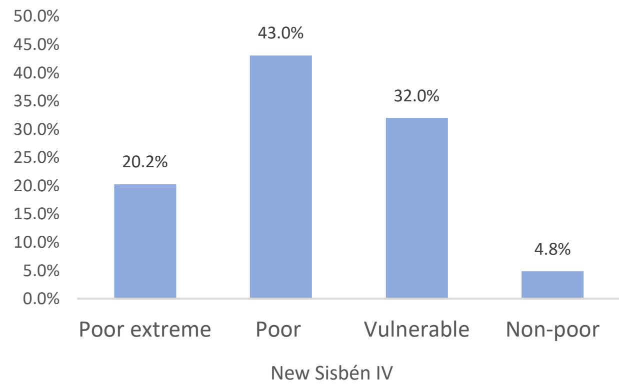
Source: Own estimates based on GEIH 2020

5. **Prior Action 1 also improves the main targeting instrument (Sisbén) for social programs eligibility. It is expected to have positive impacts on poverty reduction and equity in the short term**. Sisbén IV includes several technical innovations that mitigate both inclusion and exclusion errors. The new instrument: (i) calculates welfare considering monetary and multidimensional poverty; (ii) strengthens characterization of the population in need; (iii) modernizes data collection (on-demand registration); (iv) establishes a series of rules and responsibilities for beneficiaries and programs to improve data update and clear information about program eligibility and benefits; (v) integrates data at different government levels and institutions; and (vi) introduces a mechanism to include groups excluded. These measures improve the efficiency of social spending, assigning public resources to population in need and reducing existing gaps.[67]

[67] These gaps are documented in the Colombia Equity Flagship (World Bank 2021).

6. **The new targeting instrument can mitigate inclusion and exclusion errors**. There is significant middle- to high-income beneficiaries in social programs, which constitute inclusion errors. But also due to programs' fiscal constraints there is a high share of households in need who are not receiving benefits (exclusion errors). Based on the SisbénIV instrument, 89 percent of the extreme poor were not receiving Familias en Acción (FeA) in 2017 under Sisbén III, and 4.8 percent of the beneficiaries were non-poor[68] (Figure 6). Sisbén IV contributes to improving targeting and harmonizing access rules for *Familias en Accion* and subsequent social programs. By transitioning from Sisbén III to IV, *Familias en Acción* will reduce inclusion errors by 9 pp and exclusion errors by 8.7 pp[69].

Figure 5. Beneficiaries of Familias en Acción under Sisbén III, evaluated with Sisbén IV



Source: Own estimates based on ENPH 2017

Prior action #2: Paternity leave and parental leave, and gender-based discrimination

7. **Prior Action 2 is expected to have positive impacts in poverty reduction and equity in the short to medium term by promoting female labor force participation, enhancing the gender balance in household care activities and reducing barriers for women's employment.** While 56 of women are in the workforce, around 80 percent of men do. In Colombia, women are 1.7 times more likely to be unemployed than a man; the unemployment rate between January-March of 2021 was 7.1 percentage points higher for women than men (Figure 6). Moreover, women tend to have jobs of lower quality partly due to the disproportionate responsibility in households' tasks and care work[70] [71]. While 16.8 percent of women

[68] Taking individuals that report to be recipient of FeA in ENPH and assigning the new Sisbén Index who classifies individuals as poor extreme, poor, vulnerable and non-poor according with them presumptive income and individual characteristics.

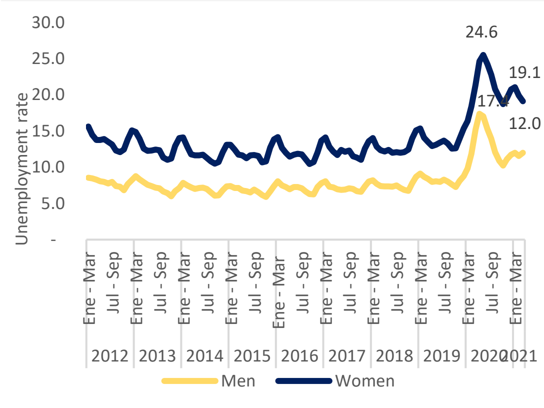
[69] Estimated inclusion errors were reduced from 22.3% to 13.3% and exclusion errors were reduced from 36.1 to 27.4%.

[70] Eduardo Lora. "Empleo femenino en las ciudades colombianas: un método de descripción estadística". Revista Desarrollo y Sociedad, no. 84 (2020): 131-179. *https://doi.org/10.13043/DYS.84.4* ; Arango, L. E., & Ríos, A. M. (2016). Duración del desempleo en Colombia: género, intensidad de búsqueda y anuncios de vacantes. En L. E. Arango, F. Castellani, & E. Lora (Eds.), *Desempleo Femenino en Colombia*. (pp. 135-170), Bogotá, Colombia: Banco de la República. Recuperado de *http://www.banrep.gov.co/es/publicaciones/desempleo-femenino-en-colombia Crossref*, *Google Scholar* ; Cardona-Sosa, L. & Morales, L. F. (2016). Efectos laborales de los servicios de cuidado infantil: evidencia del programa Buen Comienzo. En L. E. Arango, F. Castellani, & E. Lora (Eds.), *Desempleo Femenino en Colombia*. (pp. 207-230). Bogotá, Colombia: Banco de la República. Recuperado de *http://www.banrep.gov.co/es/publicaciones/desempleo-femeninoen-colombia Google Scholar*.

[71] Ramírez, N., Tribín, A. M., & Vargas, C. O. (2016). Maternidad y mercado laboral: el impacto de la legislación. En L. E. Arango, F. Castellani, & E. Lora (Eds.), *Desempleo Femenino en Colombia*. (pp. 267-300). Bogotá, Colombia: Banco de la República. Recuperado de *http://www.banrep.gov.co/es/publicaciones/desempleo-femenino-en-colombia*

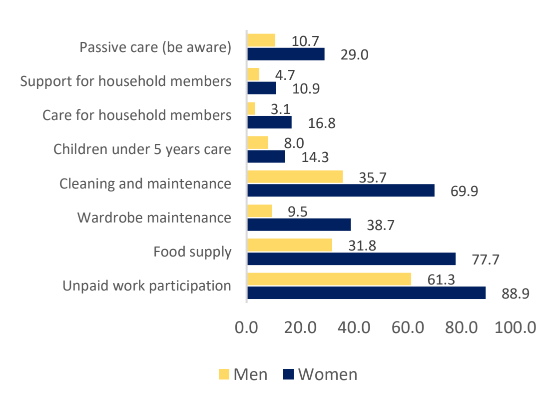
take care of children under 5 years, just 8 percent of men do (Figure 7). The law supported by this Prior Action fosters shared responsibility of caring responsibilities between men and women, facilitating women's access to economic opportunities. The non-discriminatory policies also have the potential of reducing gender gaps in access to jobs, with subsequent impacts on poverty and inequality reduction between groups. In fact, around one-fourth of the poverty reduction achieved in Colombia between 2009 and 2019 was due to increased female employment and income.[72]

Figure 6. Unemployment rate by gender. 2012-2021



Source: GEIH. DANE

Figure 7. Activities in Household care



Source: ENUT- Sep-Dec 2020. DANE

Pillar II. *Promoting Economy-Wide Decarbonization and Climate Adaptation*

8. **Policies supported in Pillar 2 are expected to have positive poverty and distributional effects in the medium to long run through climate mitigation and adaptation measures that are expected to reduce the impacts of climate change and their unequal effects on the population**. Colombia is among the countries in Latin America most at risk from climate change[73]**.** The country has a high incidence of rainfall variability and extreme events, with emerging problems related to climate conditions affecting the country's development and generating rapid changes in land use, population displacements from rural to urban areas, environmental degradation, and other socioeconomic challenges[74]. By 2050, climate change in Colombia is likely to impact the jobs and livelihoods of at least 3.5 million Colombians, the employment of 15 percent of the population, and the quality of 60 percent of the land currently suitable for agro-industries, among other ramifications.[75] Moreover, reducing air pollution boosts equality, as air pollution tends to disproportionally affect the poorer strata of society.[76]

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[72] Data from the World Bank Equity Lab: https://www.worldbank.org/en/topic/poverty/lac-equity-lab1/poverty/contribution-of-income

[73] Wold Bank (2021)

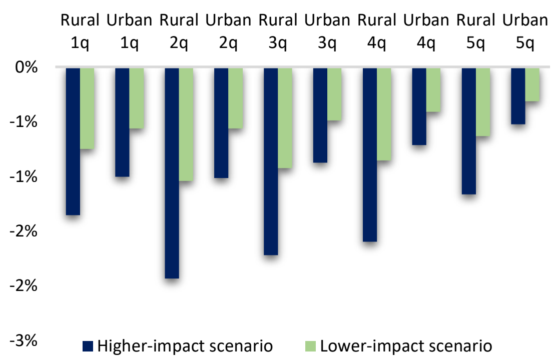
[74] Campos, Ana, Niels Holm-Nielsen, Carolina Díaz, Diana M. Rubiano, Carlos Costa, Fernando Ramírez, and Eric Dickson. 2012. "Analysis of Disaster Risk Management in Colombia: A Contribution to the Creation of Public Policies." World Bank, Washington, DC.

[75] Ramirez-Villegas, Julian, Mike Salazar, Andy Jarvis, and Carlos E. Navarro-Racines. 2012. "A Way Forward on Adaptation to Climate Change in Colombian Agriculture: Perspectives towards 2050." *Climatic Change* 115 (3-4): 611–28.

[76] Mura, Ivan, Juan F. Franco, Laura Bernal, Nicolas Melo, Juan J. Díaz, and Raha Akhavan-Tabatabaei. 2020. "A Decade of Air Quality in Bogotá: A Descriptive Analysis." *Frontiers in Environmental Science* 8.

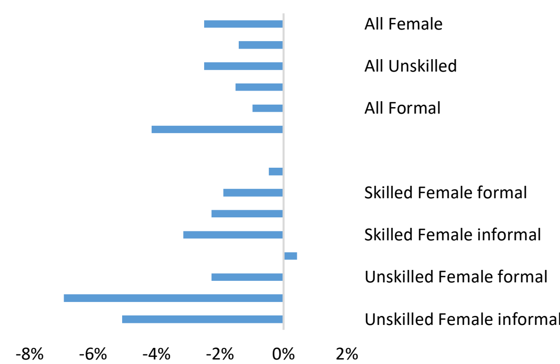
9. **Poor people are disproportionally affected by natural hazards and disasters**. They are more likely to live in a place affected by natural hazards, experience a considerable loss when affected and take more effort into the recovery [77]. People under poverty face a vicious circle, where poverty is a major driver of people's vulnerability to natural disasters, which in turn increase poverty in a considerable way. [78] The long-term impacts of climate change are uneven through population groups in Colombia, and if unaddressed, are expected to increase inequalities (World Bank 2021). Climate change will hit poor households harder than rich ones and rural households harder than urban ones, widening existing inequalities (Figure 8). Estimates also show that informal, unskilled, and female workers will be more affected than formal, skilled, and male workers, further widening inequality due to climate change. The combined effects mean that wages for unskilled male workers, the category with the highest potential losses, are expected to drop by 6.9 percent (Figure 9).

Figure 8. Household Income Changes in 2050 (percent) by climate change impact scenarios



Source: World Bank (2021)

Figure 9. Wage Effects in 2050 (percent) by climate change impact scenarios



Source: World Bank (2021)

Prior action #3: Climate Action Law submission

10. **The supported measure in Prior Action 3 is expected to have a positive effect on poverty and inequality by consolidating the government's collective action to address climate mitigation and adaptation, and thus mitigating the abovementioned negative distributional effects.** Carbon pricing, one of the measures incorporated in PA4, can also boost equity and poverty reduction indirectly by generating revenues that the government can use for equity-enhancing investments such as on climate-smart agriculture and social protection[79].

Prior action #4: Energy Transition Law; Prior action #5: NCRE penetration and storage; Prior action #6: Decentralized generation

[77] Hallegatte S, Fay M, Barbier EB (2018) Poverty and climate change: introduction. Environ Dev Econ 23(3):217– 233
[78] Hallegatte et al (2020). From Poverty to Disaster and Back: a Review of the Literature. Economics of Disasters and Climate Change (2020) 4:223–247
[79] World Bank (2021)

11. **Prior Actions 4 to 6 are expected to have positive distributional effects.** Beyond the overall positive long-term distributional impacts expected from climate change mitigation, as mentioned above, updating the fiscal and regulatory framework to incentivize the acceleration and penetration of NCRE projects may partly address some of the challenges that the low carbon transition can have in the labor market (through loss of jobs in certain sectors), by generating new sources of employment through construction and full-time employment generation under the scale-up of NCRE. [80] Ongoing work on green jobs transition as part of the Colombia Country Climate and Development Report will help assess these issues and propose mitigating policies to better manage the transition and its distributional impacts.

12. **Prior Action 4 is expected to have positive equity implications by enabling access to electricity services in non-interconnected areas for populations currently without electricity supply.** The benefits of expanded access to electricity service will be pro-poor. In 2018, Colombia's electrification rate reached 97 percent of households. Although relatively high, there are structural barriers to achieve the country's universal access goal. Households without access to basic electricity services are mostly rural and concentrated in the departments of Bolivar, La Guajira and Valle del Cauca. The heterogeneity in the access to the service across departments is large; while Bogotá has universal access, half of the households in La Guajira live in non-interconnected areas (ZNI for its acronym in Spanish).[81]

13. **Finally, measures included in Prior Action 5 that facilitate the large-scale development of non-conventional renewable energy resources in the electricity system can generate a decrease in energy prices**[82], potentially reducing households' expenditures, increasing their disposable income, and expanding welfare in terms of consumption capacity.

<u>Prior action #7: ESG and climate risks</u>

14. **Prior Action 7 is expected to have neutral distributional effects in the short run and moderate positive effects in the medium to long term by facilitating an efficient allocation of capital in the transition to a low-carbon and climate-resilient economy, mitigating negative effects on the most vulnerable groups.** While distributional impacts are expected to moderate, the supported measure creates conditions for improved climate-related risk management in the financial sector by incorporating a better understanding of climate-related risk as a priority in business development and by reducing risks for individuals and households. As described in a recent report[83], "*Floods are the main climate-related disaster risk in Colombia, leading to business interruption, damages to real estate, and damages to other capital goods*", which can affect the creditworthiness of affected businesses and households, but also erode the economies' assets. Along the same lines, the report also notes that "only a minor fraction (between 2 to 4 percent) of economic damages after disaster events are insured, leaving a large share of

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[80] Following World Bank (2021), capitalizing the emerge of this economic sector requires both labor market demand and supply response. Barriers to technology adoption prevent the integration of certain socioeconomic groups into the labor market. Improving technical and socio-emotional skills can have significant positive impacts on employment.

[81] SIEL, 2018, *«Consultas Estadisticas»*, *www.siel.gov.co, accesed on* Nov. 2021.

[82] For example, in solar energy have declined through technology development and efficiency in technology production learning. Kavlak, Goksin and McNerney, James and Trancik, Jessika E. (2017) – Evaluating the Causes of Cost Reduction in Photovoltaic Modules (August 9, 2017). In Energy Policy, 123:700-710, 2018, http://dx.doi.org/10.2139/ssrn.2891516

[83] World Bank (2021). Not-so-magical realism: A climate stress test of the Colombian banking system. EFI Insight-Finance. Washington, DC: World Bank

the burden on the government, households, and firms, thereby increasing the credit risk on banks that finance them."

Pillar III: Mitigating Climate Change By Protecting Biodiversity and Reducing Deforestation

Prior action #8: Protected Areas; Prior action #9: Non-Timber Forest Products

15. **Reducing the risk of biodiversity loss is expected to have positive effects on poverty and inequality reduction in the medium run by enforcing measures to protect environmentally sensitive areas and generating new income and diversified income sources, and positive distributional long-run effects by contributing to climate change mitigation**. Beyond the overall positive long-term distributional impacts expected from climate change mitigation, these Prior Actions support the recovery and conservation of important ecosystems in which ethnic communities now live; and the proper use of natural resources in remote regions, thereby ensuring the livelihoods of the inhabitants.

16. **Protecting biodiversity and ecosystem services is vital to Colombia's social, economic, and cultural development. Protected areas suffer from insufficient representativity and connectivity, governance weaknesses and insufficient financing**. Actions under PA 8 aim at improving protected area connectivity, increasing management effectiveness of the SINAP, and the co-responsibility of productive sectors in the management of protected areas, specially increasing the benefit accruing to local communities from protecting designated areas. In the same direction, PA 9 supports the sustainable use, management, and conservation of wild flora and non-timber forest products, hand in hand with indigenous peoples, small farmers and afro-Colombian communities.

17. **Actions in PA9 and 9 involve local communities such as indigenous, afro-Colombian and peasant communities in the decision-making process and boost formal land tenure in allowed areas for those who protect and make sustainable use of natural resources**. It also has the potential scope of achieving equity in the participation process of conservation benefits inside those local communities who make direct and sustainable use of natural resources, generating an improvement in their living conditions standards and well-being. Enhancing security and expanding management effectiveness of the SINAP can improve standard living conditions of local communities, who historically have been affected by illegal groups' presence, through protection, security, and access to public goods.[84]

[84] Protected areas are threatened by illegal incursions and land use change, illegal trade of wildlife, among other, increasing deforestation, suggesting that violence can exacerbate deforestation. Some illegal action groups generate large outflows of people to secure areas for growing illegal crops, exploit mineral resources, increasing deforestation (see Fergusson, Romero and Vargas (2014). The environmental impact of civil conflict: The deforestation effect of paramilitary expansion in Colombia. Universidad del Rosario. Facultad de Economía. Serie de documentos de trabajo No 165.). Also, recent evidence suggests that, as a consequence of the peace agreement process, state presence in areas marked by illegal territorial control can mitigate potential risks such as the increment of deforestation (Prem, Saavedra and Vargas (2019), end-of-conflict deforestation: evidence from Colombia's peace agreement. Universidad del Rosario. Facultad de Economía.).