



**The World Bank**

Equitable and Green Path Development Policy Financing (P180566)

## **The World Bank**

**FOR OFFICIAL USE ONLY**

Report No: PGD424

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$750 MILLION TO

THE REPUBLIC OF COLOMBIA

FOR THE

EQUITABLE AND GREEN PATH DEVELOPMENT POLICY FINANCING

May 16, 2023

Poverty And Equity Global Practice & Macroeconomics, Trade and Investment Global Practice  
Latin America And Caribbean Region

This document is being made publicly available prior to Board consideration. This does not imply a presumed outcome. This document may be updated following Board consideration and the updated document will be made publicly available in accordance with the Bank's policy on Access to Information.



Republic of Colombia  
**GOVERNMENT FISCAL YEAR**

*January 1 – December 31*

**CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of May 9, 2023)

COP4,515 = US\$1.00

**ABBREVIATIONS AND ACRONYMS**

ANLA	National Environmental Licensing Authority (in Spanish)	LDP	Letter of Development Policy
AM	Accountability Mechanism	LAC	Latin America and the Caribbean
CACS	Credit and savings cooperatives (in Spanish)	MVCT	<i>Ministerio de Vivienda, Ciudad y Territorio</i> (Ministry of Housing, City and Territory)
CCE	Colombia <i>Compra Eficiente</i>	MSMES	Micro, small and medium-sized enterprises
CONPES	<i>Consejo Nacional de Política Económica y Social</i> (National Council for Social and Economic Policy)	MHCP	<i>Ministerio de Hacienda y Crédito Público</i> (Ministry of Finance and Public Credit)
CPF	Country Partnership Framework	MTEF	Medium-Term Expenditure Framework
DIAN	<i>Dirección de Impuestos y Aduanas Nacionales</i> (National Tax and Custom Agency)	NDC	National Determined Contribution
DPF	Development Policy Financing	NDP	National Development Plan
ETPV	<i>Estatuto Temporal de Protección para Migrantes Venezolanos</i>	OECD	Organization for Economic Co-operation and Development
ETS	Emissions Trading System	PDO	Proposed Development Objective
FCL	Flexible Credit Line	PFM	Public financial management
FEPC	<i>Fondo de Estabilización del Precio de los Combustibles</i> (Fuel Price Stabilization Fund)	SDR	Special Drawing Rights
GDP	Gross Domestic Product	SCD	Systematic Country Diagnostic
PER	Public Expenditure Review	RSH	Social Registry of Households (in Spanish)
GHG	Greenhouse Gases	RUI	Universal Income Registry (in Spanish)
GRS	Grievance Redress Service	SSB	Sugar-Sweetened Beverages
GNP	Gross National Product	TPP	Temporary Protection Permit
IBRD	International Bank for Reconstruction and Development	VAT	Value Added Tax
IDA	International Development Association	RUI	Universal Income Registry (in Spanish)
IFC	International Finance Corporation	WB	World Bank
IMF	International Monetary Fund	WBG	World Bank Group

Regional Vice President: Carlos Felipe Jaramillo  
Country Director: Mark Roland Thomas  
Regional Director: Robert R. Taliercio

Practice Managers: Carlos Rodríguez Castelán  
Doerte Doemeland

Task Team Leaders: María Eugenia Dávalos  
Paolo Dudine  
Eliana Rubiano



**REPUBLIC OF COLOMBIA**

**EQUITABLE AND GREEN PATH DEVELOPMENT POLICY FINANCING**

**TABLE OF CONTENTS**

<b>SUMMARY OF PROPOSED FINANCING AND PROGRAM .....</b>	<b>3</b>
<b>1. INTRODUCTION AND COUNTRY CONTEXT .....</b>	<b>5</b>
<b>2. MACROECONOMIC POLICY FRAMEWORK.....</b>	<b>6</b>
2.1. RECENT ECONOMIC DEVELOPMENTS.....	6
2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY .....	10
2.3. IMF RELATIONS .....	17
<b>3. GOVERNMENT PROGRAM .....</b>	<b>17</b>
<b>4. PROPOSED OPERATION .....</b>	<b>18</b>
4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION .....	18
4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS .....	19
4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY .....	33
4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS .....	34
<b>5. OTHER DESIGN AND APPRAISAL ISSUES .....</b>	<b>35</b>
5.1. POVERTY AND SOCIAL IMPACT .....	35
5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS .....	35
5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS.....	36
5.4. MONITORING, EVALUATION AND ACCOUNTABILITY .....	38
<b>6. SUMMARY OF RISKS AND MITIGATION .....</b>	<b>39</b>
<b>ANNEX 1: POLICY AND RESULTS MATRIX .....</b>	<b>40</b>
<b>ANNEX 2: FUND RELATIONS ANNEX .....</b>	<b>44</b>
<b>ANNEX 3: LETTER OF DEVELOPMENT POLICY.....</b>	<b>47</b>
<b>ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE .....</b>	<b>60</b>
<b>ANNEX 5: POVERTY, SOCIAL AND DISTRIBUTIONAL IMPACTS.....</b>	<b>61</b>

The Colombia Equitable and Green Path Development Policy Financing was prepared by an IBRD team led by María Eugenia Dávalos, Paolo Dudine, and Eliana Carolina Rubiano Matulevich. It includes Cornelia Mirela Catuneanu, Dean A. Cira, Patricia De Narvaez Cano, Donato De Rosa, Carolina Escobar, Jeannette Estupinan, Sara Daniela Garcia Rodriguez, Desiree Gonzalez, Eva M. Gutierrez, Laura Juliana Higuera Ardila, Julian Lee, Raquel Alejandra Letelier, Manuel Luengo, Rocio M. Malpica, Fabiola Mercado Jaldin, Dahiana Merizalde, Carlos Alberto Molina Prieto, Juan Manuel Monroy, Ivonne Astrid Moreno, Martin Oswald, Andres David Pinchao Rosero, Maryan Porras Barrera, Francisco Rodriguez, Luz Stella Rodriguez, Paula Andrea Rossiasco, Carlos Senon Benito, Ana Maria Torres, Jeremy Veillard and Vanessa Alexandra Velasco Bernal. It was supported by additional colleagues who provided important contributions and guidance in the process.

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 Ministry of Finance and Public Credit (MHCP) and the Department of National Planning.



## SUMMARY OF PROPOSED FINANCING AND PROGRAM

### BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P180566	Yes	1st in a series of 2

### Proposed Development Objective(s)

The development objective of the proposed operation is to support measures that promote (i) more equitable and green fiscal policies, (ii) productive and social inclusion for vulnerable groups, and (iii) inclusive and green private sector development.

### Organizations

Borrower: REPUBLIC OF COLOMBIA

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

## 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



**Results**

Indicator Name	Baseline	Target
Results indicator #1A: Average effective tax rate from personal income tax for individuals in the highest gross income decile of distribution of those filing personal income taxes, measured from DIAN published tax database	8.9% [2020]	9.9% [2025]
Results indicator #1B: Revenue collected from the wealth tax, in percent of Gross Domestic Product (GDP)	0% of GDP [2022]	0.11% of GDP [2025]
Results indicator #T1: Percentage of poor population covered by the system of social assistance transfers	83% [2021]	93% [2025]
Results indicator #T2: Percentage of poor households included in the RUI	90% [2023]	100% [2025]
Results indicator #2: Percentage of children between 2 and 17 years consuming at least one sugar-sweetened beverage daily	24.2% [2019]	20% [2025]
Results Indicator #3: Carbon tax revenues raised (net of offsets), in billions of Colombian pesos	424 [2022]	708 [2025]
Results Indicator #T3: Reduction of the deficit of the Fuel Price Stabilization Fund, in percent of GDP	2.6% of GDP [2022]	0.6% of GDP [2025]
Results Indicator #4A: Placement of women by public employment services	1,477,232 [2022]	1,744,757 [2025]
Results Indicator #4B: Main cities that include in their development plans the guidelines for the development of care systems to reduce, redistribute, represent, and reward care work	0 [2023]	5 [2025]
Results Indicator #4C: Share of women victims of gender-based violence that receive physical and mental health care on suspicion of physical, psychological, and sexual violence	77% [2021]	83% [2025]
Results Indicator #5: Number of municipalities in which ethnic and peasant communities are enabled as cadastral implementors	0 [2022]	10 [2024]
Results Indicator #6A: Total number of higher education degrees granted by Venezuelan institutions to Venezuelan migrants and Colombian returnees that are recognized in Colombia	2,746 [2023]	9,088 [2025]
Results indicator #6B: Total number of migrants who benefitted from housing subsidies	181 [2021]	1,600 [2025]
Results Indicator #7A: Number of Micro, Small & Medium Enterprises (MSMEs) members of CACs	0 [2022]	65,000 [2025]
Results Indicator #7B: Number of MSMEs with credit provided by CACs	0 [2022]	15,000 [2025]
Results Indicator #7C: Number of successful API requests for payment initiation	0 [2022]	4,000,000 [2025]
Results Indicator #8: Share of greenhouse gas (GHG) emissions covered by the pilot phase of the Emissions Trading System (ETS)	0% [2022]	10% [2026]
Results Indicator #9: Number of thematic bond issuances that comply with the instructions of CE 020/2022	1 [2022]	4 [2025]



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

### 1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Equitable and Green Path Development Policy Financing (DPF) for \$750 million aims to support measures that promote (i) more equitable and green fiscal policies, (ii) productive and social inclusion for vulnerable groups, and (iii) inclusive and green private sector development.** It is the first operation in a programmatic series of two. The PDO is strongly aligned with the government's policy agenda, which is centered on equity and sustainability. The National Development Plan 2022-2026 (NDP 2022-2026) (approved by Congress on May 5<sup>th</sup>, 2023) aims to overcome inequities and exclusions that have led to the country's high levels of inequalities and to advance the peace process. It aims at promoting an environmentally sustainable development path and a productive transformation that leverages technology adoption in agriculture and transport infrastructure and greater investment in science, technology, and innovation.

2. **Income inequality in Colombia is one of the highest in the world.** It is the highest among Organization for Economic Cooperation and Development (OECD) countries and the second highest among 18 Latin America and Caribbean (LAC) countries. Inequality increased with the COVID-19 shock, with the Gini coefficient increasing from 51.7 to 54.4 between 2018 and 2020. While the economic recovery in 2021 reversed national income inequality, this remains very high (52.3). Moreover, the recovery did not reach all groups: while the national poverty rate dropped to 39.3 percent in 2021, down from 42.5 in 2020, rural poverty increased, the poverty rate only declined marginally for Venezuelan migrants and stayed the same for Afro-Colombians and indigenous people, groups with significantly higher poverty rates pre-pandemic. Large disparities also limit social mobility for these groups: for instance, learning-adjusted years of education – a component of the Human Capital index – are significantly lower for ethnic groups and children living in certain departments such as Vaupés, Vichada and Guainía<sup>1</sup>. Finally, the increasing frequency and intensity of climate-related shocks exacerbate inequalities as they impact disproportionately less well-off groups (women and informal workers, and rural households).<sup>2</sup> Tackling inequities can increase the country's growth potential through a more skilled and productive labor force and tighter social cohesion.<sup>3</sup>

3. **Colombia's economy has been growing robustly since 2021, and the macroeconomic policy institutional framework remains strong, but policy action is needed to foster inclusive growth.** In Q4 of 2022, real GDP was 10.4 percent, above its pre-pandemic level (Q4 of 2019), after annual average growth of 3.4 percent between Q4 of 2019 and Q3 of 2022. Macroeconomic policies continue to be guided by a credible inflation-targeting regime, a flexible exchange rate, and rule-based fiscal policies, which are solid foundations for macroeconomic stability. At the same time, the economy has overheated, the current account deficit remains high, and a sustainable reduction of the general government's debt-to-GDP ratio requires prudent fiscal policy management. As the economy is headed towards a needed cooling down, prospects for growth-driven poverty reduction are narrowing. Moreover, growth alone is unlikely to reduce poverty for all groups, with complementary actions needed to promote productive and social inclusion. Finally, climate change poses longer-term challenges to Colombia's development by increasing the risk of damages to physical capital, disruption of electricity generation, reduced labor productivity, human capital erosion, and agricultural losses.

<sup>1</sup> World Bank, 2021.

<sup>2</sup> World Bank, 2021.

<sup>3</sup> For example, closing gender gaps in labor force participation and education would increase Colombia's GDP per capita by an estimated 14 percent by 2050 (Devadas and Kim 2020).



Lifting productivity and shifting exports away from oil and coal pose additional economic challenges.

**4. The proposed operation directly supports the Government’s objectives, and its content is framed under the proposed National Development Plan 2022-2026.** The program supports reforms towards a more progressive fiscal tax system and aligning taxes with sustainability and better health. It recognizes that not all groups have the same opportunities and that targeted actions are needed to reduce the barriers they face. The program supports measures to narrow inequalities in the productive capacity of the worse-off in society, with groups defined by gender, ethnicity, location, and migration status. The program also supports a more inclusive and greener private sector through financial inclusion, a financial sector better aligned with climate objectives and policies to catalyze a green economic transformation.

**5. The proposed operation is also aligned with World Bank Group strategies and priorities.** First, it is consistent with the four priorities of the 2016-2023 World Bank Gender Strategy, particularly with priorities of removing constraints for more and better jobs and enhancing women’s voice and agency. The DPF is aligned with the Green, Resilient, and Inclusive Development (GRID) approach: (i) Green, by promoting the path towards decarbonization and a green financial sector; (ii) Resilient, investing in solid public finances and a better response to shocks from the social protection system; and (iii) Inclusive, to ensure that Colombia builds a more equitable society, through increased economic opportunities for women and marginalized population groups. Finally, it is also aligned with the four Pillars of the World Bank Global Crisis Response Framework (GCRF): (i) Responding to Food Insecurity; (ii) Protecting People and Preserving Jobs; (iii) Strengthening Resilience; and (iv) Strengthening Policies, Institutions and Investments for Rebuilding Better.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS

**6. Although Colombia’s economy has been growing rapidly since 2021, the economy has now overheated, with stubbornly high inflation and an increase in the current account deficit.**

- GDP grew 7.5 percent in 2022. Pent-up private consumption on the demand side and commerce and manufacturing on the supply side were the primary drivers of growth in 2022.<sup>4</sup> As a result, the activity level climbed above the pre-COVID trend, and the economy is now estimated to be operating above potential. The labor market has performed better than in other countries, but conditions are tightening. Employment is now 5.0 percent above pre-pandemic levels. In February, the unemployment rate reached its lowest level since mid-2019 (10.3 percent, seasonal adjusted); nevertheless, the inactive population remains above pre-pandemic levels.
- Inflation reached 13.1 percent at end-2022 (a 23-year high) and 13.3 percent in March 2023 (among the highest in LAC), pushed by external and domestic price shocks, including global supply disruptions, the depreciation of the Colombian peso, higher utility prices, and the indexation of house rental and education prices. In 2022 the exceptionally strong La Niña phenomenon affected agriculture, leading to

<sup>4</sup> In 2022, activity in the mining sector remained weak owing to lagging investment. Activity in the construction sector picked up, but the normalization of activity that started in late 2016, after the 2013-15 construction sector boom, still weighs on this sector.



crop losses and increased domestic food inflation. With inflation expectations for end-2023 at 9.0 percent,<sup>5</sup> on May 2<sup>nd</sup> the Central Bank increased the monetary policy interest rate to 13.25 percent, pushing the real rate above 5 percent.<sup>6</sup> Tighter monetary policy has passed through to bank lending rates.

- The current account deficit (CAD) increased to 6.2 percent of GDP in 2022, driven by strong import and weak export growth rates (42.7 and 25.7 percent, respectively) and the strong recovery of payments of dividends to foreign investors and reinvested earnings. In 2022, foreign direct investment (FDI) increased relative to 2021 (although FDI fell in the second half of the year), and net borrowing declined. International reserves stood at US\$57 billion at end-2022, the equivalent of 193 percent of short-term debt as of December 2022 or 8.2 months of imports of goods and services projected for 2023.

**7. While the labor market has recovered, inflation has slowed poverty reduction.** Informality has declined in both urban and rural areas (from 47.3 percent in 2021 to 45.2 percent in 2022 in urban areas and from 60.2 percent in 2021 to 58.2 percent in 2022 in rural areas). However, there is wide variation in informality rates across the territory (from 69.6 percent in Valledupar to 33.9 in Bogota). Indigenous people and Afro-Colombians face an informality rate of 83.7 and 70 percent, respectively (compared to 56.5 percent for other groups).<sup>7</sup> Moreover, high inflation (with food inflation as high as 21.8 percent as of March 2023) is estimated to have affected the vulnerable and poorer groups disproportionately, partially offsetting the 2022 poverty gains from the economic recovery (and estimated to have fully offset income gains for the extreme poor). Due to rising living costs, 5.0 and 4.2 percentage points in total and extreme poverty reduction are estimated to have been eroded in 2022, respectively. Intense precipitations associated with *La Niña* phenomenon in 2022, with severe floods and landslides, are estimated to have affected over 750,000 people, damaging dwellings and affecting health, education, road infrastructure, and crops.

**8. The strong rebound of nominal GDP helped reduce the central government deficit, but transfers to cover oil subsidies exerted pressure on the budget.** The central government deficit declined from 7 percent in 2021 to 5.3 percent of GDP in 2022, driven by (i) buoyant taxes, (ii) strong oil-related non-tax revenues, and (iii) zero real growth in household transfers, wages, and salaries. As retail fuel prices have increased little since 2021, transfers to cover part of the Fuel Price Stabilization Fund (FEPC, from its acronym in Spanish) deficit reached 1.3 percent of GDP in 2022. The government's financing needs for 2022 (excluding the accumulation of deposits) amounted to 7.3 percent of GDP and were covered primarily through domestic borrowing. To reduce the deficit of the FEPC, the government increased gasoline prices by a cumulative 15.8 percent between October 2022 and March 2023. Driven by the central government deficit decline, general gross government debt declined to 64.7 percent of GDP in 2022.

**9. The government has submitted pension, health, and labor reform bills to Congress,<sup>8</sup> which remain under discussion there.** The pension reform bill does not introduce parametric changes<sup>9</sup> but (i) establishes a minimum

<sup>5</sup> The Central Bank operates under an inflation targeting band, from 2 to 4 percent.

<sup>6</sup> Calculated using 12-month ahead inflation expectations.

<sup>7</sup> Data from DANE, as the average from November 2021 to October 2021.

<sup>8</sup> The health reform on February 13<sup>th</sup>, 2023, the labor reform on March 16<sup>th</sup>, 2023, and the pension reform on March 22<sup>nd</sup>, 2023.

<sup>9</sup> Under the current pension system individuals can enroll in either the public defined-benefit system (administered by Colpensiones) or the private defined-contribution system, with the ability to switch to the public system no later than 10 years before retirement. Retirement age is 62 for men and 57 for women, with 1,300 weeks of contributions required in the public system and 1,150 in the private system (if minimum contributions are not met, total contributions are returned adjusted by inflation). The public system's replacement rate is 64 percent, above the actuarially fair rate.



universal pension<sup>10</sup> for the poor and the vulnerable, (ii) introduces a mixed contributive pillar whereby individuals would make pension contributions to the public pension system (Colpensiones) on labor income up to three minimum wages, and to private pension funds for the remainder exceeding three minimum wages, (iii) increases contributions for those in the highest income percentiles, and (iv) reduces contribution requirements (in terms of weeks) for women with children. The reform would increase coverage and reduce the generosity of pensions to the richest. The health reform aims to expand primary healthcare services and strengthen public healthcare institutions while introducing substantial changes to the current organizational structure and payment system. Finally, the labor reform focuses on formal workers' conditions and proposes to make ride-hailing and food delivery applications pay workers' social security contributions. These reforms aim to contribute to narrowing existing gaps in the distribution of spending on pensions and assistance to the elderly, as well as health results.

**10. After a steep depreciation, the exchange rate appreciated amid greater global financial liquidity, and the government has recently successfully accessed international capital markets.** The peso depreciation trend (over the last four years) steepened in mid-June 2022 after the presidential elections and worsened in the second half of October, in part owing to policy uncertainty and also owing to the strengthening of the U.S. dollar in international markets. The peso appreciated as global financial conditions eased in December and January, trading about 9 percent below its most depreciated (early November) value by early April 2023. EMBIG spreads also increased until November, partly driven by policy uncertainty, and then declined markedly. In 2023, the government successfully issued long-term bonds denominated in COP and USD in auctions that were oversubscribed up to 6.1 and 4.0 times, respectively. The average maturity of government debt remains close to 10 years, the duration close to 6 years, and the average coupon rate is 10.9 percent for peso-denominated debt and 4.8 percent for foreign-currency-denominated debt.

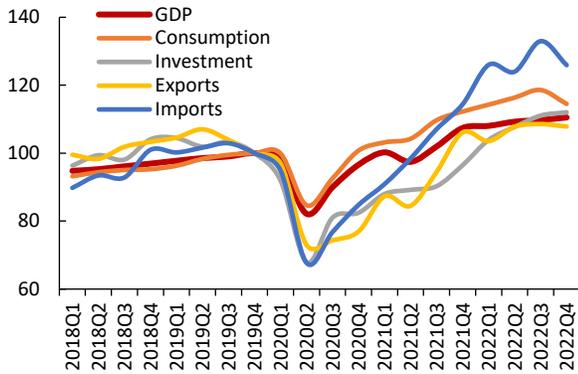
**11. The financial sector has been resilient , credit growth has decelerated, and banks' soundness indicators are stable.** Although households' financial burden remains above pre-pandemic levels (a debt-to-income ratio around 34 percent in 2022Q3) and, though contained, non-performing loans increased slightly (to 3.9 percent in January), there is no reason to expect a deterioration of the financial sector given the following reasons: (i) bank solvency indicators remain stable and above required levels, (ii) banks hold adequate capital and liquidity buffers, and (iii) the *Superfinanciera* has taken additional measures to address increased risk in new loans, including higher provisioning requirements for consumer loans. Also, monitoring of cross-border exposures has been enhanced. Moreover, the financial superintendency has expanded data collection on household indebtedness and debt burden, which improves the monitoring of banks' risk associated with households' financial leverage. The most recent (2022) FSAP assessed that the banking system is resilient to severe shocks (including interest rates) at the aggregate level, although with pockets of vulnerabilities in a few banks.

---

<sup>10</sup> Equivalent to the 2024 extreme poverty line, adjusted by inflation.

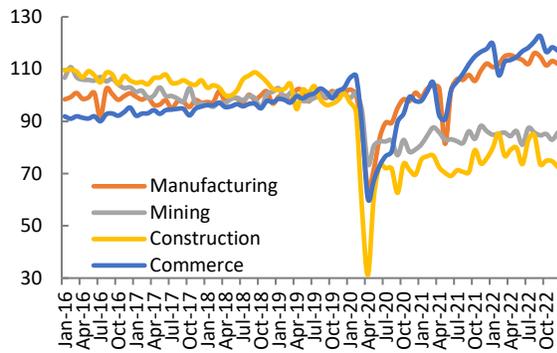


Figure 1. GDP components at constant prices (Index, 2019 = 100)



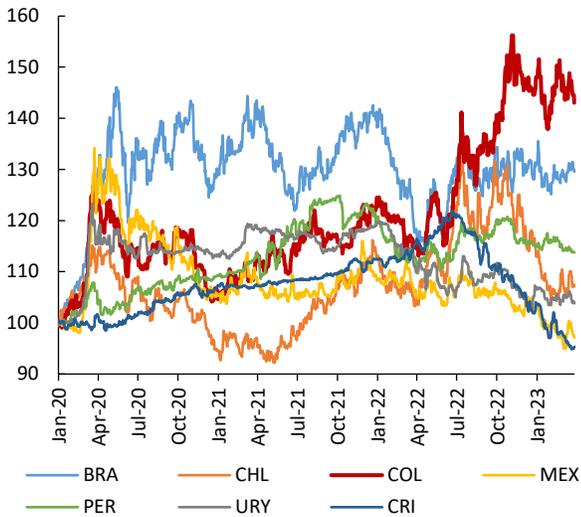
Source: DANE and World Bank staff calculations.

Figure 2. Economic Activity Index for selected sectors (Index, 2019 = 100)



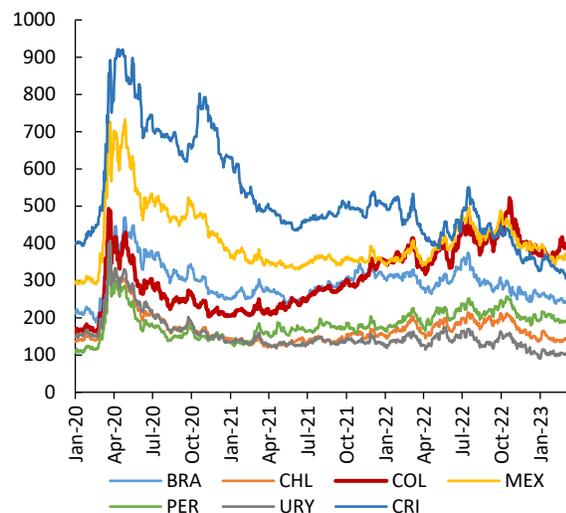
Source: DANE.

Figure 3. Exchange Rates (Index 1/1/2020=100)



Source: Bloomberg.

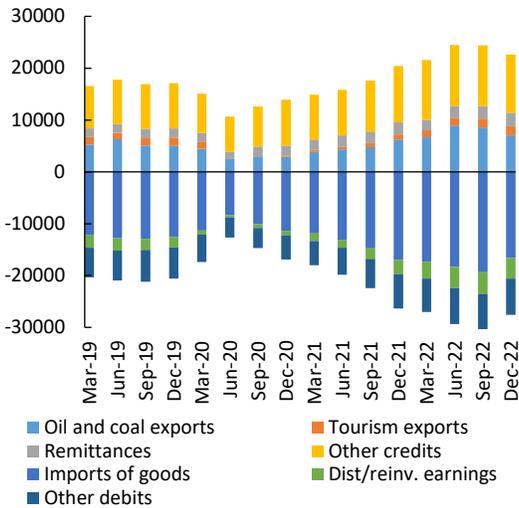
Figure 4. Emerging Markets Bonds Index Sovereign Spread (Index 1/1/2020=100)



Source: Bloomberg.

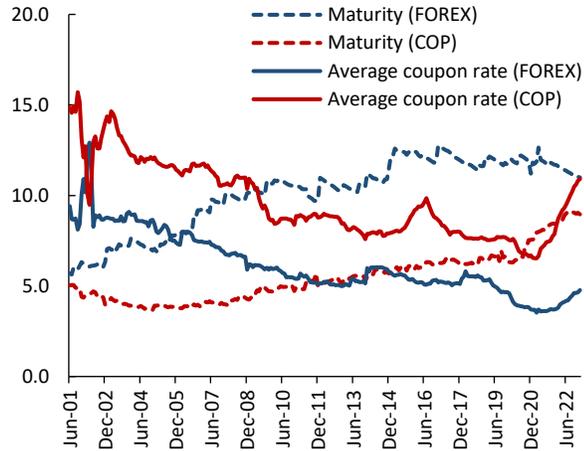


Figure 5. Current Account Deficit



Source: Central Bank of Colombia.

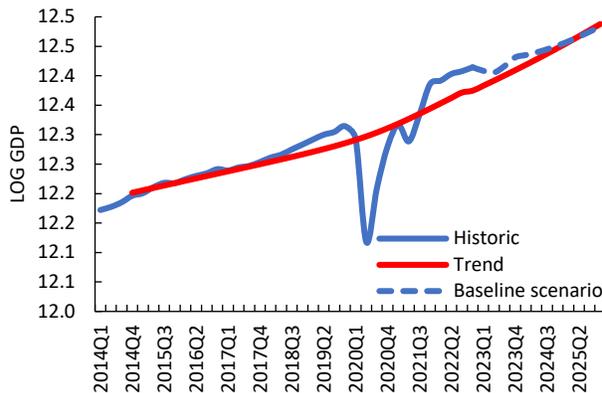
Figure 6. Maturity (years) and average coupon rate (percent) of the Central Government Debt, by currency denomination



Source: MHCP.

## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

Figure 7. GDP, historic and baseline scenario (dashed line)



Source: DANE and World Bank staff calculations.

12. **Real GDP is projected to grow by only 1.1 percent in 2023, reducing the positive output gap.** Weak external and domestic demand, high inflation, and tighter monetary and fiscal policies will slow consumption and investment growth, with a slight contraction of GDP in Q1 and Q2 leading to a smooth landing of the economy at potential output. Growth is projected to stabilize at 2.8 percent in 2024, under moderate assumed global demand growth for oil and slow total factor productivity (TFP) growth.<sup>11</sup> Investment (on the demand side) and dynamism in manufacturing and commerce and a pick-up of activity in agriculture and mining (on the supply side)

are assumed to drive growth. As activity cools, the positive output gap closes, and monetary policy succeeds in reducing price pressures, end-year inflation is projected to decline slowly to 9 percent at end-2023 and 5 percent at end-2024, with average inflation remaining above its 4-percent upper target bound in 2023 and most of 2024, falling to 3 percent in 2026. The monetary policy rate is projected to remain positive but slightly decline until

<sup>11</sup> GDP grew at an average annual rate of 4.8 percent in 2000-14, but only 2.4 percent in 2014-19, on lower oil prices.



inflation comes down to the inflation targeting band .

**13. The current account deficit is projected to decline to 4.4 percent of GDP in 2023 and stabilize at around 3.9 percent by 2026.** Imports of goods and services are projected to decline slightly in relation to GDP over the forecasting horizon, following the moderation of domestic consumption growth and a softening of transport-related cost pressures. Redistribution of dividends to foreign direct investors is projected to decline in 2023 (as the recovery of lost profits in 2020 ends) and stabilize in 2024. Remittances are also projected to decline gradually in 2024, following a growth slowdown in remitting countries, but they are expected to remain above pre-pandemic levels. FDI inflows are projected to remain close to 3.6 percent of GDP, financing more than 92 percent of the current account deficit over the medium term. External borrowing is projected to provide the bulk of external financing, with rollover rates on external debt slightly above 100 percent (Tables 2 and 3).

**14. The central government deficit is projected to decline to 3.6 percent of GDP in 2023 and reach 2.4 percent of GDP by 2026, in compliance with the fiscal rule.**<sup>12</sup> In November 2022, Congress approved a tax reform worth around 1.4 percent of 2023 GDP that increases personal and corporate income taxes, expands the carbon tax, introduces a new wealth tax and a health tax, and increases taxes on the oil and coal industries. Altogether, the 2022 and 2021 tax reforms and measures to strengthen tax administration<sup>13</sup> are projected to increase revenues by 2.6 percent of GDP in structural terms, while high oil and coal prices in 2022 are projected to add an additional 0.4 percent of GDP to corporate income taxes in 2023 (CIT) from extractive industries. Capital revenues are expected to increase in 2023 (with about 0.7 percent of GDP of the increase supported by high oil prices) and then decline – together with CIT revenues – as oil prices normalize. The lagged effects of strong activity in 2022 are projected to buoy income taxes in 2023, whereas a moderation of imports is projected to weigh on the Value Added Tax (VAT) on imported goods over the medium term. Spending on wages and salaries and goods and services is projected to remain stable between 2022 and 2025, in compliance with the September 2021 Social Investment Law requirement to keep these items fixed in real terms. As interest rates are projected to decline over the medium term, interest payments will decline slightly as a share of GDP. Part of the revenue gains from the tax reform is projected to be used for a new social assistance program that would replace the *Ingreso Solidario* (which expired at end-2022). As the government is planning to increase fuel prices to cost recovery, fuel subsidies are projected to fall gradually, bringing FEPC transfers from a projected 1.7 percent of GDP in 2023 to zero in 2025. At the same time, the FEPC deficit, 2.6 percent of GDP in 2022, is expected to decline to 0.6 percent of GDP by 2025. The increase in transfers to regions through the SGP (+0.3 percent of GDP), pension (+0.3 percent of GDP), new social program substituting *Ingreso Solidario* (+0.3 percent of GDP), and other non-cash transfers is projected to increase transfers other than to the FEPC. Investment spending is expected to decline to about 2.7 percent of GDP, in line with levels up to 2019. Because the health and pension reforms are in the early stages of Congressional debates, the baseline projection does not include estimates of costs. The health reform is not expected to bring spending pressures, while the current pension reform proposal would add a net fiscal cost of 0.2 percent of GDP. All the new costs generated from reforms must be compatible with the fiscal rule.

**15. Government financing needs are projected to decline to 6.5 percent of GDP in 2023, excluding changes in deposits.** The decline in the deficit and outstanding payments for judicial rulings (reported below the line)

<sup>12</sup> The fiscal rule sets an anchor for the debt-to-GDP ratio and a floor on the structural primary balance. Starting in 2026, this floor increases if the debt-to-GDP ratio exceeds the anchor, forcing fiscal policy to adjust to shocks that increase the debt-to-GDP ratio.

<sup>13</sup> These include more precise rules for the taxation of foreign entities in digital activities with a significant economic presence in Colombia, issuing binding tax invoices for those who did not file income tax return on time, an expansion of DIAN staff, and lower thresholds defining tax offenses.



are expected to reduce financing needs relative to 2022. Sources of financing include domestic private sector borrowing (4.8 percent of GDP), private sector external borrowing (0.5 percent of GDP), and borrowing from multilateral organizations (0.6 percent of GDP, US\$2 billion, in line with historical levels). No drawdown or accumulation of deposits is expected.

**16. Debt sustainability analysis indicates that, in the baseline scenario, general government debt remains high but sustainable.** The fall in nominal GDP and increase in the deficit during the pandemic pushed the general government debt-to-GDP ratio to over 67 percent in 2020. High nominal GDP growth in 2021 and 2022 offset the effect of large primary deficits on debt, and the debt-to-GDP ratio has now come down. In the baseline scenario, the general government debt-to-GDP ratio is projected to fall to 59.1 percent of GDP by 2026, mostly on the back of a favorable growth-interest rate differential (Figure 8). Nevertheless, as inflation and higher interest rates are incorporated into the effective interest rate, the positive effect of this differential on the debt-to-GDP ratio will diminish. Standard sensitivity analyses show that a one-standard-deviation lower growth, or a one-standard-deviation shock to the exchange rate or the interest rate, would increase public debt levels to a peak of 71.5 percent of GDP in 2025.<sup>14</sup> A combined macro-financial shock would cause public debt to peak at 83 percent of GDP in 2025.<sup>15</sup>

**17. Debt sustainability analysis projects Colombia's external debt to fall gradually in the medium term.** Due to higher GDP growth, external debt fell to 53.5 percent of GDP in December 2022. As external shocks fade, the external debt-to-GDP ratio is projected to decline to 49.8 percent by 2026. Debt service will increase in the medium term but remain manageable. Colombia has an excellent track record of meeting financial obligations, and a diversified foreign investor base mitigates refinancing risks. In stress tests, an exchange rate shock<sup>16</sup> or a combined macro-financial shock<sup>17</sup> would shift external debt upward, still declining over the medium term. The fiscal rule, which increases the floor on the structural primary balance if the debt-to-GDP ratio goes up, creates an automatic fiscal policy response mechanism in case shocks were to push the debt-to-GDP up.

<sup>14</sup> A primary balance shock would shift the debt trajectory up by 2 percent of GDP along the forecasting horizon.

<sup>15</sup> Standard shocks applied to interest rate, exchange rate and GDP growth rate simultaneously.

<sup>16</sup> One-time real depreciation of 30 percent occurs in 2022.

<sup>17</sup> Permanent 1/4 standard deviation applied to real interest rate, growth rate, and current account balance.



Table 1. Colombia: Key Macroeconomic Indicators, 2018–2026\*

	2018	2019	2020	2021	2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
<b>Real sector (percent change)</b>									
Real GDP	2.6	3.2	-7.3	11.0	7.5	1.1	2.8	2.8	3.0
Contributions:									
Private Consumption	2.2	2.8	-3.4	10.4	7.0	0.5	2.1	2.1	2.3
Government Consumption	1.1	0.8	-0.1	1.7	0.2	0.2	0.2	0.2	0.2
Investment	0.2	0.5	-5.2	3.1	2.2	0.5	1.2	1.1	1.3
Exports	0.1	0.5	-3.4	2.0	2.0	-0.4	0.8	0.9	1.0
Imports	-1.2	-1.6	4.6	-5.3	-5.4	0.6	-1.1	-1.2	-1.5
Imports	5.8	7.3	-19.9	26.7	23.9	-2.2	4.4	4.7	5.8
Exports	0.6	3.1	-22.7	15.9	14.9	-3.0	6.2	6.5	6.8
Unemployment rate (nat. def. -- percent)	10.0	10.9	16.5	13.8	11.2	...	...	...	...
GDP deflator	4.6	4.0	1.5	7.7	14.2	11.0	5.8	3.7	3.5
CPI (average)	3.2	3.5	2.5	3.5	10.2	11.2	6.3	3.7	3.0
<b>Fiscal accounts (Central Gov. --percent of GDP)</b>									
Revenues**	15.1	16.2	15.3	16.1	16.3	19.9	19.3	18.8	18.7
Expenditures	18.2	18.7	23.1	23.1	21.6	23.4	22.3	21.5	21.1
Fiscal balance	-3.1	-2.5	-7.8	-7.0	-5.3	-3.6	-3.1	-2.7	-2.4
Gross debt	49.3	50.3	65.1	63.0	60.9	57.8	55.8	55.3	54.7
<b>Fiscal accounts (General Gov. --percent of GDP)</b>									
Revenues	26.5	27.6	26.0	26.6	27.0	29.2	28.7	27.9	27.3
Expenditures	29.1	30.2	33.3	33.7	33.5	33.6	32.0	31.1	30.2
Fiscal balance	-2.6	-2.6	-7.2	-7.1	-6.5	-4.4	-3.3	-3.2	-2.9
Gross debt***	51.4	52.3	67.3	65.7	64.7	62.0	59.9	59.5	59.1
<b>Selected monetary accounts (percent change)</b>									
Base money	10.4	12.3	20.5	9.6	6.4	...	...	...	...
Credit to private sector	4.4	7.8	2.2	10.9	17.5	...	...	...	...
Policy interest rate (end-of-period)	4.25	4.25	1.75	2.5	12.0	...	...	...	...
<b>External sector (percent of GDP)</b>									
Current account balance	-4.2	-4.6	-3.5	-5.6	-6.2	-4.4	-4.2	-4.0	-3.9
Exports GNFS	16.1	15.9	14.1	16.0	21.1	19.9	18.3	17.3	16.7
Imports GNFS	19.2	20.3	19.0	22.3	25.9	24.3	22.6	21.6	20.8
Foreign direct investment (net)	-1.8	-3.4	-2.1	-1.9	-3.9	-2.1	-2.3	-2.3	-2.3
Gross reserves (US\$ billion, eop)	48.4	53.2	59.0	58.6	57.3	58.1	58.7	59.4	60.1
In months of next year's imports	9.0	12.4	12.3	7.8	8.2	8.3	8.3	8.3	...
As % of short-term external debt	239	232	267	238	193	...	...	...	...
External debt	39.5	42.9	57.1	53.9	53.5	...	...	...	...
Terms of trade (% change)	9.4	-1.4	-15.5	19.7	22.2	...	...	...	...
Exchange rate (COP/US\$, average)	2,956	3,281	3,693	3,746	4,256	...	...	...	...
<b>Memo items</b>									
Nominal GDP (US\$ million, current)	334,124	323,055	270,151	318,354	343,939	344,295	373,583	394,475	416,275
Nominal GDP (COP billion, current)	987,791	1,060,068	997,742	1,192,586	1,463,873	1,642,698	1,786,000	1,904,740	2,030,104
Oil production (hundred thousand barrels/day)	865	886	781	736	754	770	800	830	830
Oil price (crude oil average, US\$/barrel)	68	61	41	69	97	86	78	77	71

\* Projections presented in this section have been elaborated based on information available up to April 4, 2023.

\*\* In 2019 includes extraordinary Ecopetrol dividend.

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

Source: Colombian authorities and WB staff estimates and projections.



Table 2. Balance of Payments, 2018-2026\*

	2018	2019	2020	2021	2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
<b>Current account balance</b>	<b>-14,041</b>	<b>-14,808</b>	<b>-9,346</b>	<b>-17,981</b>	<b>-21,446</b>	<b>-15,061</b>	<b>-15,512</b>	<b>-15,725</b>	<b>-16,141</b>
Trade balance	-10,556	-14,146	-13,090	-20,032	-16,579	-15,117	-16,157	-16,755	-17,107
Exports of goods and services	53,724	51,324	38,224	50,816	72,497	68,363	68,192	68,364	69,577
of which, oil	16,843	15,962	8,755	13,514	18,938	18,205	16,121	15,787	15,268
of which, tourism	5,621	5,682	1,568	2,742	6,250	5,875	5,905	6,112	6,356
Imports of goods and services	64,280	65,470	51,314	70,848	89,076	83,480	84,349	85,118	86,684
Primary income balance	-11,442	-9,717	-5,044	-8,723	-17,209	-10,765	-10,605	-10,367	-10,581
of which: distribution of dividends to foreign direct	10,163	8,917	2,802	7,710	15,497	9,463	10,038	10,679	11,297
of which: external interest payments	11,709	11,573	7,963	9,869	14,328	12,070	12,795	12,358	11,395
Secondary income balance	7,957	9,055	8,788	10,775	12,342	10,822	11,250	11,397	11,547
of which: workers' remittances	6,636	7,087	6,909	8,597	9,429	9,227	9,250	9,272	9,293
<b>Financial account (net lending/borrowing)*</b>	<b>-12,954</b>	<b>-13,298</b>	<b>-8,161</b>	<b>-16,513</b>	<b>-20,460</b>	<b>-15,166</b>	<b>-15,803</b>	<b>-15,778</b>	<b>-16,330</b>
Direct investment, net	-6,172	-10,836	-5,772	-6,201	-13,327	-7,292	-8,637	-9,240	-9,755
of which: foreign direct investment	11,299	13,989	7,459	9,381	17,048	12,136	13,296	14,339	15,154
Portfolio investment, net	862	24	-1,768	-4,595	265	-1,997	-2,253	-1,816	-2,510
Financial derivatives and employees stock options	21	84	-513	365	823	95	107	143	328
Other investment	-8,852	-5,904	-4,435	-6,736	-8,792	-6,821	-5,602	-5,581	-5,062
Reserve assets	1,187	3,333	4,328	654	571	849	581	716	670
Net errors and omissions	1,087	1,509	1,186	1,468	986	-105	-291	-53	-189
<b>Current account balance</b>	<b>-4.2</b>	<b>-4.6</b>	<b>-3.5</b>	<b>-5.6</b>	<b>-6.2</b>	<b>-4.4</b>	<b>-4.2</b>	<b>-4.0</b>	<b>-3.9</b>
Trade balance	-3.2	-4.4	-4.8	-6.3	-4.8	-4.4	-4.3	-4.2	-4.1
Exports of goods and services	16.1	15.9	14.1	16.0	21.1	19.9	18.3	17.3	16.7
of which, oil	5.0	4.9	3.2	4.2	5.5	5.3	4.3	4.0	3.7
of which, tourism	1.7	1.8	0.6	0.9	1.8	1.7	1.6	1.5	1.5
Imports of goods and services	19.2	20.3	19.0	22.3	25.9	24.3	22.6	21.6	20.8
Primary income balance	-3.4	-3.0	-1.9	-2.7	-5.0	-3.1	-2.8	-2.6	-2.5
of which: distribution of dividends to foreign direct	3.0	2.8	1.0	2.4	4.5	2.7	2.7	2.7	2.7
of which: external interest payments	3.5	3.6	2.9	3.1	4.2	3.5	3.4	3.1	2.7
Secondary income balance	2.4	2.8	3.3	3.4	3.6	3.1	3.0	2.9	2.8
of which: workers' remittances	2.0	2.2	2.6	2.7	2.7	2.7	2.5	2.4	2.2
<b>Financial account (net lending/borrowing)*</b>	<b>-3.9</b>	<b>-4.1</b>	<b>-3.0</b>	<b>-5.2</b>	<b>-5.9</b>	<b>-4.4</b>	<b>-4.2</b>	<b>-4.0</b>	<b>-3.9</b>
Direct investment, net	-1.8	-3.4	-2.1	-1.9	-3.9	-2.1	-2.3	-2.3	-2.3
of which: foreign direct investment	3.4	4.3	2.8	2.9	5.0	3.5	3.6	3.6	3.6
Portfolio investment, net	0.3	0.0	-0.7	-1.4	0.1	-0.6	-0.6	-0.5	-0.6
Financial derivatives and employees stock options	0.0	0.0	-0.2	0.1	0.2	0.0	0.0	0.0	0.1
Other investment	-2.6	-1.8	-1.6	-2.1	-2.6	-2.0	-1.5	-1.4	-1.2
Reserve assets	0.4	1.0	1.6	0.2	0.2	0.2	0.2	0.2	0.2
Net errors and omissions	0.3	0.5	0.4	0.5	0.3	0.0	-0.1	0.0	0.0

\* Projections presented in this section have been elaborated based on information available up to March 27, 2023.

\*\* A negative positive (negative) number is interpreted as net acquisition (incurrence) of external asset (liabilities). For example, negative FDI means "inflow of FDI".

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

**18. The risk profile is tilted to the downside.** Within the context of increasing inflation and low growth prospects at the global level, risks include high domestic inflation inertia (with high interest rates over the medium term); higher international inflation and higher food and fuel inflation (disproportionately affecting the poor); a contraction of external demand and cooling of commodity prices (leading to higher current account deficits); tightening of financing conditions abroad (including if financial stress in the banking sector in advanced economies intensifies, with increased capital mobility and pressure on the exchange rate); and lower than expected yields from the 2022 tax reform. The materialization of these risks could slow growth, weaken tax collection, and shift the trajectory of the debt-to-GDP ratio upward, which would cause a more forceful contraction of government spending, diminishing prospects of a reduction in poverty and inequality.



**Table 3. Balance of Payments financing requirements and sources, 2018-2026 (US\$ million)\***

	2018	2019	2020	2021	Est. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
<b>Financing requirements</b>	<b>47,529</b>	<b>51,829</b>	<b>49,295</b>	<b>54,306</b>	<b>62,924</b>	<b>60,092</b>	<b>61,936</b>	<b>63,897</b>	<b>66,031</b>
Current account deficit	14,041	14,808	9,346	17,981	21,446	15,061	15,512	15,725	16,141
External debt amortization	32,301	33,689	35,621	35,671	40,907	44,182	45,843	47,456	49,220
Medium and long term	15,711	13,230	14,601	15,117	19,219	19,675	20,110	20,437	20,850
o/w Multilateral and Bilateral institutions			825	974	1,153	1,181	1,207	1,226	1,251
Short term	16,590	20,458	22,932	20,554	21,688	24,507	25,733	27,019	28,370
Gross reserve accumulation	1,187	3,333	4,328	654	571	849	581	716	670
<b>Financing sources</b>	<b>47,529</b>	<b>51,829</b>	<b>49,295</b>	<b>54,306</b>	<b>62,924</b>	<b>60,092</b>	<b>61,936</b>	<b>63,897</b>	<b>66,031</b>
FDI (net)	6,172	10,836	5,772	6,201	13,327	7,292	8,637	9,240	9,755
o/w inward (net)	11,299	13,989	7,459	9,381	17,048	12,136	13,296	14,339	15,154
External debt disbursements	40,551	40,264	51,323	52,513	53,584	49,736	51,554	53,304	55,226
Medium and long term	20,093	17,332	30,769	30,825	29,077	24,004	24,534	24,933	25,437
o/w Multilateral and Bilateral institutions	3,145	1,781	10,300	4,942	1,430	2,000	2,000	2,000	2,000
Short term	20,458	22,932	20,554	21,688	24,507	25,733	27,019	28,370	29,789
Other capital flows (net)	805	730	-7,800	-4,408	-3,988	3,063	1,745	1,354	1,050
<b>Memo items</b>									
Remittances (net)	6,345	6,761	6,660	8,218	9,034	8,827	8,839	8,849	8,858
Financing requirements (percent of GDP)	14.2	16.0	18.2	17.1	18.3	17.5	16.6	16.2	15.9

\* Projections presented in this section have been elaborated based on information available up to March 27, 2023.

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



**Table 4. Colombia: Key Fiscal Indicators for the Central Government, 2018-2026 (percent of GDP)\***

	2018	2019	2020	2021	2022	Proj.	Proj.	Proj.	Proj.
						2023	2024	2025	2026
<b>Total revenues **</b>	<b>15.1</b>	<b>16.2</b>	<b>15.3</b>	<b>16.1</b>	<b>16.3</b>	<b>19.9</b>	<b>19.3</b>	<b>18.8</b>	<b>18.7</b>
Tax revenues	13.7	14.0	13.1	13.6	14.5	17.4	17.1	16.9	16.9
Net income tax and profits	6.5	6.4	6.2	6.8	6.6	8.7	8.6	8.5	8.6
Value-added tax	5.7	5.8	5.4	5.2	6.2	6.2	6.0	6.0	5.9
International trade	0.4	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Financial transactions tax	0.7	0.8	0.7	0.8	0.8	0.9	0.9	0.9	0.9
Other taxes**	0.5	0.7	0.5	0.4	0.4	1.4	1.3	1.3	1.3
Non-tax revenues	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Capital revenues ***	1.3	2.1	2.0	2.4	1.7	2.3	2.0	1.8	1.6
o/w Ecopetrol dividends	0.3	1.1	0.7	0.1	1.1	1.8	1.3	1.1	0.9
<b>Total expenditures</b>	<b>18.2</b>	<b>18.7</b>	<b>23.1</b>	<b>23.1</b>	<b>21.6</b>	<b>23.4</b>	<b>22.3</b>	<b>21.5</b>	<b>21.1</b>
Current expenditures	15.6	15.6	19.5	19.5	18.1	20.2	19.1	18.6	18.4
Wages and salaries	2.3	2.1	2.4	2.2	1.9	2.2	2.2	2.2	2.1
Goods and services	0.7	0.7	1.2	1.4	0.7	0.5	0.5	0.5	0.5
Interest	2.8	2.9	2.8	3.3	4.3	4.3	3.9	3.6	3.5
Current transfers ****	10.2	10.1	13.6	13.0	11.1	13.2	12.5	12.3	12.3
of which: transfers to FPEC	...	...	...	...	1.3	1.7	0.4	0.0	0.0
Other	-0.3	-0.1	-0.5	-0.4	0.0	0.0	0.0	0.0	0.0
Capital expenditures	2.6	3.1	3.6	3.6	3.5	3.2	3.2	2.9	2.7
Fixed capital formation	1.5	1.8	2.2	2.4	2.7	2.1	2.1	1.8	1.7
Capital transfers	1.1	1.2	1.3	1.2	0.8	1.1	1.1	1.1	1.0
Primary balance	-0.3	0.4	-5.0	-3.6	-1.0	0.7	0.8	1.0	1.0
<b>Overall fiscal balance ***</b>	<b>-3.1</b>	<b>-2.5</b>	<b>-7.8</b>	<b>-7.0</b>	<b>-5.3</b>	<b>-3.6</b>	<b>-3.1</b>	<b>-2.7</b>	<b>-2.4</b>
<b>Financing needs and end-year deposits</b>	<b>8.0</b>	<b>8.4</b>	<b>13.7</b>	<b>10.2</b>	<b>8.9</b>	<b>7.8</b>	<b>6.8</b>	<b>6.7</b>	<b>5.9</b>
Overall fiscal deficit	3.1	2.5	7.8	7.0	5.3	3.6	3.1	2.7	2.4
Amortizations	1.0	2.8	1.1	1.6	1.6	2.9	2.9	3.2	2.7
Arrears, judicial claims and other	0.6	1.2	1.5	0.7	0.4	0.0	0.0	0.0	0.0
Stock of deposits at the end of the year	3.4	1.9	3.3	0.9	1.6	1.4	0.8	0.8	0.8
<b>Financing sources and previous year deposits</b>	<b>8.0</b>	<b>8.4</b>	<b>13.7</b>	<b>10.2</b>	<b>8.9</b>	<b>7.8</b>	<b>6.8</b>	<b>6.7</b>	<b>5.9</b>
Domestic	4.2	3.3	3.4	3.5	6.0	4.8	4.3	4.8	4.2
Use of saving to capitalize FOME	...	...	1.3	1.1	...	...	...	...	...
"Titulos de Solidaridad"	...	...	1.0	...	...	...	...	...	...
External	2.0	1.9	5.9	3.9	2.2	1.6	1.2	1.1	1.0
Stock of deposits at the end of the previous year	1.8	3.1	2.1	2.7	0.7	1.4	1.2	0.7	0.8
<b>Memo items</b>									
Oil related revenues (in percent of GDP)	1.0	1.5	1.0	0.1	1.2	2.2	1.6	1.3	1.2
Gross debt (in percent of GDP)	49.3	50.3	65.1	63.0	60.9	57.8	55.8	55.3	54.7
Nominal GDP (COP billion, current)	987,791	1,060,068	997,742	1,192,586	1,463,873	1,642,123	1,785,324	1,904,358	2,029,676

\* Projections presented in this section have been elaborated based on information available up to April 4, 2023.

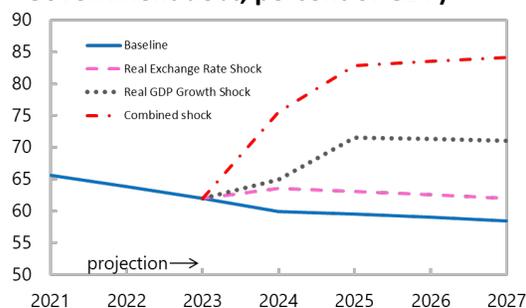
\*\* It includes the surcharge on the oil and coal sector, wealth, health and carbon taxes, which will become effective starting in 2023.

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

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

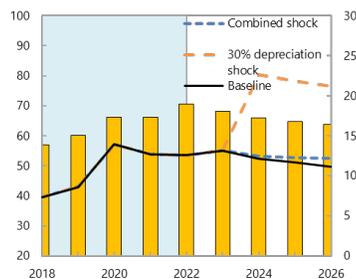
Source: MHCP and WB staff estimates and projections.

**Figure 8. Debt Sustainability Analysis (General Government debt, percent of GDP)**



Source: WB Staff projections.

**Figure 9. External Debt Sustainability Analysis (External debt, percent of GDP)**



Source: WB Staff projections.



19. **The macroeconomic policy framework is adequate for this operation and mitigates risks.** Colombia has a track record of solid fundamentals and strong macroeconomic policy institutions founded on inflation targeting, a flexible exchange rate, and rules-based fiscal policy. The authorities have taken measures to prevent imbalances from growing and safeguard the macroeconomic framework. The fiscal response to the pandemic was timely, adequate in size, and appropriate in composition, but it inevitably led to an increase in the deficit and debt-to-GDP. Since then, the fiscal reform of 2021, the strengthening of the fiscal rule and the fiscal council, and the tax reform of 2022 now provide a solid framework for reducing the deficit and debt-to-GDP ratios and re-building fiscal buffers. Monetary policy responded promptly to the crisis and later to rising inflation. FDI remains strong and is expected to almost fully finance the current account deficit. Colombia has ample foreign exchange reserves. Long average maturity (10.2 years) and duration (5.9 years) of central government debt mitigate the transmission of shocks to debt and debt service payments. Proactive supervision and adequate capital and liquidity buffers are expected to allow the financial system to absorb potential shocks from financial stress abroad if this intensifies. Moreover, the administration remains committed to macroeconomic stability, as evidenced by the sequencing of recent reforms: first securing resources through the January 2023 tax reform, only then allocating additional revenues to expand social protection. Finally, the 2023 budget approved at end-2022 reduces the overall deficit, in compliance with the fiscal rule.

### 2.3. IMF RELATIONS

20. **Colombia has access to a Flexible Credit Line and the Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultations on March 22, 2023.** The IMF board noted that the economy is undergoing a necessary transition toward sustainable growth and commended the strength of policies and institutional policy frameworks. It welcomed the planned fiscal adjustment, as it strikes a balance between improving the deficit while using the progressive tax reform to increase social spending. It indicated that continued efforts to gradually remove distortive fuel subsidies remain important and commended the central bank's decisive monetary policy tightening consistent with its inflation-targeting framework. Colombia has had access to Flexible Credit Line (FCL) arrangements since 2009, the last of which was renewed on April 29, 2022 (for about US\$ 9.5 billion), which the board noted continues to provide additional external buffers against tail-risks and enhances market confidence. Starting in 2021, the government has been receiving Technical Assistance on strengthening macro-fiscal analysis and forecasting capacity and on revenue administration. The IMF and WB technical teams hold periodic meetings on macroeconomic analysis, diagnostics, and forecasting.

## 3. GOVERNMENT PROGRAM

21. **The proposed DPF fully aligns with the government's core priorities, which address deeply rooted social and economic inequalities.** The National Development Plan 2022-2026<sup>18</sup> (NDP 2022-2026) aims to build the foundations to overcome inequities and exclusions that have led to the country's high levels of inequalities, to advance the peace process, an environmentally sustainable development path and a productive transformation.<sup>19</sup> The plan builds on a strong commitment to equity and sustainability and aims to place people at the center of development. It consists of five pillars ("transformations"): (i) territorial planning around water resources and environmental justice, (ii) human security and social justice to guarantee the development of opportunities and wellbeing, (iii) human right to food to promote access to adequate nutrition, (iv)

<sup>18</sup> Approved by Congress on May 5th, 2023.

<sup>19</sup> National Planning Department. 2022. *Colombia potencia mundial de la Vida: Bases del Plan Nacional de Desarrollo 2022-2026*.



internationalization, productive economy for life and climate action focused on productive and clean activities, and (v) regional convergence to guarantee that people from different territories have equal access to opportunities. The NDP is consistent with the proposed program and will further advance the policy efforts it supports.

#### 4. PROPOSED OPERATION

**22. The development objective of the proposed operation (PDO) is to support measures that promote (i) more equitable and green fiscal policies, (ii) productive and social inclusion for vulnerable groups, and (iii) inclusive and green private sector development.** The first pillar focuses on fiscal policy measures that, in the program's first phase, increase revenue and, at the same time, increase the progressivity of income taxation and expand and introduce taxes that promote decarbonization and healthier lifestyles without compromising the efficiency of the tax system. In the program's second phase, the first pillar focuses on measures to utilize part of the increased tax revenues to strengthen and expand the social protection system. By increasing revenue, measures in phase one support the reduction of the deficit and hence promote macroeconomic stability while increasing the economic efficiency of the tax system. The second pillar promotes productive and social inclusion of vulnerable groups to reduce gaps in access to opportunities by promoting their access to assets (for example, education and land) and services (care services, services for women victims of gender-based violence). Finally, the third pillar promotes inclusive and green private sector development by opening opportunities for financial access to women, lower-income households, and currently excluded and underserved groups and by better aligning the private sector's incentives to climate objectives, as emphasized in the NDP 2022-2026.

##### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

**23. The proposed DPF and its PDO directly support key components of the Government's strategy that aim to set Colombia's development trajectory on a more inclusive and sustainable pathway.** The Program addresses long-term priorities while directly supporting the implementation of Colombia's NDP 2022-2026, which emphasizes reducing deep-rooted inequalities that prevent people from accessing opportunities. The Program highlights policy reforms in areas critical to the country's development, as is the case for the progressivity of fiscal policies and promoting productive and social inclusion through tackling inequalities based on exogenous circumstances, including gender, race, ethnicity, and location, among others. It also emphasizes promoting a more inclusive and greener private sector while tackling the impact of climate change, which is one of the Government's priorities.

**24. Lessons learned in the implementation of previous development policy operations and Advisory Services and Analytics (ASAs), including tax reforms and advancing the equity agenda, have been reflected in the design of this operation.** The experience of previous DPFs, including the previous standalone Equitable and Green Recovery Development Policy Financing (P176788), provides the following lessons that have been incorporated in the proposed operation: (i) a transversal development objective such as equity calls for cross-cutting reforms and thus for the participation of cross-sectoral teams from the government and the World Bank Group (WBG); (ii) the program needs to be based on strong policy dialogue and technical assistance<sup>20</sup>, as well

<sup>20</sup> For PA1 through the Macro and Poverty monitoring tasks. For PA2, through the Macro and Poverty monitoring tasks, and the health program of



as on strong analytical underpinnings (see Table 5); (iii) the program is developed with the Government, reflecting a key lesson from other DPFs on the importance of country ownership and commitment to achieve the program's objectives. The 2021 Equity Report and the 2022 Public Finance Review provide background analysis motivating the measures supported by this operation, particularly the need to increase revenues while improving the progressivity of the fiscal system.

## 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

### Pillar I: More equitable and green fiscal policies

---

**Prior Action 1:** *The Republic of Colombia has increased the progressivity of the personal income tax by: (i) reducing the cap on exemptions and deductions for personal income tax; (ii) homogenizing taxation of dividends received by individuals and other personal income; and (iii) introducing a tax on personal wealth, as evidenced by Law No. 2277 of 2022, published in the Official Gazette on December 13, 2022.*

---

25. **Rationale.** Relative to other countries in the OECD and LAC, taxes on wealth and personal income (PIT) in Colombia raise little revenue and do little to reduce income inequality. While these taxes can be designed to be progressive, in Colombia, they reduce inequality by only 0.5 of one Gini point in Colombia.<sup>21</sup> Because deductions and tax thresholds in the PIT are very high, individuals start paying PIT only if their income is very high, about 4 times the median income, compared to 1.5 in Chile or 0.2 in Mexico. Moreover, the effective tax rate is below 8 percent for about 9 out of 10 among those who do pay PIT. As a result, the PIT raises little revenue, which deprives the government of resources that could be invested in public goods or redistributed to the poorest. In addition, dividends are taxed at a flat rate of 10 percent (with a deduction of 300UVT).<sup>22</sup> Because the share of total income from dividends increases exponentially along the income distribution (*Ministerio de Hacienda y Crédito Público, 2022*), the effective tax rate drops at the top of the income distribution, reducing vertical equity. Colombia has had a provisional wealth tax since 2002, yielding declining revenues over time of around 0.1 percent of GDP. Moreover, the wealth tax's most recent (2018) version was poorly designed as it applied a 1 percent rate to the entire net wealth once this exceeded a threshold. As a result, the tax created incentives to keep wealth under the threshold by accumulating just the right amount of liabilities, under-declaring, or splitting assets across people.

26. **Substance.** The measures on PIT and tax on personal wealth supported by this PA increase revenues, providing resources that can be spent to strengthen transfers to the poor and advance the agenda towards a more progressive fiscal system in an efficient way (that is, with no economic distortions). Specifically, the tax

---

the World Bank. For PA3, through the Partnership for Market Readiness Colombia (P170038). For PA6, support has been provided through the ASA: Venezuelan Migration Policy Dialogue and Technical Assistance (P177751). For PA7, the roadmap for the sector was prepared with the support of the CAF through an advisory services project. Moreover, the Colombia Capital Markets Strengthened Facility (P167816) provided – among other things – advisory support on regulatory regimes for Sandbox, Open Banking, Digital Identity, and Data Protection; the Colombia FSAP Update (P173142) included a Technical Note on Digital Financial Inclusion that provided some recommendations for next steps to the draft Open Finance decree. For PA9, the ASA Greening the Financial System in Colombia (P171408) provided support to the authorities on integrating climate-related risks (and opportunities) in the relevant financial regulatory and supervisory framework. Moreover, the WBG (IBRD and IFC) supported the authorities in the development of an earlier Circular Externa (CE 028/2020) with instructions for the issuance of green bonds, repealed after the issuance of CE 020/2022 which expanded the instructions to cover other types of thematic bonds. The WBG also supported the authorities in the development of the Green Taxonomy.

<sup>21</sup> Nuñez et al. 2020. The Distributive Impact of Taxes and Expenditures in Colombia, Policy Research Working Paper 9171, WB: Washington, DC; World Bank. 2021. Building an Equitable Society in Colombia.

<sup>22</sup> UVT (Unidad de Valor Tributario) is a reference unit used so that tax parameters move in line with inflation



law reduces the limit on personal deduction from labor income (individuals can deduct, up to a nominal limit, 25 percent of their gross labor income, excluding social security contributions, for the computation of taxable income) from 2,880 UVT to 790 UVT yearly. Likewise, the nominal limit for the overall exempt income and special deductions (total deductions can max 40 percent of gross income—excluding social security contributions—up to a nominal limit) decreased from 5,040 UTV to 1,340 UVT annually, that is, from the equivalent of about 15 to 4 times median personal income.<sup>23</sup> It introduces deductions for economic dependents, up to a limit of 72 UVT annually, and up to a maximum of 4 dependents. Additionally, dividends will be taxed using the same brackets that apply to general income but marginal rates that are 19 percentage points lower than in the general tariff.<sup>24</sup> In this way, the effective tax rate on individuals whose income derives mostly from dividends will be more similar to that of individuals with the same (but solely) gross labor income. Finally, the tax law also introduces a property wealth tax to individuals over property the value of which exceeds 72,000 UVT, excluding the first 12,000 UVT of the value of the home where the owners live, with two marginal rates (an improvement relative to the design of previous version of Colombia's wealth tax) of 0.5 percent for wealth between 72,000 and 122,000 UVT, and 1 percent for wealth above 122,000. This improves the design of the previous wealth tax by eliminating a tax notch.

**27. Expected results.** The measures are expected to increase the effective tax rate for those individuals who already had a non-zero effective rate by a range of slightly less than one percentage point for individuals with incomes above 11 million pesos per month up to at least ten percentage points for individuals with incomes exceeding 140 million pesos per month. The effective tax rate is estimated to increase for about 850,000 taxpayers or 22 percent of all individuals declaring personal income taxes. The effective PIT rate for individuals with the top 10 percent of gross income among those filing for PIT is expected to increase on average, from 8.9 in 2020 to 9.9 percent by 2025. This change will increase the progressivity of the PIT<sup>25</sup>, increasing this tax's redistributive properties and reducing the Gini coefficient of disposable income. Also, wealth tax revenues are expected to increase from a negligible amount in 2022 to 0.11 percent of GDP in 2025.<sup>26</sup> Estimates indicate that the wealth tax would also increase the tax system's progressivity. The measures supported by this PA are expected to reduce the Gini index from 0.534 to 0.532 of net market income. As the measure affects only the top income earners, who have a low propensity to become informal, the measure is not expected to increase informality. Measures supported by this PA are estimated to increase revenues by about 0.3 percentage points of GDP, relative to 1.5 percent of GDP estimated for 2021 and 2022.

**28. Indicative Triggers 1 and 2 in Pillar I aim at strengthening and expanding the social protection system utilizing tax revenues from the first phase.** *Indicative Trigger 1* focuses on the creation and implementation of a new system of adaptive social assistance transfers (conditional and non-conditional monetary as well as in-kind transfers) aimed at protecting poor and vulnerable people and including design elements to support poor and vulnerable populations across the life cycle and at the times of shocks, including climate-related ones. *Trigger 2* supports the creation of an income registry to reduce the asymmetries of information between those who declare income (and therefore are included in the national taxing system) and those who do not, thus

<sup>23</sup> The marginal income tax rate is zero for taxable income up to 3 times the median income. This means that the effective tax rate is less than one percent for most earners of income up to 7 times median income.

<sup>24</sup> That is, for the bracket where the general tariff marginal rate is 19 percent, 0 will apply. For the bracket where the general tariff marginal rate is 28 percent, 9 percent will apply... so on so forth.

<sup>25</sup> Publicly available data from DIAN about tax collection by income group do not allow merging payers of the PIT with payers of the wealth tax, making it impossible to build a unique indicator of effective PIT and wealth tax rate from publicly available data.

<sup>26</sup> Publicly available data from DIAN about tax collection by income group do not allow merging payers of the PIT with payers of the wealth tax, making it impossible to build a unique indicator of effective PIT and wealth tax rate from publicly available data.



improving the knowledge of the socioeconomic characteristics of lower-income households and informing the targeting of taxes and subsidies.

---

**Prior Action 2:** *The Republic of Colombia has introduced taxes on sweetened beverages and ultra-processed foods (products with a high content of sugar, sodium, and saturated fat), to promote healthier nutrition habits and contribute to health gains, as evidenced by Law No. 2277 of 2022, published in the Official Gazette on December 13, 2022.*

---

29. **Rationale.** Many studies have identified ultra-processed food and drink products as particularly obesogenic and generally unhealthy (PAHO 2019). Strong evidence links excess sugar and sugar-sweetened beverages consumption to a range of adverse health effects, including obesity, type 2 diabetes, and cardiovascular disease<sup>27</sup>. There is also growing evidence that in developing countries, losses associated with a growing burden of chronic non-communicable diseases are greater for the poor, including income losses derived from lower productivity or lost days of work for care.<sup>28</sup> Indeed, once behavioral responses are accounted for and diminished societal and personal costs associated with diseases are accounted for over the long run, these taxes can be progressive<sup>29</sup>. That is, even if consumption were to decrease uniformly across population groups, the benefits would be greater for the poorer. The international evidence<sup>30</sup> and the evidence for Colombia<sup>31</sup> also show that consumption of sugar-sweetened beverages is higher among children and adolescents than among adults. Health taxes can significantly contribute to health gains by reducing risk factor exposure. Health taxes target goods, such as tobacco, alcohol and Sugar-Sweetened Beverages (SSBs), that play a major role as risk factors and their subsequent disease burden. Adequate implementation of well-designed health taxes can contribute to reducing inequalities and promoting equity in health and welfare.

30. **Substance.** This prior action supports the introduction of excise taxes on SSBs and a group of ultra-processed foods for the very first time in the country's tax structure. The SSB and ultra-processed foods tax is estimated to yield about 0.2 percent of GDP by 2025. The tax reform incorporates a gradual increase in the tax rate from 2023 until 2025. In the case of ultra-processed food, the tax rate will be 10 percent in 2023, 15 percent in 2024 and 20 percent from 2025 onward. The sugar beverages tax rate may increase given the sugar content in grams (g) per 100 milliliters (100 ml) and extends to all drinks with sugar content. Producers whose gross income from sugar beverages and ultra-processed food is lower than 10.000 UVT are excluded from the tax payment.<sup>32</sup> The introduction of a tax on sugar-sweetened beverages and ultra-processed foods is aligned with international practices, with over 30 countries introducing new SSB taxes in the last five years. Countries with SSB taxes include Chile and Mexico, which are among those with the highest SSB consumption and obesity rates worldwide.<sup>33</sup>

31. **Expected results.** International evidence suggests that the SSBs tax is progressive as it reduces out-of-

---

<sup>27</sup> World Bank. 2020. Taxes on sugar-sweetened beverages: International evidence and experiences. Washington, D.C.: World Bank Group.

<sup>28</sup> Engelgau, Michael; Sandra Rosenhouse, Sameh El-Saharty & Ajay Mahal (2011) The Economic Effect of Noncommunicable Diseases on Households and Nations: A Review of Existing Evidence, Journal of Health Communication, 16:sup2, 75-81, DOI: 10.1080/10810730.2011.601394.

<sup>29</sup> Fuchs, Alan; Pierola, Denisse. 2022. The Distributional Impacts of Health Taxes. Equitable Growth, Finance and Institutions Insight - Poverty and Equity;. © Washington, DC: World Bank.

<sup>30</sup> <https://www.oecd.org/health/Panorama-de-la-Salud-2021-OCDE.pdf>

<sup>31</sup> Data from the Encuesta de Calidad de Vida.

<sup>32</sup> In 2023, the threshold amounts to about 425 million pesos, that is the equivalent of about US\$90,000. It excludes only very small and marginal producers.

<sup>33</sup> World Bank. 2020. Taxes on sugar-sweetened beverages: International evidence and experiences. Washington, D.C.: World Bank Group.



pocket medical expenses, increases productivity, and benefits lower-income deciles the most.<sup>34</sup> The reform is expected to reduce the share of children (2-17 years) that consume at least one sugar-sweetened beverage daily from 24.2% in 2019 to 20% in 2025, as measured by the annual Quality of Life Survey.<sup>35</sup> The tax is also expected to generate additional revenues in the medium term, amounting to about 0.1 percent of GDP for SBBs. Moreover, effective implementation of the tax will be important for it to have its desired objectives on consumption; tax collection from this tax should be followed as a proxy for effective implementation. Finally, the risk of substitution between bottled water and SSB is considered low, as the prices of these drinks are relatively comparable in the Colombian market.

---

***Prior Action 3:** The Republic of Colombia has expanded its carbon tax to incentivize economy-wide greenhouse gas emissions reductions by increasing the coverage and level of the tax and limiting the use of offsets, as evidenced by Law No. 2277 of 2022, published in the Official Gazette on December 13, 2022.*

---

**32. Rationale.** Colombia's carbon tax was introduced by Law 1819-2016, making the country a frontrunner in carbon pricing in Latin America. It taxes companies on the carbon dioxide-equivalent content of fossil fuels, including gasoline, kerosene, jet fuel, diesel oil, fuel oil, and natural gas. Because of its scope, level, and offsetting provision, the tax has a limited effect on emission reductions and revenue collection. Direct greenhouse gas emission reductions were estimated to be around 0.31-0.35 MtCO<sub>2</sub> per year between 2017 and 2019.<sup>36</sup> Revenue collection amounted to an average of US\$112 million between 2017 and 2022. At 0.04 percent of GDP, this represents only a small share of overall environmental taxes, which are significantly lower in Colombia than the OECD average (0.56 percent of GDP vs. 1.35 percent in 2020).<sup>37</sup> At the same time, Colombia has been subsidizing fuel, almost uninterruptedly, since the late 1990s. In 2007, the Government introduced a retail fuel pricing formula and a financing mechanism (the FEPC) to smooth the pass-through of fluctuations of international fuel prices on the domestic market without incurring fiscal costs over price cycles. Between inception and 2020, the formula kept subsidies and fiscal costs low. With the suspension of the formula in 2020, subsidies on gasoline and diesel have grown to about 50 percent of the parity price, raising the deficit of the FEPC to about 2.6 percent of GDP in 2022. In addition to being regressive, fuel subsidies increase transport emissions by depressing the fuel price, undermining Colombia's carbon tax and overall emission reduction goals.<sup>38</sup>

**33. Substance.** The reform modifies the current carbon tax regime by expanding the taxable base to include the domestic sale, import and consumption of thermal coal, with a gradual phase-in until 2028, bringing the coverage from 24 percent to 27.9 percent of Colombia's greenhouse gas emissions. It also increases the tax rate to COP\$20,500 per tCO<sub>2</sub>eq (equivalent to an 8.9 percent increase compared to 2022 levels) while

---

<sup>34</sup> World Bank. 2020. Taxes on sugar-sweetened beverages: International evidence and experiences. Washington, D.C.: World Bank Group. Fuchs et al. 2017. Health and distributional impacts of a tax on sugar sweetened beverages in Kazakhstan.

<sup>35</sup> As points of comparison, evidence for OECD countries shows that the share of 15-year olds that consume sugary drinks on a daily basis ranges from 4.5 percent in Estonia, to 27, 27.5 and 29.5 percent in Luxembourg, France and Belgium, respectively. See <https://www.oecd.org/health/Panorama-de-la-Salud-2021-OCDE.pdf>. The Quality of Life Survey, nor other existing surveys, collect information about the quantity of SSBs consumed by individuals or households.

<sup>36</sup> Ricardo Energy & Environment y Corporación Ecovera (Unpublished): evaluación del mecanismo colombiano de compensación del impuesto al carbono establecido en el Decreto 926 de 2017 y resultados generales del impuesto al carbono establecido en la Ley 1819 de 2016. World Bank, Washington, DC.

<sup>37</sup> OECD (2022): Environmental Tax, Pollution, Percentage of GDP.

<sup>38</sup> Ian W.H. Parry ; Simon Black ; Nate Vernon (2021): Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies. Working Paper No. 2021/236 International Monetary Fund, Washington, DC; Jonas Kuehl, Andrea Bassi, Philip Gass, Georg Pallaske (2021): Cutting Emissions Through Fossil Fuel Subsidy Reform and Taxation. International Institute for Sustainable Development, Winnipeg; Dávalos, M., Monroy, J., and Baquero, J. (forthcoming) Impactos redistributivos de la política fiscal en Colombia. Word Bank Group.



maintaining the link to inflation (plus one percent—to avoid erosion of the tax in real terms) and expanding its upper limit from a maximum value of 1 UVT to 3 UVT. In addition, the reform limits the amount eligible under the carbon tax's offsetting provision from 100 percent to 50 percent and earmarks 80 percent of the total tax revenue to climate action, including but not limited to management of coastal erosion, containment of deforestation, water conservation, payments for environmental services, and the financing of the goals contained in Law 2169-2021 and Colombia's Nationally Determined Contribution. Many of these issues are concentrated in rural areas, which in Colombia are economically disadvantaged and have historically suffered from underfunding by the national government. The law also directs revenues into a yet-to-be-operationalized fund, the Sustainability and Climate Resilience Fund (*Fondo para la Sustentabilidad y la Resiliencia Climática*, FONSUREC). The Proposed *Indicative Trigger 3* would support efforts to lower emissions by reducing subsidies on gasoline and diesel. The authorities are designing a mechanism to compensate the poor for the resulting direct and indirect price increases.

**34. Expected results.** Expanding the scope and level of the carbon tax is expected to increase incentives for economy-wide decarbonization based on investments in technologies that improve energy efficiency and productivity. It is also expected to generate additional revenues in the medium term for reinvestment in the economy, including in less well-off municipalities with the potential to reduce inequalities. Progress will be measured through the tax revenues raised.<sup>39</sup> Fuel subsidy reduction is expected to reduce the FEPC deficit from 2.6 percent of GDP in 2022 to about 0.6 percent in 2025, reducing the fiscal costs of the transfers to cover the FEPC deficit.<sup>40</sup> Reducing fuel subsidies would free up resources and create space for the planned increase in cash transfer programs, which would offset the negative direct and indirect income effect that the subsidy removal would have on the poor.

## Pillar 2- Promoting productive and social inclusion of vulnerable groups

---

**Prior Action 4:** *The Republic of Colombia, through the DNP, has: (i) approved the Gender Equality Policy and the accompanying Action Plan that assigns responsibilities, budget and timeline for the implementation of specific actions that promote women's economic inclusion, as evidenced by CONPES document No. 4080 of April 18, 2022; (ii) created the National Care System to recognize, reduce and redistribute paid and unpaid care work and to coordinate policies of care provision, as evidenced by Law No. 2281 of 2023, published in the Official Gazette on January 4, 2023; and (iii) strengthened the response system to support to survivors of gender-based violence by establishing shelter houses for victims of domestic violence offering comprehensive care, as evidenced by CONPES document No. 4080 of April 18, 2022, and Law No. 2215 of 2022, published in the Official Gazette on June 23, 2022.*

---

**35. Rationale.** Despite Colombia's progress toward gender equality, significant challenges remain. Only 52.2 percent of women ages 15+ are in the workforce (compared to 78 percent of men)<sup>41</sup>, and when they do participate, their jobs tend to be of lower quality and remuneration than men's. One of the main barriers is limited access to quality and affordable care.<sup>42</sup> The recent Systematic Country Diagnostic Update (P500038 ) reports that rural, Indigenous and Afro-descendant women face the greatest disadvantages. Women's voices and agency are also limited. One in three women report experiencing intimate partner violence, and 23 percent

---

<sup>39</sup> As described under Substance, the tax is linked to inflation. Greater inflation will not erode revenue collected.

<sup>40</sup> Complete elimination of fuel subsidies would not be consistent with establishing a fuel price stabilization mechanism, as under such a mechanism subsidies could temporarily emerge.

<sup>41</sup> World Bank. World Development Indicators (2023).

<sup>42</sup> World Bank Group. 2019. *Colombia Gender Assessment*. World Bank, Washington, DC; World Bank Group; Colombia Country Gender Scorecard 2023.



are married before 18 years old.<sup>43</sup> Also, despite the 30 percent quota, women only occupy 19 percent of the seats in parliament, one of the lowest shares in LAC.<sup>44</sup>

**36. Substance.** This prior action supports measures to advance gender equality by promoting women's access to economic opportunity and removing constraints to their productive inclusion, such as unpaid care work and GBV. The Gender Equality Policy and its accompanying action plan outline a comprehensive approach with specific activities, responsible entities, budgets and timelines to tackle gender inequalities and promote women's productive inclusion. In line with the gender policy, this prior action also supports key short-term activities toward establishing a National Care System that will articulate the services, policies, and regulations to meet the demand for care and guarantee the rights of caregivers.<sup>45</sup> The system will be managed by the *Ministerio de Igualdad y Equidad*, which will employ the Social Registry for targeting and monitoring and will also be in charge of developing a financing mechanism. Finally, this prior action supports a comprehensive, multi-faceted approach to tackling GBV as a key constraint to women's economic inclusion by strengthening shelter houses, including through individualized plans designed by the Ministry of Labor and territorial entities for survivors to access economic opportunities and through activities to shift gender norms around GBV.<sup>46</sup> These measures are consistent with Arts. 73, 106, and 202 of the NDP that recognize unpaid care as a productive activity. The proposed *Indicative Trigger 4* supports regulations for the functioning of the National Care System, while the proposed *Indicative Trigger 5* supports the modification of Law 731/2002 that promotes women's productive inclusion in rural areas, where gender disparities are most pervasive<sup>47</sup>, through initiatives to title women's land and improved access to economic opportunities.

**37. Expected results.** These actions will support women's productive inclusion and address constraints to gender equality, such as unpaid care work and GBV. Progress will be measured through: (i) an increase in the placement of women by public employment services of 18 percent, going from 1,477,232 in 2022 to 1,744,757 in 2025, (ii) an increase from 0 to 5 by 2025 in the number of major cities that integrate the guidelines elaborated by the national government for the development of care systems in their local development plans (26 percent of major cities), and (iii) an increase from 77 to 83 percent in the share of women victims of GBV that receive physical and mental health care between 2021 and 2025. Consistent with evidence on the potential effects of these activities, this prior action is expected to advance gender equality in the medium term by reducing care-related barriers for women to access paid work, fostering women's access to employment opportunities, and addressing gender norms that condone GBV and that relegate women to the domestic sphere.<sup>48</sup> Closing gender gaps is expected to increase the economic growth potential of the country.<sup>49</sup>

---

**Prior Action 5:** *The Republic of Colombia has taken measures to encourage the establishment and strengthening of ethnic (indigenous and afro-descendants) and peasant communities as cadastral organizations with enabled authority to implement a participatory cadaster, as evidenced by: (i) Resolution No. 338 of March 9, 2023 by the IGAC; and (ii) Chapter II, Section V, Articles 32 and 33 of the National Development Plan draft law (NDP 2022-2026) submitted to*

---

<sup>43</sup> World Bank. World Development Indicators (2023) based on 2015 Demographic and Health Survey.

<sup>44</sup> Inter-Parliamentary Union (IPU).

<sup>45</sup> This measure is consistent with the proposed Art. 84 in the NDP that recognizes unpaid care as a productive activity in the rural sector.

<sup>46</sup> The approved NDP includes complementary actions to advance gender equality further; for instance, promoting women's entrepreneurship (Art. 73) and creating the national system for GBV monitoring (Art. 341).

<sup>47</sup> World Bank Group. 2019. *Colombia Gender Assessment*. World Bank, Washington, DC; World Bank Group; Colombia Country Gender Scorecard 2023.

<sup>48</sup> World Bank (2021). Building an Equitable Society in Colombia. World Bank, Washington, DC.

<sup>49</sup> World Bank (2021). Building an Equitable Society in Colombia. World Bank, Washington, DC, shows that closing gender gaps in labor force participation and education would increase Colombia's GDP per capita by an estimated 14 percent by 2050.



*Congress on February 6, 2023 for approval, and published on Congress' official website: Congreso de la República.*

38. **Rationale.** One-third of the Colombian territory (36 million hectares) is titled as collective territories of Indigenous and Afro-descendant communities. These territories have high levels of forest and biodiversity, and their conservation is mainly the result of the traditional community governance systems. Deforestation rates are lower in Indigenous and tribal territories where governments have formally recognized land rights as a cost-effective way to reduce carbon emissions, mitigate climate change, conserve biodiversity, and manage forests sustainably.<sup>50</sup> The Intergovernmental Panel on Climate Change has noted that secure land tenure allows actors to change land to advance adaptation and mitigation.<sup>51</sup> In particular, land tenure security is associated with reduced deforestation, as “tenure form and security enable landholders, whether individuals or communities, to take into account future values in current decision-making”<sup>52</sup>, enabling the kinds of longer-term management and investment decisions required to preserve standing forests or restore degraded land. Land tenure security, therefore, has positive effects on GHG mitigation (for example, by reducing deforestation) and adaptive capacity (as a result of the maintenance of key ecosystem services inherent in forested lands, such as water retention and filtration). Notwithstanding, there are requests to expand these territories or establish new ones that have not been solved, as well as land and socio-environmental conflicts involving existing territories and indigenous communities’ claims. Protecting the ecosystems, territories, and livelihoods of ethnic communities entails the prompt resolution of territorial claims and the management of existing conflicts to construct territorial governance.<sup>53</sup> Therefore, strengthening ethnic and peasant communities as part of the rollout of the Multipurpose Cadaster is one precondition to reduce deforestation and the associated GHG emissions and loss of adaptive capacity. It is essential for guaranteeing legal security regarding land and territory tenure, planning, and territorial ordering. Community participation in the management and use of cadastral information is also crucial for territorial governance but requires adequate geographic and cadastral information while guaranteeing community participation in line with territorial ethnic guarantees and safeguards. Additionally, implementing a participatory cadaster needs to be targeted in environmentally sensitive and protected areas for an efficient and effective approach.<sup>54</sup>

39. **Substance.** The Colombian Constitution recognizes the multiethnic and multicultural composition of Colombia and guarantees the territorial rights and forms of self-government of ethnic communities. As part of Colombia’s international commitments, in line with its Constitution, and based on the consultation with ethnic communities, the government has included Cadastral Management as one of the key priorities of the NDP, emphasizing the need for Indigenous and Afro-Colombian peoples to participate in developing the cadaster in their territories.<sup>55</sup> The Resolution, also supported by this prior action, allows Indigenous communities’ territories to carry out activities of the multipurpose cadaster, even prior to the approval of the NDP. This enables communities to implement a participatory cadaster, guaranteeing that it is adapted to the territorial specificities and improving land administration as a precondition for more sustainable land management. As part of this

<sup>50</sup> In Colombia, deforestation rates are two times less inside Indigenous territories where land tenure has been ensured (Forest governance by indigenous and tribal peoples an opportunity for climate action in Latin America and the Caribbean, FAO, 2021). Additionally, a recent study by FAO and FILAC (FAO and FILAC, 2021) points out that indigenous territories receiving full collective property rights have up to 66 percent lower deforestation rates than other territories.

<sup>51</sup> Intergovernmental Panel on Climate Change (2019): Summary for Policymakers. In: Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and fluxes in terrestrial ecosystems.

<sup>52</sup> Robinson, B., Holland, M., and Naughton-Treves, L. (2014): Does secure land tenure save forests? A meta-analysis of the relationship between land tenure and tropical deforestation. *Global Environmental Change*, Vol. 29, p.281-293.

<sup>53</sup> FAO & FILAC (2021). *Forest Governance by Indigenous and Tribal Peoples. An Opportunity for Climate Action in Latin America and the Caribbean.*

<sup>54</sup> This is part of the Colombia Peace Accord (2016): Final Agreement to end the Armed Conflict and Build a Stable and Lasting Peace, point 1: Comprehensive Rural Reform.

<sup>55</sup> The numbering of the articles in the Law approved by Congress shifted from 32 and 33 to 45 and 46.



process, the government will identify the capacity needs of each organization to become a cadastral operator, which entails legal authorization to develop operational tasks that advance the cadastral formation, updating, and conservation processes, while allowing the State to hire them for these activities.<sup>56</sup> Securing collective land tenure in protected areas contributes to climate adaptation. It provides access to updated and reliable land information data to ethnic groups and government institutions to understand vulnerabilities, make informed decisions for land use planning, access finance and negotiate political arrangements, adapt and implement climate-based solutions, enhance sustainable land management, disaster management, greenhouse gas emissions, and forest conservation. Similarly, it advances efforts to avoid deforestation by protecting and managing the forest. Evidence indicates that Indigenous peoples often collect data on the community-level values and meaning of health and environment, as well as traditional knowledge about climate patterns, to inform their climate adaptation plans.<sup>57</sup> The proposed *Indicative Trigger 6* supports regulations that adopt the guidelines for carrying out the cadaster in collective territories of ethnic communities.

**40. Expected results.** These measures will lead to 10 municipalities having this modality of cadaster for the first time by 2024 – municipalities in which ethnic and peasant communities are enabled as cadastral implementors -allowing the effective and adequate participation of ethnic and small rural organizations in developing the cadaster and collecting, using and managing cadastral data. These measures include municipalities in the Amazon and Orinoco regions representing 13 percent of Colombia’s population from indigenous groups.<sup>58</sup> By operationalizing the cadaster jointly with the communities, the State will contribute to strengthening governance in ethnic territories<sup>59</sup>, particularly in the Amazon, where 212 indigenous reserves exist, with a global extension of nearly 26 million ha, representing 54 percent of the region.<sup>60</sup> Also, the focus on highly forested areas at risk of becoming deforestation hotspots is expected to increase incentives for long-term stewardship of the land and forest resources.<sup>61</sup> This is expected to reduce deforestation rates (20 percent as indicated in the NDP in the next four years), which are lower in indigenous territories with collective land rights; improving tenure security is a cost-effective way to reduce carbon emissions and maintain ecosystem services.<sup>62</sup> Also, estimates indicate that secure indigenous forestlands will provide significant carbon and other ecosystem service benefits in Colombia, estimated at US\$123-277 billion in net present value for the next 20 years through the avoided annual release of CO<sub>2</sub> emissions.<sup>63</sup> Up-to-date and spatially accurate cadaster records also strengthen adaptative capacity against climate change impacts by integrating traditional values and knowledge in climate adaptation, facilitating disaster risk planning and response, and enabling the establishment of insurance schemes in the event of climate-driven disasters.<sup>64</sup>

---

<sup>56</sup> Evidence suggests that well-functioning cadasters help to secure property rights, make economies perform more efficiently and promote environmental conservation. See Cuesta and Pico. 2022. The Equity Effects of Cadasters in Colombia, *The Journal of Development Studies*, 58:3, 615-632.

<sup>57</sup> Schramm et al. (2020). How Indigenous Communities Are Adapting to Climate Change: Insights from The Climate-Ready Tribes Initiative. *Health Affairs* 39, 12: 2153–2159.

<sup>58</sup> DANE (2019). Report of Ethnic groups in Colombia. See <https://www.dane.gov.co/files/investigaciones/boletines/grupos-etnicos/presentacion-grupos-etnicos-poblacion-NARP-2019.pdf>

<sup>59</sup> Plan & Hvalkof. (2001). Land Titling and Indigenous Peoples. WB: Washington, DC.

<sup>60</sup> OPIAC-WWF (2021) Amazonian indigenous territories: contribution to the fulfillment of climate change and biodiversity commitments in Colombia.

<sup>61</sup> Mitchell & McEvoy (2019). Land Tenure and Climate Vulnerability. UN Habitat, Report 03/2019.

<sup>62</sup> A cost-benefit assessment in the Amazon Regions using correspondence analysis concluded that deforestation rates in titled indigenous territories are only between one-third and one-half of the rates in the other forests studied in the three countries, and the cost of securing indigenous lands are 5 to 42 times lower than other carbon capture and store options (Ding et al., 2016 cited in FAO & FILAC 2021).

<sup>63</sup> Ding et al. (2016). Climate Benefits, Tenure Costs: The Economic Case for Securing Indigenous Land Rights in the Amazon. World Resources Institute.

<sup>64</sup> Nasruddin & Rahman (2006). Developing 3D Registration System for 3D Cadastre, cited in WB (2020). Solid Ground: Increasing Community Resilience Through Improved Land Administration and Geospatial Information Systems. WB: Washington, DC



---

**Prior Action 6:** *The Republic of Colombia has: (i) outlined a 10-year intersectoral government strategy for the integration of Venezuelan migrants to harness their contribution to development, as evidenced by CONPES document No. 4100 of July 11, 2022; (ii) through the MEN and Migración Colombia, issued regulation to recognize the Temporary Protection Permit (TPP) as a valid identification document for Venezuelan migrants for the homologation of higher education titles, to increase access to services and economic opportunities for migrants, as evidenced by Resolutions Nos. 014448 of July 25, 2022, and 4278 of December 30, 2022; and (iii) through the Ministerio de Vivienda, Ciudad y Territorio (MVCT) sets the conditions for access to the family housing subsidy for the migrant population, as evidenced by Decree No. 1104 of June 29, 2022.*

---

41. **Rationale.** In 2021, the Government of Colombia launched a mechanism – *Estatuto Temporal de Protección para Migrantes Venezolanos (ETPV)* – to regularize approximately 2.4 million Venezuelan migrants in the country for ten years. The ETPV grants a TPP that serves as a valid ID, granting access to social services, housing, jobs, financial services, for the homologation of higher education titles, and other benefits. Since the ETPV was launched, over 1.5 million Venezuelans have completed the regularization process, and an additional 1 million have been pre-registered. For the TPP to effectively allow migrants to access services and markets, secondary norms at the sectoral level are needed to recognize it as a valid identification document for migrants to register for services. Moreover, with Colombia as the main receiving country for the Venezuelan migrant population, promoting their economic and social integration is key to materializing the gains from migration and reducing inequalities.<sup>65 66</sup>

42. **Substance.** This prior action builds on the Social and Economic Integration of Migrants DPL (P176505), which focused on policies that facilitate the social and economic integration of a migrant population. The National Council for Social and Economic Policy (CONPES) issued the CONPES 4100, “*Strategy for Integration of Venezuelan Migrants as a Development Factor*”, outlining a 10-year intersectoral government strategy with responsibilities and budget sources for the integration of migrants to harness their contribution to development. The CONPES establishes an action plan to (i) increase access and quality of social services; (ii) strengthen the State’s capacity to prevent and address vulnerabilities; (iii) develop and adopt strategies for productive inclusion; (iv) promote social and cultural integration; (v) strengthen the institutions responsible for the care and integration of the migrant population; (vi) define a financing strategy to ensure integration and development leverage; and (vii) strengthen the generation, processing, exchange of information and evaluation of integration impacts. The Colombian Government has also issued regulations in different social sectors recognizing the TPP as a valid identification document to access social services and government subsidies. Finally, the Government has also set the conditions to access the family housing subsidy for the migrant population (not restricted to Venezuelans), with a focus on poor and vulnerable migrants. These measures are complemented by ongoing efforts to promote the integration of migrants in Colombia.<sup>67 68</sup> The proposed *Indicative Trigger 7* supports regulations on the socio-economic integration of migrants as laid out in Chapter 5 of the Comprehensive Migration Policy (PIM), Law 2136 of 2021 and in Colombia’s endorsement of the Los

---

<sup>65</sup> CONPES 4100 presents a detailed characterization of the migrant population and the potential positive effects on the country’s economic development.

<sup>66</sup> WBG. 2018. Migration from Venezuela to Colombia: Short- and Medium-Term Impact and Response Strategy.

<sup>67</sup> Besides these regulations, local authorities have issued regulations aiming to integrate Venezuelans into local markets. This includes Decree no. 399, issued by Bogota’s local government in September 2022, whereby it establishes the Inclusive Employment Program with the objective of closing employment gaps for populations of difficult employability, including the migrant population. The country is also pending the adoption of an Integrated Migratory Policy, which elevates to law the principles, guidelines and mechanisms developed to respond to the Venezuelan exodus and expand them to other migration flows, as evidenced by Law No. 2136 dated August 4, 2021.

<sup>68</sup> DNP (2018). Estrategia para la atención de la migración desde Venezuela. CONPES Report No. 3950.



Angeles Declaration on Migration and Protection (2022).

43. **Expected Results.** The prior action is expected to contribute towards the integration and productive inclusion of Venezuelan migrants by addressing some economic and social barriers and harnessing their contribution towards development. Progress will be measured through: (i) an increase in the number of higher education degrees granted by Venezuelan institutions to Venezuelan migrants and Colombian returnees that are recognized in Colombia from 2,746 in 2023 to 9,088 in 2025 (which recognizes the importance of providing similar opportunities for hosts), and (ii) the number of migrants with access to housing subsidies from 181 in 2021 to 1,600 in 2025. Through a strengthened institutional framework for the response and increased migrants' access to assets (education, housing, public services) and opportunities (social services and the labor market), these measures are expected to reduce inequalities between migrants and hosts and enhance the migrants' contributions to the social and economic development of Colombia.<sup>69 70</sup>

### Pillar III: Inclusive and Green Private Sector Development

---

**Prior Action 7:** *The Republic of Colombia has: (i) through the Financial Regulation Unit of the MHCP, regulated the association of small business (MSMES) to the credit and savings cooperatives (CACs) aiming to expand their access to credit, as evidenced by Decree No. 627 of April 27, 2023; and (ii) through its MHCP issued a regulatory framework for Open Finance, to strengthen competition, inclusion, and efficiency in the provision of financial services, as evidenced by Decree No. 1297 of July 25, 2022.*

---

44. **Rationale.** Promoting equitable and increased access to financial assets can increase economic growth and inclusion.<sup>71</sup> Yet, challenges to financial inclusion remain. Access to credit is lower for micro, small and medium-sized enterprises (MSMES) in Colombia. The 2017 Enterprise Survey shows that while half of the formal small firms have a bank loan or line of credit, around 80 percent of medium and large firms do. Moreover, the recent Systematic Country Diagnostic Update (2022) reports that the MSMES' financing gap is estimated to be equivalent to 1 percent of GDP and that they have limited access to financial markets due to a lack of diversification.<sup>72</sup> The report puts access to finance by smaller firms as a priority area. At the same time, credit and savings cooperatives (*Cooperativas de Ahorro y Credito*, CACs), which play an important role in financial inclusion in Colombia (serving women, lower-income segments<sup>73</sup> and with a strong presence in rural areas and poorer departments, many conflict-affected), could not serve MSMES.<sup>74</sup> CACs account for 3 percent of financial sector assets, yet they provide financial services to about 12 percent of banked adults. Moreover, implementing Open Finance frameworks offers the potential to promote financial inclusion. Open Finance allows the sharing and leveraging of customer-permissioned data by financial institutions with third-party developers and firms to build applications and services, including those that provide real-time payments, greater financial transparency options for account holders, marketing, and cross-selling opportunities. The Open Finance frameworks have the potential to foster financial inclusion through: (i) increasing competition and efficiency and thus lowering barriers of entry and increasing product diversity; (ii) access to financial data held by incumbent banks can allow the creation of new products (including credit products) by new entrants (e.g., fintechs) tailored to banked but

---

<sup>69</sup> Housing subsidies target all migrants, not only Venezuelans (although they represent the majority of migrants in Colombia).

<sup>70</sup> Presidency of Colombia. 2020. Welcome, Integrate and Grow: Colombia's policies regarding migration from Venezuela. Bogotá, Colombia.

<sup>71</sup> Colombia - Systematic Country Diagnostic: Together for a Better Future (English). Washington, D.C.: World Bank Group.

<sup>72</sup> Colombia - Systematic Country Diagnostic: Together for a Better Future (English). Washington, D.C.: World Bank Group.

<sup>73</sup> About 61 percent of customers are women, and over 50 percent belong to lower-income segments.

<sup>74</sup> Only natural persons, non-profit organizations and MSMES in areas not covered by banks could be members of CACs; the latter, are estimated to be very few and have not been monitored.



underserved segments of the population.

45. **Substance.** Building on the Competitiveness and Recovery DPL (P175801), which supported productivity-related reforms, this Prior Action promotes increased access to finance for MSMEs by regulating how these firms can become members of CACs and access their financial services, including credit. The Entrepreneurship Law of 2020 authorized MSMEs to become members of CACs to use their financial services. The decree supported by this prior action advances this effort by establishing the requirements and documentation that the MSMEs must comply with and/or meet (proof of size, social object, etc.) to become members of the CACs and access their services. It also establishes the required modifications to the CACs statutes to associate MSMEs. The *Indicative Trigger 8* introduces a segmented regulatory framework for CACs with regulatory requirements and permissible activities proportional to the risks and capabilities of the institutions, incentivizing sector growth and consolidation. This measure is part of the roadmap for the credit cooperative sector recently published by the Financial Regulation Unit of the MHCP (*Unidad de Regulacion Financiera*, URF). The roadmap aims to strengthen the CAC sector to further support financial inclusion by updating its regulatory and oversight framework. The Prior Action also supports Decree 1297/2022, which enhances legal certainty around consent-based use of consumer data by supervised institutions and creates payment initiation services, among other provisions. It allows licensed institutions to use application programming interfaces (APIs) to share information on products/services, channels, fees, and personal information, including payment account data. The Decree clarifies that they may only process and commercialize consumer data subject to prior consumer consent and compliance with habeas data and data protection. It also regulates the “digital ecosystem,” including: (i) third-party service provision through the channels of supervised institutions; (ii) supervised entities’ service provision through third-party channels; and (iii) commercialization of supervised entities’ technology and infrastructure to third parties. The proposed *Indicative Trigger 9* captures the implementation of the Decree, as the development of governance arrangements and standards for open finance has been entrusted to the Financial Superintendence of Colombia (SFC). The supported measure is consistent with the proposed Art. 71 in the NDP draft Law<sup>75</sup>, which requires public and private institutions to provide access to data to facilitate access to financial products and services.

46. **Expected results.** The prior action will support the growth of MSMEs’ membership in the CAC sector from 0 to 65,000 by 2025, enabling them to access financial services, including credit through CACs. This measure is also expected to increase access to credit for MSMEs from 0 (in 2021) to 15,000 by 2025, particularly micro and small enterprises that are underserved by commercial banks and thus promote productive inclusion. Overall, increased access to financial markets for MSMEs is expected to increase productivity and promote higher economic growth and inclusion.<sup>76</sup> Moreover, Decree 1297/2022 provides the legal basis for implementing an Open Finance framework in Colombia. As the SFC issues specific rules to grant and gain access to consumer data for different use, it will be able to track the number of successful API requests for payment initiation, the participation of different types of institutions, and the use of the data.<sup>77</sup> Access to this data is expected to enable financial inclusion, as innovators can use it to develop financial products and services for underserved segments. The expected result is to reach 4 million successful API requests for payment initiation by 2025. While implementation of these frameworks is still in the early stages worldwide, positive financial inclusion effects have already been documented, such as in India, where open banking principles implementation increased high

<sup>75</sup> Article 89 in the version approved by Congress.

<sup>76</sup> Colombia - Systematic Country Diagnostic: Together for a Better Future (English). Washington, D.C.: World Bank Group.

<sup>77</sup> Like for example, payment initiation, account aggregation, alternative credit scoring, financial portability, etc.<sup>78</sup> Carrière-Swallow, Yan; Haksar, Vikram; and Patnam, Manasa. India’s Approach to Open Banking: Some Implications for Financial Inclusion; IMF Working Paper WP/21/52.



volume-low value payment transactions.<sup>78</sup>

---

**Prior Action 8:** *The Republic of Colombia, through the DNP and MHCP has submitted to Congress draft legislation to promote an economic transformation via productive activities that reduce greenhouse gas emissions, as evidenced by Chapter V of the National Development Plan draft law (NDP 2022-2026) submitted to Congress on February 6, 2023, for approval and published on Congress' official website: Congreso de la República.*

---

47. **Rationale.** Climate change constitutes a collective shock predicted to intensify existing disparities in Colombia. Climate shocks will disproportionately affect poor, rural populations, women, and informal workers.<sup>79</sup> While Colombia is at the front end of commitments to stop climate change, additional efforts are required to address its effects on inequality.<sup>80</sup> Emissions are concentrated by sector, with 59 percent resulting from agriculture, forestry and land use (especially deforestation, which also reduces the adaptive capacity of Colombia's landscapes), followed by energy and transport with 31 percent.<sup>81</sup> The government has a track record of building its climate mitigation response through, among others, (i) the ratification of the Paris Agreement<sup>82</sup>, (ii) the 2018 Climate Change Law,<sup>83</sup> (iii) its Nationally Determined Contribution (NDC), in which it commits to an emission reductions goal of -51 percent compared to a baseline scenario by 2030; and (iv) the 2021 Climate Action Law (Law 2169/2021), which makes the NDC commitments legally binding for future governments and also enshrined a carbon neutrality target for 2050.

48. **Substance.** The government is consolidating its commitment by including climate action as one of the central transformations and a transversal theme promoted in the NDP. This transformation, described in Chapter V of the draft Law,<sup>84</sup> focuses on making the best use of Colombia's natural capital and increasing the use of clean energy, including through provisions to support private investment. The NDP estimates investments of COP 114 trillion towards climate action and diversification of productive activities. The NDP makes specific commitments towards: (i) increasing installed electricity generation capacity from renewable energy to decarbonize the energy matrix, (ii) reducing GHG emissions from the transport sector, (iii) creating a zero waste program to further promote the circular economy and reduce associated GHG emissions, and (iv) creating the basis for private-public partnerships for conservation, restoration, and reforestation to increase investment in these areas and stem GHG emissions and the loss of adaptive capacity from land use and land use change. The proposed *Indicative Trigger 10* covers one of the key economy-wide means of implementation of the NDC, which at the same time is an important policy tool in incentivizing the low-carbon transformations set forth in the National Development Plan: the creation of Colombia's emissions trading system (ETS, the *Programa Nacional de Cupos Transables de Emisiones*), for which the government will issue a regulatory decree. *Indicative Trigger 11* focuses on a Resolution on gas flaring efficiency, supporting efforts on decarbonization.

49. **Expected results.** The law is expected to align the government's climate mitigation and adaptation actions

---

<sup>78</sup> Carrière-Swallow, Yan; Haksar, Vikram; and Patnam, Manasa. India's Approach to Open Banking: Some Implications for Financial Inclusion; IMF Working Paper WP/21/52.

<sup>79</sup> It is estimated that households in the lower two quintiles of the income distribution would suffer income losses from climate shocks that are on average 1.5 times higher than those suffered by the top quintile (World Bank, 2021).

<sup>80</sup> WB. 2021. Building an Equitable Society in Colombia, documenting the distributional impact of climate change.

<sup>81</sup> IDEAM, Fundación Natura, PNUD, MADS, DNP, CANCELLERÍA. 2021. Tercer Informe Bienal de Actualización de Colombia a la Convención Marco de las Naciones Unidas para el Cambio Climático (CMNUCC). IDEAM, Fundación Natura, PNUD, MADS, DNP, CANCELLERÍA, FMAM. Bogotá D.C., Colombia.

<sup>82</sup> Law 1844/2017.

<sup>83</sup> Law 1931/2018.

<sup>84</sup> The numbering of this Chapter in the Law approved by Congress remains the same as in the draft law submitted to Congress.



in the short term. Progress within the timeframe of this operation will be assessed by the share of Colombia's GHG emissions covered by the pilot phase of the ETS, expected to increase from 0 in 2022 to 10 percent by 2026. In the medium term, the law is expected to facilitate emission reductions in the four targeted sectors to support the targets set by the NDC and the *Climate Action Law* by increasing the share of clean energy in the energy matrix, reducing the loss of natural forests, increasing renewable energy generation, and reducing emissions from the transport sector. In addition, implementing the law is expected to promote inclusive and sustainable development and private sector competitiveness while progressively reducing the dependence on extractive activities.

---

***Prior Action 9:** The Republic of Colombia, through its SFC has established the required criteria for thematic bonds (including green and sustainable bonds), to ensure transparency and integrity of the market for green finance, reduce the risk of greenwashing, and create the conditions for the development of instruments that mobilize green investment for sustainable growth and low-carbon development, as evidenced by Circular Externa No. 020 of July 29, 2022.*

---

50. **Rationale.** Having an exclusive regulatory framework for thematic bonds lays a solid basis for the further development of the local green and sustainable bond market and supports the national and international climate change policy objectives. Increasing access to greener capital markets can be key in powering the Colombian economy's broad-based and climate-friendly growth. In fact, the green and sustainable bond market in Colombia has experienced steady growth in the past years, reaching issuances for COP 1.48 trillion between 2020 and 2022, primarily led by the banking sector, and with growing diversity in terms of geography and projects financed. As the market continues to grow, it is critical to mitigate the risk of greenwashing and ensure that these issuances contribute to and are aligned with the country's climate objectives as expected.

51. **Substance.** To ensure transparency and integrity of the market for green finance, Circular Externa (CE) 020/2022 specifies the minimum information that the prospectuses for issuance of thematic bonds must contemplate.<sup>85</sup> These are aligned with international best practices, in which issuers of thematic bonds in the primary domestic market must comply with: use of funds, project evaluation and selection, fund management, publication of annual reports on the use of funds and their respective impacts, and use of external audit. The CE includes the Colombia Green Taxonomy (published in April 2022)<sup>86</sup> - which identifies and classifies green assets and economic activities and aligns with climate mitigation and adaptation objectives - as a framework that can be used to define eligibility criteria for green bonds. The CE also sets minimum requirements to facilitate knowledge by new investors and make the authorization and supervision processes more expeditious and cost-efficient. The Proposed *Indicative Trigger 12* captures the SFC's plan to regulate other thematic financial instruments, namely thematic collective investment funds, as per its Roadmap for Greening of the Financial Sector, published in August 2022.

52. **Expected results.** Introducing a regulatory framework for thematic bonds to finance private investment is expected to strengthen the relationship between issuers and investors and the protection, transparency, trust, and integrity of the local market. It is expected to reduce the risk that the investments are not used for their intended purpose, including the risk of greenwashing. Introducing these stricter eligibility criteria, and in the context of a growing green bond market, it is expected to increase private sector low-carbon and climate-resilient investment and contribute to Colombia's climate change objectives and commitments. The supported action is expected to increase the number of thematic bond issuances that comply with the instructions of CE

---

<sup>85</sup> It refers to bonds issues by entities regulated by the SFC, which include private sector and public financial Institutions such as development Banks.

<sup>86</sup> Published in April 2022. Available at <https://www.taxonomiaverde.gov.co/webcenter/portal/TaxonomiaVerde>.



020/2022 from 1 to 4 by 2025, although there is high uncertainty about this number as it depends on the volatile appetite of the financial market for this type of bonds, with factors such as interest rates and macroeconomic environment, among others, playing a role. The target of the result indicator reflects this uncertainty. Overall, ensuring that the private sector’s activities align with national climate objectives is central to achieving these objectives.

**Table 5: DPF Prior Actions and Analytical Underpinnings**

PA	Analytical Underpinnings
<b>Operation Pillar 1: More equitable and green fiscal policies</b>	
#1	WB. 2021. Building an Equitable Society in Colombia, documenting the distributional impact of the taxation system. <i>/// Ministerio de Hacienda y Crédito Público. 2022. Reforma Tributaria para la Igualdad y la Justicia Social. Exposición de Motivos; detailing the increase in the effective tax rate before and after the reform. /// Nuñez et al. 2020. The Distributive Impact of Taxes and Expenditures in Colombia, Policy Research Working Paper 9171, WB: Washington, DC., presenting an analysis of the distributional impacts of taxes and expenditures in Colombia.</i>
#2	PAHO (2019). Ultra-processed Food and Drink Products in Latin America: Sales, Sources, Nutrient Profiles and Policy Implications, <b>summarizing evidence that ultra-processed food and drink products are obesogenic and unhealthy.</b> <i>/// Michael et al. (2011). The economic effect of non-communicable diseases on households and nations: a review of existing evidence. Journal of health communication, 16 Suppl 2, reviewing evidence that risk factors from chronic non-communicable diseases are shifting more to the poor. /// Fuchs and Pierola. 2022. The Distributional Impacts of Health Taxes. Equitable Growth, Finance and Institutions Insight - Poverty and Equity; WB: Washington, DC: showing that, over the long run, health taxes generate large benefits, and the overall tax outcome is progressive in most cases. /// Fuchs, Madeville, Alonso-Soria. 2017. Health and Distributional Impacts of a Tax on Sugar-Sweetened Beverages in Kazakhstan; WB: Washington, DC: showing that accounting for all costs and benefits, lower-income deciles benefit more than higher-income deciles from the tax in relative terms. Hawkes et al. (2015). Smart Food Policies for Obesity Prevention. Lancet 385:2410–21., documenting evidence of how food taxes reduce the purchases of targeted foods and drinks by encouraging consumers to reassess preferences. /// Afshin et al. (2017). The Prospective Impact of Food Pricing on Improving Dietary Consumption: A Systematic Review and Meta-analysis. PLOS ONE 12: e0172277, indicating that, on average, a 10 percent increase in prices decreased the consumption of unhealthy food by 6 percent. /// Hattersley et al. (2020). Taxes on Sugar-Sweetened Beverages: International Evidence and Experiences. Health, Nutrition and Population Knowledge Brief. WB discusses the international experiences of taxes on sugar-sweetened beverages, the theoretical mechanisms of operation, and evidence of their effects on sales, consumption, and health outcomes.</i>
#3	Ricardo Energy & Environment and Corporación Ecovera (Unpublished): <i>Evaluación del mecanismo colombiano de compensación del impuesto al carbono (Decreto 926/2017) y resultados del impuesto al carbono (Ley 1819/2016).</i> WB: Washington, DC., <b>showing that the original carbon tax design had a limited impact on emission reductions.</b> <i>/// Souza et al. (2022). Fuel Switching Under Incomplete Carbon Pricing, 2022 Annual Meeting, July 31-August 2, Anaheim, California 322321, Agricultural and Applied Economics Association, analyzing the effects of the carbon tax on companies in Colombia that supports an extension of the taxable base to reduce leakage. /// International Institute for Sustainable Development (2021): Cutting Emissions Through Fossil Fuel Subsidy Reforms and Taxation, showing that fuel subsidy reforms have significant mitigation potential. Parry, Black, and Vernon (2021): Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies. IMF Working Paper 21/236 estimates that efficient fuel pricing in 2025 would reduce global carbon dioxide emissions by 36 percent.</i>
<b>Operation Pillar 2: Promoting productive and social inclusion of vulnerable groups</b>	
#4	WBG (2019). Colombia Gender Assessment, <b>documenting progress and remaining challenges to achieve gender equality, including access to care, lack of agency and GBV.</b> <i>/// WB (2021). Building an Equitable Society in Colombia, documenting inequalities between groups and policies to address them.</i>
#5	FAO & FILAC (2021). Forest Governance by Indigenous and Tribal Peoples. An Opportunity for Climate Action in Latin America and the Caribbean, <b>highlighting the role of Indigenous and tribal peoples in climate action, fighting poverty, hunger, malnutrition, and the importance of collective land rights.</b> <i>/// Plan &amp; Hvalkof. (2001). Land Titling and Indigenous Peoples. WB. Washington, DC, covering land titling and regularization policies and programs and the role of Indigenous Peoples of LAC in traditional land use. /// Mitchell &amp; McEvoy (2019). Land Tenure and Climate Vulnerability. UN Habitat, Report 03/2019, revealing inter-relationships between land tenure and climate vulnerability and the importance of improving cadastral mapping and land tenure formalization. /// Williamson (2002). The Cadastral ‘Tool Box’—A Framework for Reform, presenting a tool to undertake cadastral reform by selecting appropriate land policies, legal concepts, and institutional arrangements. /// Nasruddin &amp; Rahman (2006).</i>



	Developing 3D Registration System for 3D Cadastre. Cited in WB (2020). Solid Ground: Increasing Community Resilience Through Improved Land Administration and Geospatial Information Systems. WB: Washington, DC, <b>indicating that investments in land information and land geospatial systems, including cadastral information, are key components of land administration systems and are crucial to disasters and improving resilience.</b>
#6	WBG. 2018. Migration from Venezuela to Colombia: Short- and Medium-Term Impact and Response Strategy, <b>documenting the negative effects of the migration crisis in the short term while presenting options to address these challenges and contributing to sustainable economic development in the medium to long term.</b> WB: Colombia. /// DNP (2018). <i>Estrategia para la atención de la migración desde Venezuela</i> . CONPES Report No. 3950, <b>establishing strategies and institutional support to respond to health, education, ECD, work, housing, and security needs for Venezuelan migrants.</b> /// Presidency of Colombia. 2020. Welcome, Integrate and Grow: Colombia’s policies regarding migration from Venezuela. Bogotá, Colombia, <b>presents policy options for integrating the migrant population, emphasizing articulating a comprehensive institutional response through providing basic services. Striking a Balance: Toward a Comprehensive Housing Policy for a Post-COVID Colombia.</b> Global Program for Resilient Housing/ Fedesarrollo and WB Colombia, 2021.
<b>Operation Pillar 3: Inclusive and Green Private Sector Development</b>	
#7	Unidad de Proyección Normativa y Estudios de Regulación Financiera (URF) (2022). Roadmap for the Credit and Savings Solidarity Subsector, <b>presenting international experiences on solidarity financial institutions' role in promoting financial inclusion and forthcoming actions to increase financial inclusion.</b> // Colombia - Systematic Country Diagnostic: Together for a Better Future (English). Washington, D.C. : World Bank Group, <b>presenting access to finance for MSMEs as a priority area.</b> // Arquitectura financiera abierta en Colombia, Technical Document of Decree 1297/2022, Financial Regulation Unit (URF), Bogotá D.C., Colombia, May 2022, <b>presenting the final regulatory project on Open Finance through which it seeks to strengthen competition, inclusion and efficiency in the provision of financial services.</b> /// Colombia - Financial Sector Assessment Program: Technical Note – Digital Financial Inclusion. Washington, D.C.: WBG/// WB (2022), Fintech and the Future of Finance - Overview (English). Washington, D.C.: WBG, <b>covering selected aspects of financial inclusion in Colombia with a focus on digital payments and, to a lesser extent, other digital financial services.</b>
#8	WB. 2021. Building an Equitable Society in Colombia, documenting the distributional impact of climate change. /// World Bank (2020): Colombia ETS Design: Summary Report. Prepared under the World Bank Partnership for Market Readiness (PMR), <b>providing an analytical basis for the design of Colombia’s ETS.</b>
#9	<i>Hoja de ruta para el enverdecimiento del sector financiero, Superintendencia Financiera de Colombia (SFC)</i> , Bogotá D.C., Colombia, August 2022, <b>covering the role of the financial sector in climate change solutions, the financial risks arising from climate change, and the authorities’ strategy to address these issues.</b> /// Taxonomía Verde de Colombia, Technical Document, Bogotá D.C., Colombia, March 2022, <b>establishing an identification framework to facilitate financial flows mobilization towards climate mitigation and adaptation objectives.</b> /// WB (2021), Not-so-magical realism: A Climate Stress Test of the Colombian Banking System. EFI Insight-Finance. Washington, D.C.: WBG, <b>identifying and assessing climate-related risks in the Colombian banking sector.</b>

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

53. **The proposed operation is aligned with the Country Partnership Framework (CPF) for Colombia (FY16-21), and its most recent Performance and Learning Review (FY16-21), and the twin goals are at the core of all measures supported by this DPF.** Beyond the alignment with the corporate goals, the DPF specifically supports CPF Objectives 2 (enhanced capacity for natural resource management), 3 (improved access to and quality of service delivery), 5 (improved fiscal management in support of fiscal consolidation), 6 (improved business environment and innovation to boost productivity) and 7 (deepened financial intermediation for productive purpose). The operation also aligns with two of the four main development challenges identified in the Colombia Systematic Country Diagnostic (2022): Equity and Climate, which will inform the upcoming CPF. The supported reforms are aligned with the Global Crisis Reform Framework Pillars. It is aligned with Pillar 1 by scaling up social protection to protect the vulnerable, with Pillar 2 by promoting gender equality and employment programs, with Pillar 3 by strengthening resilience through adaptive social protection programs and macro stability, and with Pillar 4 by investing in climate-smart policies and incentives.



54. **This operation complements others by the World Bank.** The proposed operation provides continuity to World Bank support to promote a more equitable and green society in Colombia. Previous operations have supported measures that, for instance, reduce income inequalities (including gender-related) and build resilience (Equitable & Green Recovery DPF, P176788); build Colombian competitiveness to drive the recovery, with a strong gender lens (Competitiveness and Recovery DPF, P175801); protect and integrate Venezuelan migrants (Social and Economic Integration of Migrants DPF, P176505) and, most recently, that accelerate climate action (Colombia Green and Resilient DPO, P180033). The IPF and ASA portfolio is also aligned with the operation. PA3 builds on the Partnership for Market Readiness Colombia Project (P170038), which, among others, analyzed the effects of Colombia's carbon tax. PA5 complements efforts currently carried out by the Multipurpose Cadaster Project (P162594), which works in sensitive biodiversity areas. Similarly, PA6 is aligned with the intended actions under the Resilient and Inclusive Housing Project (P172535) that support housing policy and investment by introducing an innovative rental subsidy program targeting highly vulnerable migrants, mainly from Venezuela. The World Bank support has been accompanied by building a strong evidence base through its ASA. For instance, the World Bank flagship “Building an Equitable Society in Colombia<sup>87</sup>” and the latest Public Finance Review) informed actions in Pillar 1. Analytical work is currently under discussion with the URF on implementing a roadmap to strengthen the sector and make it an effective channel for financial inclusion while maintaining sector capillarity. PA8 complements the Partnership for Market Readiness Colombia Project (P170038) and the Partnership for Market Implementation Colombia Project (P178167), which supports the government in designing, piloting, and implementing its ETS.

#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

55. **The operation preparation has benefitted from consultation and collaborations with the Government and development partners within the World Bank Group.** First, the Government has consulted on the measures supported by this DPF. Legal reform projects and policy documents are made publicly available and have an open consultation. As an example, the tax reform and the multipurpose cadaster underwent extensive consultations and technical discussions. For the latter, the Government and the Indigenous and Afro-Colombian authorities established a methodological route for issuing legal tools for developing the cadaster in ethnic territories. Similarly, policy documents such as the CONPES and the NDP are subject to citizen consultation and participation. For example, the NDP underwent extensive consultations between September 2022 and February 2023. This included territorial dialogues with Indigenous, Afro and Rom authorities and organizations, as well as the elaboration of proposals by these groups and the agreement of goals, activities, targets, and indicators with the national government. Moreover, now that the NDP is approved, the Government and ethnic communities will work on creating mechanisms and special provisions for developing the multipurpose cadaster in their territories. In addition, consultations were held with the relevant Government institutions for each explored area and with the DNP. Online consultations were also held for the CONPES 4100 and other resolutions and decrees on migration, following the Colombian process established by law. Second, the Bank is closely coordinating with the International Finance Corporation (IFC), particularly on private sector development and financial sector measures. Finally, the operation is being very closely coordinated with CAF Development Bank (including joint discussions with the Government counterparts), which is leading a parallel and complementary operation on promoting equity and gender equality, and with the Inter-American Development Bank (IADB) and KFW Development Bank who will be advancing subsequent complementary operations on the equity agenda.

---

<sup>87</sup> World Bank 2021.



## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1. POVERTY AND SOCIAL IMPACT

56. **With reducing inequalities at the core of this operation, the supported prior actions are expected to have significant positive effects on distributional outcomes over the short to long term.** All Pillars are expected to have positive distributional impacts in the short and long term. With the strong analytical foundations, including an ongoing and updated model on the distributional impact of fiscal policies, the Colombia Equity Flagship and the upcoming CCDR, Annex 5 details the impact of the prior actions. Pillar I advances the agenda of a more progressive fiscal system. Microsimulations show an increased progressivity of the PIT from the reform and a reduction in income inequality. For example, the Kakwani progressivity index is estimated to increase from 0.435 to 0.445, and the Gini at the disposable income to decrease by 0.34 percent linked to this reform.<sup>88</sup> It also promotes the goals of sustainability and better living standards in the design of the fiscal system through increases in carbon taxation<sup>89</sup> and the introduction of healthy taxes, which tend to benefit the poorer, given their consumption patterns.<sup>90</sup> While these two actions may have short-term mild negative effects on the poor, their expected medium- to long-term effects are estimated to outweigh short-term effects.

57. **Pillar II aims to promote productive and social inclusion of vulnerable groups, with expected positive poverty and distributional effects.** It opens opportunities for groups defined by gender, ethnicity, migration status, and location, by addressing barriers to more productive participation in society. The evidence (including that in World Bank 2021) shows how these groups fare worse than the average in access to economic opportunities. Specifically, the measures aim at increasing their assets (human capital, land and physical assets) and their opportunities to participate in the economy and earn an income (for example, through increased access to care).

58. **Pillar III increases access to financial assets for the excluded groups, including women and low-income households, through a more inclusive and greener private sector and the strengthening of synergies to tackle climate change.** Measures to promote financial inclusion are expected to positively affect poverty by boosting access to credit for excluded groups, fostering income generation and incentivizing formality, with positive impacts on job creation and quality. Similarly, measures under this Pillar aimed at reducing carbon emissions and promoting a productive transformation of the economy are expected to have positive social and distributional effects in the medium to long run.

### 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

59. **Prior Actions 3, 5, 8 and 9 are expected to significantly and positively affect the environment and support the country's actions toward its NDC commitment.** These Prior Actions promote and incentivize investments

<sup>88</sup> Banco Mundial (2023). Revisitando los impactos distributivos de la política fiscal en Colombia.

<sup>89</sup> The gasoline carbon tax, assuming full pass-through to consumers, would be progressive in absolute terms (share of the tax paid increases with income). It would increase the share that the tax represents of the income of the poorest (first decile), although remains very low (from 0.28% of their income to 0.37%).

<sup>90</sup> Health-related taxes cannot be assessed in monetary terms only, as they are expected to have positive health effects. Nevertheless, assuming consumption patterns remain, it is slightly regressive and the share of the tax over the incomes of the poorest is 0.79%. A brief of international experiences and evidence on sugary drinks taxes can be found here: <https://openknowledge.worldbank.org/bitstream/handle/10986/35186/Taxes-on-Sugar-Sweetened-Beverages-International-Evidence-and-Experiences.pdf?sequence=1&isAllowed=y>



to reduce greenhouse gas (GHG) emissions contributing to climate change mitigation by embedding planning approaches that reduce carbon pollutants, improve energy efficiency, and reduce fossil fuel consumption. Positive environmental and health benefits, as well as positive climate co-benefits, will be achieved through the reduction of GHG, including the reduction of black carbon and other particulate matter, such as nitrogen and sulfur oxides, among other primary and secondary pollutants. Policy measures to improve inclusiveness in cadaster and land administration supported in Prior Action 5 under Pillar 2 are expected to affect the environment positively. The participatory cadaster supported under this Prior Action will enable ethnic and peasant communities to secure land rights, which can reduce land use conflict and environmental degradation. No significant negative impacts on Colombia's environment, forests or other natural resources are expected to arise from the policies supported under this operation. Any potential negative effects on the environment resulting from these PAs will be managed through the nation's environmental framework.

**60. Colombia has a comprehensive environmental regulatory and planning framework for environmental management.** The Ministry of Environment and Sustainable Development (MADS) is the national regulatory entity in charge of formulating, implementing, and enforcing environmental policies and regulations to ensure environmental protection and sustainable development. Through the Decree 1076 of 2015, the MADS sets out the activities subject to environmental licensing. Together with the National Environmental Licensing Authority (ANLA by the acronyms in Spanish) and the Regional Autonomous Corporations (CARs by the acronyms in Spanish), they are responsible for the environmental licensing and permitting process for projects/investments at the national and regional level. The MADS, ANLA and CARs have the adequate institutional capacity to manage environmental management and related licensing/permitting processes.

### 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

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

**62. Public financial management (PFM).** Colombia's PFM system reasonably aligns with good international practices at the national government level.<sup>91</sup> The budget is comprehensive, well documented, implemented as planned, and published annually on time. The National Planning Department applies a multiyear perspective, with a Medium-Term Fiscal and Expenditure Framework in place since 2003, although these instruments have yet to be integrated with the budget process. Nonetheless, the budget reflects a mostly well-functioning policy-based system. Execution of budgeted expenditures suggests an overall credible budget that is published in a timely fashion<sup>92</sup> and accessible on the MHCP's website.

**63. Fiscal transparency is generally aligned with good practices.** The only exceptions are inconsistent budget classification systems, the ongoing transition to public sector international accounting standards, and a lack of disclosure of internally available information on macroeconomic scenarios, long-term projections, and public

<sup>91</sup> World Bank (2016): Public Expenditure and Financial Accountability Assessment of Colombia's Public Financial Management Systems.

<sup>92</sup> Government of Colombia (2022): Decree 2590 of December 23, 2022.

<sup>93</sup> Government of Colombia (2020): *Documento CONPES No. 4008. Política nacional de información para la gestión financiera*



corporations. The government has committed to addressing these weaknesses through a comprehensive reform plan.<sup>93</sup> Revenue and expenditure controls are comprehensive. Records and controls on cash flows, balances, and public debt support have sound management and provide public institutions with the tools for predicting funding to execute their budgets in an orderly manner.

**64. Consolidated public accounts are prepared within six months after the fiscal year's end and** include full information on revenues, expenditures, financial assets, and liabilities. The Accountant General issued year-end accrual-based financial statements that are 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 to Congress and the President before July 1 of the following fiscal year.

**65. 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 Law 1150 of 2007 and ruling decrees, the most recent being Decree 1510 of 2013. The Public Procurement Agency (*Colombia Compra Eficiente*, CCE) oversees and leads procurement regulatory reforms. CCE's current programmatic priorities include (i) adopting a more strategic approach to procurement as an essential component of public sector expenditure management; (ii) the universalization of the use of the transactional electronic procurement system SECOPII; (iii) professionalizing the procurement staff; and, most recently, (iv) the use of public procurement as a tool to promote the popular economy. By Law, all public entities must publish all the procurement activities in one of the e-Gp systems (SECOP I, SECOP II). Based on public information published by CCE: i) 41% of the activities are published in SECOP I (28% of the amount) and 59% in SECOP II (72% of the amount); ii) 53% of the amount of public procurement was awarded following non-competitive methods; iii) there are not performance indicators available; and iv) the procurement information is available to the public. The current principal priority of CCE is the promotion of Standard Procurement Documents (SPD). The Congress of Colombia approved the Procurement Documents Law, Law 2022 of 2020, which mandates that 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. As of today, CCE has approved SBD for the following sectors: transport, water and sanitation infrastructure, multipurpose cadaster, and social infrastructure. CCE has developed a Control Dashboard for using SBD based on a sample of 7,127 activities of 1,180 agencies, the average number of received bids is 16, and the average savings (awarded value vs. estimated amount) is 3.9%. Regarding the resolution of complaints, there is no possibility of challenging the decisions of the contracting entity at the administrative level. The only way to challenge procurement decisions is through the judiciary system, which meets the criteria of independence and capacity but is not necessarily effective or efficient.

**66. Foreign Exchange Control Environment.** Fiduciary due diligence was conducted to cover the government bank account at Citibank N.Y used for depositing the proceeds of Development Policy Lending operations and the overall foreign exchange control environment of the Central Bank. The audit report of the Consolidated Financial Statements of Citigroup Inc. and Subsidiaries for 2021-2020 had an unmodified opinion, and the effectiveness of Citigroup Inc. and Subsidiaries' internal control over financial reporting as of December

<sup>93</sup> Government of Colombia (2020): *Documento CONPES No. 4008. Política nacional de información para la gestión financiera Pública*, and Government of Colombia (2019): *Plan Nacional de Desarrollo 2018-2022*; the Pact for Colombia, Pact for equity, included the proposal to reengineer the Public Financial Management. Decree 224 of 2021, created the Intersectoral Commission for Public Financial Management Information and establishes its integrated action plan.



31, 2021, was confirmed. The 2021 financial statements of the Central Bank were prepared following International Financial Reporting Standards, and the audit was carried out per International Standards on Auditing by an independent, internationally recognized audit firm acceptable to the World Bank. The unmodified opinion did not reveal any significant issues related to the internal control environment. The fiduciary due diligence, therefore, concluded that the internal FOREX control environment does not pose risks to the development objectives of this operation.

67. **The proposed loan will follow the 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 loan proceeds will be disbursed into the government’s bank account at Citibank in New York. The account is denominated in US dollars, is controlled by the National Treasury, and is part of the government’s foreign exchange reserves. An equivalent amount in Colombian pesos will then be transferred into the Treasury Single Account of the MHCP, thus becoming available to finance budgeted expenditures. The Borrower shall, within thirty (30) days after the withdrawal of the Loan, report to the Bank: (a) the exact sum received into the forex account in the Citibank N.Y./Central Bank; (b) the details of the account to which the Colombian Pesos equivalent of the Loan proceeds have been credited; and (c) the record that an equivalent amount has been accounted for in the Borrower’s budget management systems. This confirmation will include the applied exchange rate and the transfer date. The financial support provided under this operation is not intended to finance goods or services on the “Excluded Expenditures” list. If any portion of the credit is used to finance ineligible expenditures as 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.

68. The closing date of the proposed first operation is estimated to be June 15, 2024.

#### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

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

70. **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 Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank’s Grievance Redress Service (GRS). The GRS ensures that complaints are promptly reviewed to address pertinent concerns. Project-affected communities and individuals may submit complaints to the Bank’s independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred or could occur as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the 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 GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank’s Accountability Mechanism, please visit <https://accountability.worldbank.org>.

## 6. SUMMARY OF RISKS AND MITIGATION

71. **The overall risk level for this DPF is assessed as Moderate.** This is based on a Moderate rating for most risks, excluding those related to fiduciary and environmental and social risks rated as Low. The Macroeconomic risk is considered moderate given that the mandate to issue a medium-term fiscal framework and the fiscal rule can mitigate any potential pressure resulting from a more difficult international economic environment and the need to reduce inflation, the current account, and the fiscal deficits.

**Table 6: Summary Risk Ratings**

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



**ANNEX 1: POLICY AND RESULTS MATRIX**

Prior Actions and Triggers		Results		
Prior Actions Under DPF 1	Triggers for DPF 2	Indicator name	Baseline	Target
<i>Pillar 1- More equitable and green fiscal policies</i>				
<p><b>Prior Action 1:</b> The Republic of Colombia has increased the progressivity of the personal income tax by: (i) reducing the cap on exemptions and deductions for personal income tax; (ii) homogenizing taxation of dividends received by individuals and other personal income; and (iii) introducing a tax on personal wealth, as evidenced by Law No. 2277 of 2022, published in the Official Gazette on December 13, 2022.</p>		<p>Results Indicator #1A: Average effective tax rate from personal income tax for individuals in the highest gross income decile of distribution of those filing personal income taxes, measured from DIAN published tax database</p>	8.9% [2020]	9.9% [2025]
		<p>Results Indicator #1B: Revenue collected from the wealth tax, in percent of GDP</p>	0% of GDP [2022]	0.11% of GDP [2025]
	<p>Trigger 1: Introduction and implementation of a new system of adaptive social assistance transfers equipped to prevent, mitigate, and adapt in the face of shocks</p>	<p>Result Indicator #T1: percentage of poor population covered by the system of social assistance transfers</p>	83% [2021]	93% [2025]



	Trigger 2: Creation of the Universal Income Registry (RUI) as an additional tool to target social policies and programs and as a key component of the Integrated Social Registry (RSH)	Result Indicator #T2: percentage of poor households included in the RUI	90% [2023]	100% [2025]
<b>Prior Action 2:</b> The Republic of Colombia has introduced taxes on sweetened beverages and ultra-processed foods (products with a high content of sugar, sodium, and saturated fat), to promote healthier nutrition habits and contribute to health gains, as evidenced by Law No. 2277 of 2022, published in the Official Gazette on December 13, 2022.		Results Indicator #2: Percentage of children between 2 and 17 years consuming at least one sugar-sweetened beverage daily	24.2% [2019]	20% [2025]
<b>Prior Action 3:</b> The Republic of Colombia has expanded its carbon tax to incentivize economy-wide greenhouse gas emissions reductions by increasing the coverage and level of the tax and limiting the use of offsets, as evidenced by Law No. 2277 of 2022, published in the Official Gazette on December 13, 2022.	Trigger 3: The government has reduced subsidies for gasoline and diesel	Results indicator #3: Carbon tax revenues raised (net of offsets) in billions of Colombian pesos  Results indicator #T3: Reduction of the deficit of the Fuel Price Stabilization Fund, in percent of GDP	424 [2022]  2.6% of GDP [2022]	708 [2025]  0.6% of GDP [2025]
<b>Pillar 2- Promoting productive and social inclusion of vulnerable groups</b>				
<b>Prior Action 4- Gender:</b> The Republic of Colombia, through the DNP, has: (i) approved the Gender Equality Policy and the accompanying Action Plan that assigns responsibilities, budget and timeline for the implementation of specific actions that promote women’s economic inclusion, as evidenced by CONPES document No. 4080 of April 18, 2022; (ii) created the National Care System to recognize, reduce and redistribute paid and unpaid care work and to coordinate policies of care provision, as evidenced by Law No. 2281 of 2023, published in the Official Gazette on January 4, 2023; and (iii) strengthened the response system to support to survivors of gender-based violence by establishing shelter houses for victims of domestic violence offering comprehensive care, as evidenced by CONPES document No. 4080 of April 18, 2022, and Law No. 2215 of 2022, published in the Official Gazette on June 23, 2022.	Trigger 4: Regulations for the functioning of the National Care System  Trigger 5: Modification of Law 731/2002 that promotes gender equality in rural areas through initiatives to title women’s land and improve access to economic opportunities	Results Indicator #4A: Placement of women by public employment services  Results Indicator #4B: Main cities that include in their development plans the guidelines for the development of care systems to reduce,	1,477,232 [2022]  0 [2023]	1,744,757 [2025]  5 [2025]



		redistribute, represent, and reward care work	77% [2021]	83% [2025]
		Results Indicator #4C: Share of women victims of domestic violence that receive physical and mental health care services		
<b>Prior Action 5- Ethnic groups:</b> The Republic of Colombia has taken measures to encourage the establishment and strengthening of ethnic (indigenous and afro-descendants) and peasant communities as cadastral organizations with enabled authority to implement a participatory cadaster, as evidenced by: (i) Resolution No. 338 of March 9, 2023 by the IGAC; and (ii) Chapter II, Section V, Articles 32 and 33 of the National Development Plan draft law (NDP 2022-2026) submitted to Congress on February 6, 2023 for approval, and published on Congress' official website: Congreso de la República.	Trigger 6: Regulations that adopt the guidelines for carrying out the cadaster in collective territories of ethnic communities	Results Indicator #5: Number of municipalities in which ethnic and peasant communities are enabled as cadastral implementors	0 [2022]	10 [2024]
<b>Prior Action 6- Migrants:</b> The Republic of Colombia has: (i) outlined a 10-year intersectoral government strategy for the integration of Venezuelan migrants to harness their contribution to development, as evidenced by CONPES document No. 4100 of July 11, 2022; (ii) through the MEN and Migración Colombia, issued regulation to recognize the Temporary Protection Permit (TPP) as a valid identification document for Venezuelan migrants for the homologation of higher education titles, to increase access to services and economic opportunities for migrants, as evidenced by Resolutions Nos. 014448 of July 25, 2022, and 4278 of December 30, 2022; and (iii) through the MVCT sets the conditions for access to the family housing subsidy for the migrant population, as evidenced by Decree No. 1104 of June 29, 2022.	Trigger 7: Regulations for the implementation of the Integral Migratory Policy ( <i>Política Integral Migratoria</i> ), as outlined by Law 2136 of 2021, Colombia's endorsement of the Los Angeles Declaration on Migration and Protection (2022)	Results Indicator #6A: Total number of higher education degrees granted by Venezuelan institutions to Venezuelan migrants and Colombian returnees that are recognized in Colombia	2,746 [2023]	9,088 [2025]
		Results Indicator #6B: Total number of migrants who benefitted from housing subsidies	181 [2021]	1,600 [2025]
<b>Pillar 3- Promoting an inclusive and green private sector development</b>				
<b>Prior Action 7:</b> The Republic of Colombia has: (i) through the Financial Regulation Unit of the MHCP, regulated the association of small business (MSMES) to the credit and savings cooperatives (CACs) aiming to expand their access to credit, as evidenced by Decree No. 627 of April 27, 2023; and (ii) through its MHCP issued a regulatory framework for Open Finance, to strengthen competition, inclusion, and efficiency in the provision of financial	Trigger 8: Regulations introducing a segmented regulatory framework for CACs, introducing incentives for sector growth and consolidation	Results Indicator #7A: Number of Micro, Small & Medium Enterprises (MSMEs) members of CACs	0 [2022]	65,000 [2025]
	Trigger 9: Circular of the Financial		0 [2022]	15,000 [2025]



<p>services, as evidenced by Decree No. 1297 of July 25, 2022.</p>	<p>Superintendence of Colombia (SFC) on implementation of Decree 1297/2022 provisions, including (i) governance, ii) security standards, iii) architecture standards, and iv) standards for payment initiation</p>	<p>Results Indicator #7B: Number of MSMEs with credit provided by CACs</p> <p>Results Indicator #7C: Number of successful API requests for payment initiation</p>	<p>0 [2022]</p>	<p>4,000,000 [2025]</p>
<p><b>Prior Action 8:</b> The Republic of Colombia, through the DNP and MHCP has submitted to Congress draft legislation to promote an economic transformation via productive activities that reduce greenhouse gas emissions, as evidenced by Chapter V of the National Development Plan draft law (NDP 2022-2026) submitted to Congress on February 6, 2023 for approval and published on Congress' official website: <i>Congreso de la República</i>.</p>	<p>Trigger 10: Decree regulating the Emissions Trading System (<i>Programa Nacional de Cupos Trasables de Emisiones</i>)</p> <p>Trigger 11: Resolution on gas flaring efficiency, to update Resolution 40066 covering gas flaring and venting</p>	<p>Results Indicator #8: Share of GHG emissions covered by the pilot phase of the ETS</p>	<p>0% [2022]</p>	<p>10% [2026]</p>
<p><b>Prior Action 9:</b> The Republic of Colombia, through its SFC has established the required criteria for thematic bonds (including green and sustainable bonds), to ensure transparency and integrity of the market for green finance, reduce the risk of greenwashing, and create the conditions for the development of instruments that mobilize green investment for sustainable growth and low-carbon development, as evidenced by Circular Externa No. 020 of July 29, 2022.</p>	<p>Trigger 12: Financial Superintendence of Colombia (SFC) issues a Circular to regulate thematic collective investment funds</p>	<p>Results Indicator #9: Number of thematic bond issuances that comply with the instructions of CE 020/2022</p>	<p>1 [2022]</p>	<p>4 [2025]</p>



## ANNEX 2: FUND RELATIONS ANNEX



### PRESS RELEASE

PR23/90

## IMF Executive Board Concludes 2023 Article IV Consultation with Colombia

FOR IMMEDIATE RELEASE

Washington, DC – March 23, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Colombia on March 22, 2023.

Benefiting from an effective policy response to the pandemic and highly favorable terms of trade, Colombia's economy grew at 7.5 percent year-on-year in 2022; one of the fastest rates among emerging economies. Against this robust recovery, high commodity prices, and weather-related shocks, headline inflation reached 13.3 percent year-on-year in February 2023 and the current account deficit widened from 5.6 in 2021 to 6.2 percent of GDP in 2022.

The Colombian economy is now undergoing a necessary transition towards a more sustainable growth path. Macroeconomic policies that had been tightened last year and are expected to carry on this year, are facilitating this transition, along with a slowing global growth and higher global borrowing costs. This necessary cooling of the economy would in turn bring inflation towards the central bank's target by end-2024 and narrow the current account deficit gradually to its historical average (about 4 percent of GDP), the bulk of which will be financed through foreign direct investment.

While downside risks persist and remain elevated, Colombia's very strong economic fundamentals, policies, and policy frameworks support its resilience. On the external front, global financial conditions could tighten more sharply than anticipated with negative knock-on effects on commodity prices, capital outflows and domestic demand. Domestic risks cannot be discarded; special care will be needed to prudently manage and keep communicating the sequence of reforms and ensure that macroeconomic policies are sufficiently tight to reduce internal and external imbalances. The two-year Flexible Credit Line (FCL) arrangement, with access amount equivalent to SDR7.1557 billion (about US\$9.8 billion) that was approved in April 2022, provides additional external buffers against tail risk scenarios on a precautionary basis, enhancing Colombia's already strong resilience.

---

<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.



### Executive Board Assessment<sup>2</sup>

Executive Directors agreed with the thrust of the staff appraisal. Following a robust recovery from the COVID-19 pandemic, the Colombian economy is undergoing a necessary transition toward sustainable growth. Directors noted, however, that downside risks—including related to tighter global financial conditions and high inflation—are elevated. They commended the authorities' very strong policies and institutional policy frameworks, which support the country's resilience and are helping correct macroeconomic imbalances, while improving equity and social inclusion.

Directors welcomed the strong fiscal adjustment in 2022 and the planned adjustment in 2023, which go beyond the consolidation required by the fiscal rule. They observed that the planned adjustment strikes a balance between improving the deficit while using the progressive tax reform to increase social spending. Directors welcomed the authorities' commitment to implement the fiscal rules going forward. They generally agreed that improving fiscal balances slightly beyond the fiscal rule path in the coming years would help reduce financing needs, strengthen the convergence of public debt to its medium-term anchor, build buffers, and durably reduce external imbalances, though a few Directors did not see a need for tightening beyond the fiscal rule in the medium term. Continued efforts to gradually remove distortive fuel subsidies remain important.

Directors commended the central bank's decisive monetary policy tightening consistent with its inflation targeting framework. They welcomed the commitment to maintain a tight monetary stance until price pressures and inflation expectations are on a firm downward trend, and emphasized the importance of effective central bank communication in this regard. Directors noted that the external position is sustainable, and that the flexible exchange rate should continue to play its role in facilitating external adjustment, as long as financial stability is not compromised. They noted that the Flexible Credit Line continues to provide additional external buffers against tail-risks and enhances market confidence. While the financial sector remains resilient, Directors emphasized the need to closely monitor risks and emerging vulnerabilities. They encouraged continued progress in implementing the 2022 FSAP recommendations supported by Fund technical assistance.

Directors were encouraged by the objectives of the healthcare, pensions, and labor markets reforms, and emphasized that reforms should be prudently implemented, while preserving fiscal and financial stability. They commended the authorities' objective of reducing Colombia's reliance on oil and coal, and noted that a successful transition would require developing a well-communicated and gradual plan that balances the energy needs of the domestic economy and its foreign exchange generation capacity with the transition of the global economy to a low-carbon one. Directors also encouraged the authorities to continue advancing on the governance and anti-corruption agenda.

---

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.



Table 1. Colombia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators										
Population (million), 2022. Projection	51.6	Unemployment rate, 2022 (SA, percent)		11.3						
Urban population (percent of total), 2020	81.4	Physicians (per 1,000 people), 2018		3.8						
GDP, 2022			Adult illiteracy rate (ages 15 and older), 2020		4.4					
Per capita (US\$)	6,665	Net secondary school enrollment rate, 2018		77.5						
In billion of Col\$	1,463,873	Gini coefficient, 2021		52.3						
In billion of US\$	344	Poverty rate, 2021		39.3						
Life expectancy at birth (years), 2019	76.8									
Mortality rate, (under 5, per 1,000 live births), 2020	13.2									
II. Economic Indicators										
	2019	2020	2021	2022 <sup>1</sup>	Projections					
					2023	2024	2025	2026	2027	2028
(In percentage change, unless otherwise indicated)										
National Income and Prices										
Real GDP	3.2	-7.3	11.0	7.5	1.0	1.9	2.9	3.3	3.3	3.3
Potential GDP	2.1	-1.2	5.0	4.8	2.7	2.5	2.4	3.1	3.3	3.3
Output Gap	-0.2	-6.4	-1.0	1.6	-0.2	-0.8	-0.2	0.0	0.0	0.0
GDP deflator	4.0	1.5	7.7	14.2	8.0	3.9	3.0	3.0	3.0	3.0
Consumer prices (average)	3.5	2.5	3.5	10.2	10.9	5.4	3.0	3.0	3.0	3.0
Consumer prices, end of period (eop)	3.8	1.6	5.6	13.1	8.4	3.5	3.0	3.0	3.0	3.0
Nominal GDP (In Col\$ trillion)	1,060	998	1,193	1,464	1,595	1,690	1,791	1,907	2,029	2,160
External Sector										
Exports (f.o.b.)	-5.4	-20.5	32.3	39.8	-9.5	-1.0	0.4	1.6	1.7	3.1
Imports (f.o.b.)	2.3	-18.5	37.7	26.2	-8.1	-1.2	-0.4	1.1	2.8	3.2
Terms of trade (deterioration -)	-2.3	-1.6	5.3	19.7	-10.7	-4.5	-2.5	-2.0	-1.4	-1.5
Real exchange rate (depreciation -) 2/	-5.9	-7.7	-3.2	-4.8	...	...	...	...	...	...
Money and Credit										
Broad money	10.0	10.3	13.6	11.2	6.4	6.9	7.0	7.0	7.0	7.0
Credit to the private sector	11.6	-0.8	12.5	16.8	7.1	7.4	7.5	7.5	7.5	7.5
Policy rate, eop	4.3	1.8	3.0	12.0	...	...	...	...	...	...
(In percent of GDP)										
Central government balance 3/	-2.5	-7.8	-8.1	-5.5	-3.8	-3.6	-3.4	-3.0	-2.9	-2.8
Central government structural balance 4/	-2.3	-6.1	-7.3	-4.6	-3.0	-3.8	-3.7	-3.2	-2.2	-1.2
Consolidated public sector (CPS) balance 5/	-2.9	-6.9	-7.1	-6.6	-3.8	-1.8	-2.2	-2.3	-2.2	-1.9
CPS non-oil structural primary balance	-2.0	-4.3	-4.9	-4.6	-2.1	-0.5	-1.2	-1.2	-1.0	-0.8
CPS fiscal impulse	0.8	2.3	0.6	-0.3	-2.5	-1.6	0.7	0.0	-0.2	-0.1
Public sector gross debt 6/	52.4	65.7	64.0	63.6	62.0	61.1	60.9	60.1	59.2	58.3
Gross domestic investment	21.4	19.1	19.0	21.8	20.8	21.0	21.4	22.0	22.3	22.4
Gross national savings	16.8	15.6	13.3	15.6	15.6	16.4	17.1	17.9	18.2	18.4
Current account (deficit -)	-4.6	-3.5	-5.6	-6.2	-5.1	-4.6	-4.3	-4.1	-4.1	-4.0
External Financing Needs 7/	15.3	18.1	17.6	17.6	18.3	18.7	17.6	17.8	17.7	17.1
External debt	50.1	66.6	62.2	63.0	68.1	68.3	67.9	66.8	65.9	65.4
(In percent of exports of goods and services)										
External debt service	77.8	113.0	84.9	63.8	77.7	86.6	85.4	90.0	91.9	90.1
Interest payments	14.7	17.0	13.5	11.6	14.3	15.5	15.3	15.2	15.5	15.6
(In billion of U.S. dollars; unless otherwise indicated)										
Exports (f.o.b.)	40.7	32.3	42.7	59.8	54.1	53.5	53.7	54.6	55.5	57.2
Of which: Petroleum products	16.0	8.8	13.5	18.9	16.3	15.4	14.7	14.5	14.1	14.1
Gross international reserves 8/	52.7	58.5	58.0	56.7	57.8	59.1	59.8	60.4	61.1	61.8

Sources: Colombian authorities; UNDP Human Development Report; World Development Indicators; and IMF staff estimates.  
<sup>1/</sup> Estimate for monetary sector variables (except for policy rate) and fiscal sector variables.  
<sup>2/</sup> Based on bilateral COL Peso/USD exchange rate.  
<sup>3/</sup> For 2021 excludes privatization receipts worth 1.1 percent of GDP that, under GFSM 1986 which is used by the authorities, produces a headline deficit of -7.0 percent of GDP.  
<sup>4/</sup> IMF staff estimate, excludes one-off recognition of arrears.  
<sup>5/</sup> Includes the quasi-fiscal balance of Banco de la República, sales of assets, phone licenses, and statistical discrepancy. For 2021 excludes privatization receipts, see 3/ above.  
<sup>6/</sup> Includes Ecopetrol, Fogaftin, and Finagro.  
<sup>7/</sup> Current account deficit plus amortization due including holdings of locally issued public debt (TES).  
<sup>8/</sup> Excludes Colombia's contribution to FLAR, includes valuation changes of reserves denominated in currencies other than U.S. dollars.



## ANNEX 3: LETTER OF DEVELOPMENT POLICY



DEPARTAMENTO  
NACIONAL DE PLANEACIÓN



MINISTERIO DE HACIENDA Y  
CRÉDITO PÚBLICO

Bogotá D.C., 8 de mayo 2023

Señor:

**DAVID MALPASS**  
Presidente  
Banco Mundial  
Washington, D.C.

Asunto: Carta de Política. Apoyo al Programa de desarrollo Equitativo y verde Fase 1.

Apreciado presidente Malpass,

Mediante la presente, deseamos manifestar el compromiso del Gobierno de Colombia en avanzar hacia un país con desarrollo equitativo y verde, a partir del impulso de políticas de inclusión productiva y social para grupos vulnerables y líneas inclusivas y de desarrollo para el sector privado verde, sumado a políticas fiscales más equitativas y verdes.

Lo anterior, enmarcado en las bases del Plan Nacional del Desarrollo 2022 – 2026 “Colombia Potencia Mundial de la Vida” y en el texto conciliado del Proyecto de Ley número 274 de 2023 Cámara – 338 de 202 Senado<sup>1</sup> en el cual el Gobierno Nacional apunta sus esfuerzos a superar las inequidades y exclusiones que han generado los altos niveles de desigualdad en el país y avanzar en el proceso de paz, además de esfuerzos encaminados hacia el desarrollo ambientalmente sostenible y la transformación productiva sustentada en el conocimiento.

Como es de su conocimiento, la pandemia causada por el COVID-19 incrementó la desigualdad en ingresos con un incremento de aproximadamente 3 puntos en el coeficiente de Gini, pasando de 51,7 en 2018 a 54,4 en 2020. Si bien en 2021 se reactivó la economía, la desigualdad en ingresos se mantiene en un nivel alto y se evidencia un crecimiento en la tasa de pobreza rural y en grupos poblacionales vulnerables.

Ante estos desafíos, la agenda del Gobierno Nacional enfoca sus esfuerzos a garantizar un desarrollo inclusivo y sostenible y considera crucial abordar de manera efectiva los temas de equidad en el país. La equidad es esencial para construir una sociedad justa que garantice el bienestar de todas las personas, sin importar su origen, género, raza o condición social. De igual manera, busca avanzar en reformas de política fiscal y en la promoción de la inclusión productiva y social desde una perspectiva de género, etnia y ubicación territorial. Adicionalmente, es importante reconocer que como prioridad en la mencionada agenda se encuentran acciones encaminadas a la sostenibilidad ambiental y promoción de un sector privado verde e inclusivo.

<sup>1</sup> “por el cual se expide el Plan Nacional de Desarrollo 2022- 2026 “Colombia Potencia Mundial de la Vida”.  
Página 1 de 7



Es por esto, que es necesario que en términos de política pública de equidad, se requiere un fuerte enfoque en reducción de brechas económicas y sociales entre diferentes grupos de población, especialmente en las zonas rurales, con el fin de garantizar acceso equitativo a servicios de calidad, apostándole la eliminación de discriminación y violencia de género, así como a asegurar que los pueblos Room y Raizales tengan acceso a sus derechos fundamentales y se les permita participar plenamente en la vida económica, social y cultural del país.

Otro de los grandes objetivos se enmarca en políticas fiscales equitativas y verdes en donde se busca además de fortalecer la sostenibilidad fiscal del país, la distribución de manera más equitativa de la carga tributaria teniendo en cuenta la capacidad económica de cada contribuyente garantizando así que aquellos con mayores ingresos contribuyan más al desarrollo sostenible del país, además de garantizar un desarrollo sostenible y respetuoso con el medio ambiente. En este sentido, se está avanzando en medidas enfocadas a la reducción de emisiones de gases de efecto invernadero y la promoción de la transición hacia una economía baja en carbono.

Otro de los pilares fundamentales para alcanzar una economía sostenible, equitativa y respetuosa con el medio ambiente, refleja la importancia de avanzar en el desarrollo del sector privado desde un enfoque inclusivo y verde en el que se promuevan políticas y estrategias que fomenten la inclusión financiera y el acceso a financiamiento para pequeñas y medianas empresas (PYMES) y emprendedores de todos los actores y grupos de la sociedad, especialmente en sectores tradicionalmente marginados.

### **Contexto macroeconómico**

En 2022, la economía colombiana registró un crecimiento económico de 7,5%, posicionando al país como el segundo con mejor desempeño económico dentro de los 38 países miembros de la OCDE. El favorable dinamismo económico se ha extendido durante 2023. El crecimiento económico de 2022 estuvo impulsado por los sectores de la gran rama de comercio, la industria manufacturera y las actividades artísticas y de entretenimiento. Estos sectores mostraron crecimientos de 10,7%, 9,8% y 37,9%, respectivamente, y contribuyeron con más de la mitad (4,3 puntos porcentuales -pps-) al crecimiento total. Por el lado de la demanda, se destaca el comportamiento de la inversión en maquinaria y equipo y de las exportaciones. La primera mostró un crecimiento de 25,5%, alineado con el buen comportamiento que ha mostrado la industria manufacturera, y la segunda presentó un crecimiento de 14,9%, a causa de las mayores exportaciones de bienes no tradicionales y la reactivación del turismo en el país. Adicionalmente, en lo corrido del año, el indicador de seguimiento de actividad económico (ISE) ha mostrado un crecimiento de 4,4%, impulsado por el buen comportamiento de la industria manufacturera y la construcción.

Durante 2022, el mercado laboral colombiano exhibió una recuperación, reflejada en una senda decreciente de la tasa de desempleo, la cual se ubicó en promedio en 10% versus



12,2% en 2022 (DANE). La recuperación se ha seguido observado en 2023. En marzo de 2023, la tasa de desempleo desestacionalizada alcanzó el 10%, su menor valor desde septiembre de 2018. Asimismo, en el primer trimestre de 2023, el promedio de la tasa de desempleo (10,5% a marzo) fue inferior a la observada en el mismo periodo de 2019 (10,8%), y se ubica 1,5 pps por debajo de lo observado en el mismo trimestre del año anterior (12%). En lo corrido de 2023, estos resultados han sido impulsados por la creación de empleo en los sectores de alojamiento y restaurantes y las actividades artísticas y de entretenimiento, que en conjunto contribuyeron con 1,7 pps a la creación del empleo total (3,8%). Asimismo, en línea con el incentivo a la creación de nuevos empleos, las actividades profesionales han contribuido en lo corrido de 2023 con 0,7pps a la creación de empleo para este periodo.

Al cierre de 2022, y en lo corrido de 2023, la Inversión Extranjera Directa (IED) al país registró un importante dinamismo y alcanzó niveles históricamente altos, impulsado por los sectores distintos a petróleo y minería. Particularmente, en 2022 la IED total alcanzó un nivel de USD 17.048 millones, creciendo 81,7% frente a lo observado en 2021. Los sectores no minero energéticos registraron entradas de IED por USD 12.681 millones, los niveles más altos de la historia, representando el 74,4% del total de la IED y creciendo 50,8% frente a 2021. Este buen dinamismo de la IED se sigue observando en 2023, lo que refleja la confianza inversionista con la que cuenta el país. En particular, según datos de la balanza cambiaria publicados por el Banco de la República, en el primer trimestre de 2023 los flujos de IED al país crecieron 25,3% frente al mismo periodo de 2022.

En 2022, las exportaciones de bienes no minero energéticos y de servicios mostraron un gran dinamismo, impulsando el crecimiento del PIB y mitigando la ampliación del déficit externo. Por un lado, las exportaciones de bienes no minero energéticos (manufacturas y agropecuarios) crecieron 20,1% frente a 2021, y alcanzaron el nivel más alto de su historia (USD 22.075 millones). Por otro lado, las exportaciones de servicios registraron un crecimiento de 57,6%, impulsado por los servicios de turismo, cuyas exportaciones crecieron 127,5% y superaron los niveles observados antes de la pandemia. Se espera que este buen dinamismo continúe en 2023, contribuyendo al cierre del déficit de cuenta corriente, el cual pasaría de 6,2% en 2022 a 3,7% para este año, de acuerdo con las estimaciones del equipo técnico.

A nivel global, se espera que en 2023 la política monetaria mantenga una postura contractiva, generando una desaceleración del crecimiento económico y unas condiciones financieras menos holgadas, a lo que la economía colombiana no sería ajena. Aún con el crecimiento estimado de 1,3% para la economía colombiana en 2023, el país se mantendría como uno de los líderes en reactivación económica a nivel mundial. Este crecimiento estaría impulsado por la formación bruta de capital fijo y la demanda externa, reflejando el proceso de ajuste de la economía. Además, el nivel de actividad económica de Colombia en 2023 se encontraría 12,1% por encima del registrado en 2019, superando el desempeño de los países de América Latina (5,2%), el promedio de la OCDE (4,6%) y el promedio mundial (9,6%), ubicándose solo por debajo del grupo de países emergentes (13,1%), en donde



China impulsaría este resultado. Estos altos niveles de actividad económica contribuirán a amortiguar los posibles efectos de la desaceleración económica tanto sobre el empleo como sobre la estabilidad financiera.

Como respuesta a las presiones inflacionarias que se han observado a nivel global y local, el Banco de la República y el Gobierno Nacional han adoptado medidas de política. Como resultado, las perspectivas sobre el comportamiento del nivel de precios de la economía colombiana en lo que resta de 2023 son favorables, y se han empezado a reflejar en los resultados recientes de inflación. El Banco de la República inició el proceso de normalización monetaria desde finales de 2021, mediante incrementos sostenidos en la tasa de interés de política<sup>2</sup>. Del mismo modo, el Gobierno Nacional ha implementado estrategias como la reducción temporal de los aranceles a los insumos agrícolas, el ajuste en los precios del servicio de electricidad, el incremento de los precios de los combustibles de una forma gradual, y la desindexación del salario mínimo de algunos bienes y servicios. La inflación ha respondido favorablemente, pues en marzo, la inflación mensual se desaceleró por tercer mes consecutivo, apoyado por una importante corrección de los precios de los alimentos, lo que, a su vez, ha favorecido la corrección de la inflación de los hogares pobres y vulnerables. Se espera que esta tendencia se mantenga, con lo que la inflación cerraría el año en 9,5%.

En cuanto a las cifras fiscales, en 2022 se inició el proceso de consolidación fiscal con el ajuste en el déficit más grande desde el año 2000, siendo esto consistente con el sólido comportamiento de la actividad económica del país durante dicho año. En particular, el déficit del Gobierno Nacional Central se ubicó en 5,3% del PIB, mostrando una reducción de 1,7pps respecto del año anterior (7,0% del PIB). Por su parte, el déficit primario alcanzó 1,0% del PIB, lo que representa una mejora de 2,7pps respecto al año anterior (3,6% del PIB) y que se traduce en el ajuste más grande desde 1994 en esta variable. Ahora bien, el nivel de deuda pública también reportó una reducción importante hasta 57,9% del PIB, acercándose al ancla de 55% del PIB establecida por la Regla Fiscal.

Para 2023 se espera continuidad en el proceso de ajuste fiscal, alcanzando un superávit primario de 0,6% del PIB, por primera vez desde la pandemia de Covid-19 y el más alto desde 2008. Esto sería posible por la implementación de la Reforma Tributaria para la Igualdad y la Justicia Social, pues los ingresos tributarios alcanzarán un máximo histórico y se ubicarán en 18,1% del PIB, mientras se avanza en una estructura tributaria más justa y eficiente. De esta manera, se prevé disminuir el déficit fiscal de 5,3% del PIB a 3,8% del PIB, equivalente a una reducción de 1,5pps y reflejando el compromiso del Gobierno con la sostenibilidad fiscal. Dicho compromiso se ve reforzado con las decisiones de aumento gradual del precio de los combustibles líquidos desde octubre de 2022, que permiten la reducción de las presiones de gasto derivadas de los subsidios a los combustibles.

<sup>2</sup> Entre septiembre de 2021 y abril de 2023, la tasa de interés de política ha aumentado 115pps, pasando de 1,75% a 13,25%.



### Situación actual de equidad y recuperación verde

A pesar de que Colombia ha avanzado en estrategias que fortalecen las políticas públicas de equidad y verdes, aún existen retos y desafíos para garantizar una sociedad más justa y sostenible.

En términos de equidad, se han implementado políticas sociales enfocadas en reducción de pobreza y desigualdad, incluyendo para hacer frente a los efectos de la crisis del COVID-19, como los son programas de transferencias monetarias condicionadas y mejoras en el acceso a servicios básicos. Así mismo, se han hecho avances hacia la equidad de género, incluyendo la ampliación de la licencia de paternidad y la creación de la licencia parental compartida, y la aprobación de una política integral hacia la equidad de género. Sin embargo, aún persisten brechas significativas en la distribución del ingreso y en el acceso a servicios de calidad para ciertos grupos de la población, como las comunidades indígenas y afrodescendientes. La reciente creación del Ministerio de la Igualdad y la Equidad apunta a una agenda de inclusión consolidada.

En cuanto a la política verde, Colombia ha avanzado en la implementación de estrategias para reducir las emisiones de gases de efecto invernadero y promover la transición hacia una economía baja en carbono, como la adopción de energías renovables y la promoción del transporte sostenible. A pesar de ello, la deforestación y la contaminación siguen siendo grandes desafíos para el país.

### 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) de dos (2) fases, será fundamental para contribuir en la promoción de políticas fiscales equitativas y verdes, la inclusión productiva y social de grupos vulnerables y el desarrollo del sector privado desde un enfoque inclusivo y verde.

Gracias al acompañamiento técnico y financiero del BIRF, Colombia ha ratificado 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 atendidos para reducir desafíos como la reducción de la tasa nacional de pobreza la cual fue de 39,3% en 2021 y la probabilidad de pérdidas económicas anuales asociadas con el cambio climático, 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. Cada una de ellas busca 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 políticas fiscales más equitativas y verdes, a partir del apoyo de medidas que buscan distribución equitativa de la carga tributaria que deben asumir las personas naturales; el abordaje a problemas de salud pública relacionados con el consumo excesivo de azúcares el cual afecta de manera importante a poblaciones vulnerables en términos de enfermedades como la obesidad y la diabetes; y los incentivos para la contribución a la protección del medio ambiente. En este sentido, para este componente se reconocen importantes avances como el aumento de la progresividad en tributación por parte de las personas naturales, los impuestos a bebidas azucaradas que buscan desincentivar el consumo, y la ampliación del impuesto al carbono. Este componente permita además un aumento de la recaudación tributaria que abre espacio fiscal para un mayor gasto social en miras a proteger a la población pobre y vulnerable.

El segundo componente tiene como objetivo apoyar la promoción de la inclusión productiva y social de grupos vulnerables a través de acciones de política que reflejan los esfuerzos en materia de igualdad de género como lo son la inclusión productiva de las mujeres, la creación del Sistema Nacional de Cuidado a través del cual se busca reconocer, reducir y redistribuir el trabajo de cuidado tanto remunerado como no remunerado y el fortalecimiento del sistema de respuesta a sobrevivientes de violencia basada en género.

En este componente también se abordan avances en el fortalecimiento de comunidades étnicas, a través de la implementación de un catastro participativo mediante el cual se pueda garantizar tanto la titulación como el manejo sostenible de la tierra, además de contribuir con la promoción de la paz y equidad social en los territorios.

De igual manera, en la matriz del programa se reconocen los esfuerzos en materia de política pública de inclusión de la población migrante venezolana aprovechando la contribución al desarrollo como se evidencia en el Conpes 4100 del 2022 "*Estrategia para la Integración de la Población Migrante Venezolana como Factor de Desarrollo para el País*", a través del cual se da la línea para el reconocimiento del Permiso de Protección Temporal (PPT) como documento de identificación válido y de regularización que le permita a dicha población acceder a homologación de títulos de educación superior y al subsidio de arriendo habitacional, entre otras ayudas

Finalmente, el tercer componente del programa busca apoyar la promoción de desarrollo del sector privado desde un enfoque inclusivo y verde a partir de acciones de política como lo son la reglamentación para el acceso a líneas de crédito por parte de las MIPYMES, el incentivo a la transformación económica a través de actividades productivas que reduzcan las emisiones de gases de efecto invernadero y la definición de criterios que garanticen la emisión transparente e íntegra de bonos verdes, generando condiciones de movilización de inversión verde para el crecimiento sostenible y el desarrollo bajo en carbono.

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



DEPARTAMENTO  
NACIONAL DE PLANEACIÓN



MINISTERIO DE HACIENDA Y  
CRÉDITO PÚBLICO

mediano plazo para mejorar las condiciones para un desarrollo Equitativo 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,

RICARDO BONILLA GONZÁLEZ

Ministro

Ministerio de Hacienda y Crédito Público

JORGE IVÁN GONZÁLEZ BORRERO

Director General

Departamento Nacional de Planeación

Preparó: Melissa García, Contratista Subdirección de Crédito y Cooperación Internacional

Revisó: Natalia Bergans, Subdirectora de Crédito y Cooperación Internacional – DNP

Laura Pabón Alvarado, Directora Desarrollo Social - DNP

Luz Stella Campillo, Subdirectora de Financiamiento con Organismos Multilaterales y Gobiernos - MHCP



**Unofficial translation of the Letter of Development Policy**

Bogotá D.C., May 2023

Mr:

**DAVID MALPASS**

President

World Bank

Washington, D.C.

Subject: Policy Letter. Equitable and Green Development Program Phase 1 Support.

Dear President Malpass,

We hereby wish to express the commitment of the Government of Colombia to move towards a country with equitable and green development, based on the promotion of productive and social inclusion policies for vulnerable groups and inclusive and development initiatives for the green private sector, in addition to more equitable and green fiscal policies.

The above, framed on the bases of the National Development Plan 2022 - 2026 "Colombia World Power of Life" in the reconciled text of Bill number 274 of 2023 Chamber - 338 of 202 Senate<sup>1</sup> in which the National Government aims its efforts to overcome the inequalities and exclusions that have generated the high levels of inequality in the country and to advance in the peace process, in addition to efforts aimed at knowledge-based environmental sustainable development and productive transformation.

As you are aware, the pandemic caused by COVID-19 increased income inequality with an increase of approximately 3 points in the Gini coefficient, from 51.7 in 2018 to 54.4 in 2020. Although the economy recovered in 2021, income inequality remains high, and there is evidence of an increase in the rural poverty rate and vulnerable population groups.

In the face of these challenges, the National Government's agenda focuses its efforts on ensuring inclusive and sustainable development and considers it crucial to effectively address equity issues in the country. Equity is essential to build a just society that guarantees the well-being of all people, regardless of their origin, gender, race or social status. Likewise, it seeks to advance fiscal policy reforms and promote productive and social inclusion from a gender, ethnic and territorial perspective. Additionally, it is important to recognize that as a priority in the aforementioned agenda are actions aimed at environmental sustainability and the promotion of a green and inclusive private sector.

Therefore, in terms of public policy on equity, a strong focus is required on reducing economic and social gaps between different population groups, especially in rural areas, in order to ensure equitable access to quality services and to eliminate discrimination and gender violence, as well as to ensure that indigenous and Afro-descendant peoples have access to their fundamental rights and are allowed to participate fully in the economic, social



and cultural affairs of the country.

Another major objective within the framework of equitable and green tax policies, which, in addition to strengthening the country's fiscal sustainability, seeks to distribute the tax burden more equitably, taking into account the economic capacity of each taxpayer, thus ensuring that those with higher incomes contribute more to the country's sustainable development, in addition to guaranteeing a sustainable and respectful development with the environment. In this sense, progress is being made in measures to reduce greenhouse gas emissions and promote the transition to a low-carbon economy.

Another of the fundamental pillars for achieving a sustainable, equitable and environmentally friendly economy portrays the importance of advancing the development of the private sector from an inclusive and green approach that promotes policies and strategies to foster financial inclusion and access to financing for small and medium-sized enterprises (SMEs) and entrepreneurs from all sectors and groups of the society, especially in traditionally marginalized sectors.

### **Macroeconomic context**

In 2022, the Colombian economy recorded economic growth of 7.5%, making the country the second-best economic performer among the 38 OECD member countries. The favorable economic dynamism has been extended through 2023. Economic growth in 2022 was driven by the trade, manufacturing, and arts and entertainment sectors. These sectors showed growth of 10.7%, 9.8% and 37.9%, respectively, and contributed more than half (4.3 percentage points -pps-) to total growth. On the demand side, the performance of the investment in machinery and equipment and exports stood out. The former showed growth of 25.5%, in line with the good performance of the manufacturing industry, and the latter presented growth of 14.9% due to higher exports of non-traditional goods and the reactivation of tourism in the country. Additionally, so far this year, the economic activity monitoring indicator (ISE, for its acronym) has shown growth of 4.4%, driven by the good performance of the manufacturing and construction industry.

During 2022, the Colombian labor market showed a recovery, reflected in a decreasing trend of the unemployment rate, which averaged 11.2% (vs. 13.8% in 2021). The recovery has continued to be observed in 2023. In March 2023, the seasonally adjusted unemployment rate reached 10%, its lowest since September 2018. Likewise, in the first quarter of 2023, the average unemployment rate (10.5% as of March) was lower than that observed in the same period of 2019 (10.8%), and 1.5pps below that observed in the same quarter of the previous year (12%). So far in 2023, these results have been driven by job creation in the hospitality and arts and entertainment sectors, which together contributed 1.7pps to total job creation (3.8%). Also, in line with the incentive to create new jobs, professional activities have so far in 2023 contributed 0.7pps to job creation for this period.

At the end of 2022, and so far in 2023, Foreign Direct Investment (FDI) in the country



registered an important dynamism and reached historically high levels, driven by sectors other than oil and mining. Particularly, in 2022 total FDI reached a level of USD 17,048 million, growing 81.7% compared to what was observed in 2021. The non-mining and energy sectors recorded FDI inflows of USD 12,681 million, the highest levels in history, representing 74.4% of total FDI and growing 50.8% compared to 2021. This good FDI dynamism continues to be observed in 2023, reflecting the country's investors' confidence. In particular, according to currency exchange data published by Banco de la República, in the first quarter of 2023, FDI flows to the country grew 25.3% compared to the same period in 2022.

In 2022, exports of non-mineral energy goods and services showed great dynamism, driving GDP growth and mitigating the growth of the foreign deficit. On the one hand, exports of non-mineral energy goods (manufacturing, agriculture, and livestock) grew 20.1% compared to 2021, reaching the highest level in its history (USD 22,075 million). On the other hand, service exports recorded 57.6% growth, driven by tourism services, whose exports grew 127.5% and surpassed the levels observed before the pandemic. This good dynamism is expected to continue in 2023, contributing to the current account deficit, which would go from 6.2% in 2022 to 3.7% this year, according to the technical team's estimates.

At a global level, it is expected that in 2023 monetary policy will maintain a contractionary stance, generating a slowdown in economic growth and less comfortable financial conditions, to which the Colombian economy would be no stranger. Even with the estimated growth of 1.3% for the Colombian economy in 2023, the country would remain one of the leaders in economic reactivation worldwide. This growth would be driven by gross fixed capital formation and external demand, reflecting the adjustment process of the economy. In addition, the level of economic activity in Colombia in 2023 would be 12.1% above that recorded in 2019, surpassing the performance of Latin American countries (5.2%), the OECD average (4.6%) and the world average (9.6%), ranking only below the group of emerging countries (13.1%), where China would drive this result. These high levels of economic activity will help to buffer the possible effects of the economic slowdown on both employment and financial stability.

In response to the inflationary pressures that have been observed globally and locally, Banco de la República and the National Government have adopted policy measures. As a result, the outlook of pricing of the Colombian economy for the remainder of 2023 is favorable and has begun to be reflected in the inflation results of recent months. Banco de la República started the process of monetary normalization at the end of 2021 through sustained increases in the policy interest rate<sup>94</sup>. Similarly, the National Government has implemented strategies such as the temporary reduction of tariffs on agricultural inputs, the adjustment in electricity utility prices, the staggered increase in fuel prices, and the de-indexation of the minimum wage for some goods and services. Inflation has responded

---

<sup>94</sup> Between September 2021 and January 2023, the policy rate has increased by 11.5pp, from 1.75% to 13.25%.



favorably, as in March, monthly inflation decelerated for the third consecutive month, supported by a significant correction in food prices, which, in turn, has favored the correction of inflation for poor and vulnerable households. This trend is expected to continue, bringing inflation down to 9.5% at the end of the year.

Regarding fiscal figures, the fiscal consolidation process began in 2022 with the largest deficit adjustment since 2000, consistent with the solid performance of the country's economic activity during that year. In particular, the Central National Government deficit stood at 5.3% of the GDP, showing a reduction of 1.7pps with respect to the previous year (7.0% of GDP). On the other hand, the primary deficit reached 1.0% of GDP, which represents an improvement of 2.7pps compared to the previous year (3.6% of GDP), which translates into the largest adjustment since 1994 in this variable. However, the level of public debt also reported a significant reduction to 57.9% of the GDP, approaching the anchor of 55% of the GDP established by the Fiscal Rule.

By 2023, the fiscal adjustment process is expected to continue, reaching a primary surplus of 0.6% of the GDP for the first time since the Covid-19 pandemic and the highest since 2008. This would be made possible by the implementation of the Tax Reform for Equality and Social Justice, as tax revenues will reach an all-time high and stand at 18.1% of GDP while progress is made on a fairer and more efficient tax structure. In this way, the fiscal deficit is expected to decrease from 5.3% of GDP to 3.8% of GDP, equivalent to a reduction of 1.5pps and reflecting the Government's commitment to fiscal sustainability. This commitment is reinforced by the decision to gradually increase the price of liquid fuels as of October 2022, which allows for the reduction of spending pressures derived from fuel subsidies.

### **Current status on equity and green recovery**

Although Colombia has advanced in strategies that strengthen equity and green public policies, there are still challenges to ensure a more just and sustainable society.

In terms of equity, social policies focused on poverty and inequality reduction have been implemented, including those to address the effects of the COVID-19 crisis, such as conditional cash transfer programs and improvements in access to basic services. Progress has also been made toward gender equity, including expanding paternity leave, the creation of shared parental leave, and approving a comprehensive gender equity policy. However, significant gaps still persist in income distribution and access to quality services for certain population groups, such as indigenous and Afro-descendant communities. The recent creation of the Ministry of Equality and Equity points to a consolidated inclusion agenda.

In terms of green policy, Colombia has made progress in implementing strategies to reduce greenhouse gas emissions and promote the transition to a low-carbon economy, such as the adoption of renewable energies and the promotion of sustainable transportation. Despite this, deforestation and pollution remain major challenges for the country.



## The credit program

Although the Government of Colombia has been showing its commitment to an equitable and green recovery, this operation, under the two (2) phase Programmatic Policy Reform Support Loan (PBP) modality, will be fundamental to contribute to the promotion of equitable and green fiscal policies, the productive and social inclusion of vulnerable groups and the development of the private sector from an inclusive and green approach.

Thanks to IBRD's technical and financial support, Colombia has ratified its commitment to the importance of advancing inclusive and environmentally sustainable economic growth. However, there are still planning, management and financing needs that must be addressed to reduce challenges such as the reduction of the national poverty rate, which was 39.3% in 2021, and the probability of annual economic losses associated with climate change, which have been estimated at 0.49% of annual GDP until 2100.

Through this programmatic loan, Colombia commits to promoting strategic policy measures in three components. Each of them seeks to contribute to the Program's objectives and is aligned with the country's fiscal policies, ensuring the maintenance of an appropriate macroeconomic environment.

The first component of this program seeks to promote more equitable and green tax policies by supporting measures that seek an equitable distribution of the tax burden to be assumed by individuals, addressing public health problems related to the excessive consumption of sugars, which significantly affects vulnerable populations in terms of diseases such as obesity and diabetes; and incentives to contribute to environmental protection. In this sense, important advances are recognized for this component, such as the increase of progressivity in taxation by individuals, taxes on sugared beverages that seek to discourage consumption, and the expansion of the carbon tax. This component also allows for an increase in tax collection, which opens fiscal space for greater social spending to protect the poor and vulnerable population.

The second component aims to support the promotion of productive and social inclusion of vulnerable groups through policy actions that reflect gender equality efforts, such as the economic inclusion of women, and the creation of the National Care System, which seeks to recognize, reduce and redistribute paid and unpaid care work, and the strengthening of the response system for survivors of gender-based violence.

This component also addresses advances in the strengthening of ethnic communities through the implementation of a participatory cadastre to guarantee both land titling and sustainable land management, in addition to contributing to the promotion of peace and social equity in the territories.

Similarly, the program matrix recognizes the efforts in terms of public policy for the inclusion of the Venezuelan migrant population, taking advantage of the contribution to development



**DEPARTAMENTO  
NACIONAL DE PLANEACIÓN**



**MINISTERIO DE HACIENDA Y  
CRÉDITO PÚBLICO**

as evidenced in Conpes 4100 of 2022, that enables the recognition of the Temporary Protection Permit (TPP) as a valid identification document that allows this population to access the recognition of higher education degrees and the housing rental subsidy.

Finally, the third component of the program seeks to support the promotion of private sector development from an inclusive and green approach through policy actions such as the regulation of access to credit lines for MSMEs, incentives for economic transformation through productive activities that reduce greenhouse gas emissions, and the definition of criteria that guarantee the transparent and integral issuance of green bonds, generating conditions for mobilizing green investment for sustainable growth and low-carbon development.

With this policy letter, we hope to have given an account of our economic situation, as well as our short and medium-term public policy agenda to improve the conditions for equitable and green development, a process that we hope to continue consolidating over time with the technical and financial support of the IBRD.

We would like to take this opportunity to thank the World Bank once again for its unconditional support in achieving the strategic goals and objectives for Colombia's comprehensive and sustainable development.

Best regards,

**RICARDO BONILLA GONZÁLEZ**

Minister

Ministry of Finance and Public Credit

**JORGE IVÁN GONZALEZ**

General Director

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
<b>Operation Pillar 1: More equitable and green fiscal policies</b>		
Prior action #1	No environmental effects are expected, neither positive nor negative	Yes, positive distributional impacts expected
Prior action #2	No environmental effects are expected, neither positive nor negative	Yes, mild negative effects in short run, but positive distributional and social impacts expected
Prior action #3	Positive direct environmental effects are expected	Yes, mild negative effects in the short run but positive poverty and distributional impacts expected
<b>Operation Pillar 2: Promoting productive and social inclusion of vulnerable groups</b>		
Prior action #4	No environmental effects are expected, neither positive nor negative	Yes, positive poverty and distributional impacts expected
Prior action #5	Positive indirect environmental effects are expected. No environmental effects are expected, neither positive nor negative.	Yes, indirect positive poverty and distributional impacts expected
Prior action #6	No environmental effects are expected, neither positive nor negative	Yes, positive poverty and distributional impacts expected
<b>Operation Pillar 3: Inclusive and Green Private Sector Development</b>		
Prior action #7	No environmental effects are expected, neither positive nor negative	Yes, positive poverty and distributional impacts expected
Prior action #8	Positive direct environmental effects are expected	Yes, positive indirect poverty and distributional impacts expected
Prior action #9	Positive direct environmental effects are expected	Yes, potential indirect positive poverty and distributional impacts



## ANNEX 5: POVERTY, SOCIAL AND DISTRIBUTIONAL IMPACTS

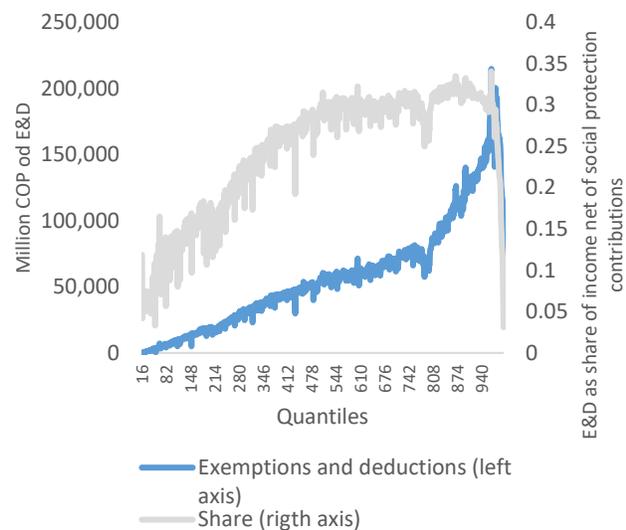
### Pillar I: More equitable and green fiscal policies

Policies supported in Pillar 1 advance more equitable and green fiscal policies, with the prior actions and triggers included in this pillar expected to have direct and positive poverty and distributional effects in the short and long runs. A forthcoming paper on the distributional impact of fiscal policies for Colombia by the World Bank (using the CEQ methodology) - which updates the socioeconomic status post-pandemic, the personal income tax law, includes gasoline and diesel taxes and subsidies, and model the top income earners - uses 2021 data from the *Gran Encuesta Integrada de Hogares* (GEIH), and provides a strong analytical basis to assess the poverty and distributional impacts of the tax reform.

#### Prior Action 1: Personal Income tax

The changes in personal income tax, by reducing the cap on exemptions and deductions, make taxation more progressive by affecting those at the top of the income distribution. Namely, the reform reaches income deciles nine and ten and has mild redistributive effects. Colombia has high thresholds that allow taxpayers to exclude part of their income.<sup>95</sup> Figure A.1 shows an increasing relationship across the income distribution in exemptions and deductions as a share of “general” income<sup>96</sup> (classified by the tax administration as only labor, non-labor and capital income) net of social protection contributions. At the top of the distribution, more than 30 percent of the general income is deductible or exempt. With the reform, the top decile pays a higher share of the taxes, given a decline in the nominal limit for the overall exempt income and special deductions from 5,040 UTV to 1,340 UVT annually. Exemptions and deductions —although high—would concentrate less in the top decile, declining from 92.2 percent to 91.4 percent decile (Figure A2, panel A on absolute progressivity) and representing 23 percent of the market income plus pensions for the richest decile, 1.8 percentage points less than before the reform decile (Figure A2, panel B on relative progressivity). Income tax payments would rise from 0.8 percent before the reform to 1.1 percent of household income for the highest decile because of the reform (Figure A2, panel D). The distributional impact of the PIT is not only a result of reducing the cap on exemptions

Figure A1: exemptions and deductions in the labor, capital, and non-labor income, 2020



Source: Own estimates based on DIAN, 2020

<sup>95</sup> Minhacienda (2022), *Marco Fiscal de Mediano Plazo 2022*; OECD, DIAN and Minhacienda (2021), *Tax Expenditures Report by the Tax Experts Commission*; OECD (2022), *OECD Tax Policy Reviews: Colombia 2022*, OECD Tax Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/054722db-en>

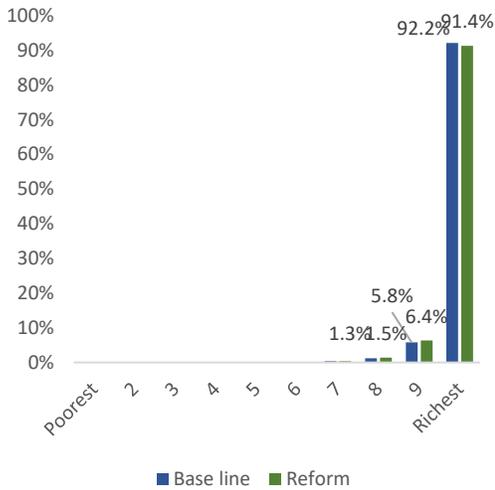
<sup>96</sup> DIAN classifies income sources as general, pension, and dividends. The general income includes income from labor, capital, and non-labor.



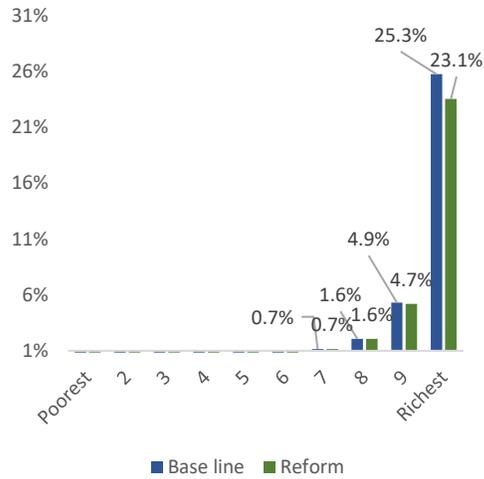
and deductions but also of unifying the tax rates, including the dividends' source of income in the general scheme rates. The Kakwani personal income tax progressivity index is estimated to increase from 0.435 to 0.443.

Figure A2: distributive incidence of exemptions and deductions and personal income tax

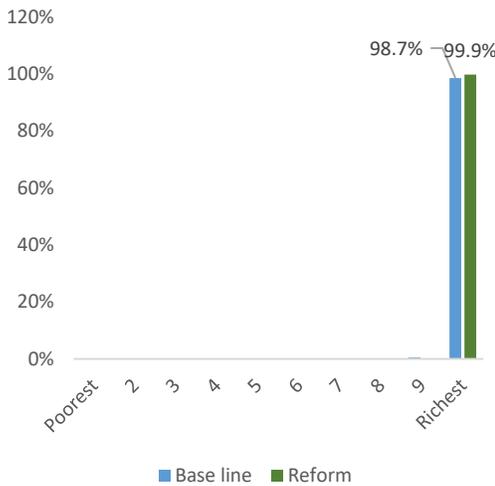
Panel A: absolute incidence - exemptions and deductions



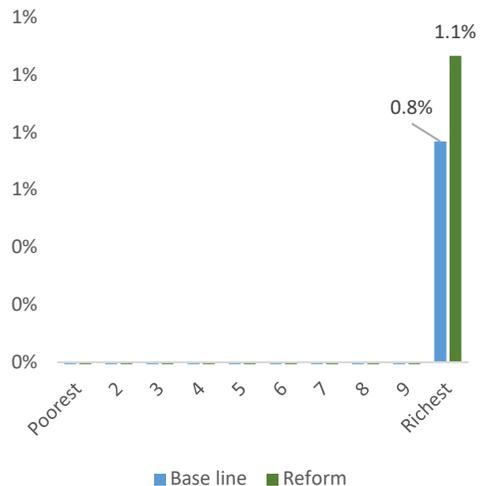
Panel B: relative incidence - exemptions and deductions



Panel C: absolute incidence - personal income tax



Panel D: relative incidence - personal income tax



Source: Own estimates based on Dávalos et al (forthcoming).

**Introducing a tax on personal wealth can have positive redistributive effects and potentially improve intergenerational income inequality.** The property wealth tax over property owners becomes permanent over values that exceed 72,000 UVT with progressive marginal rates. The taxpayers are essentially top



earners. A permanent property wealth tax from better-off individuals can generate more equitable income distribution in the short run. Evidence suggests that wealth taxes are redistributive when considering a lifetime income concept and could equalize the income of children of less wealthy families in the long run compared to children in the wealthiest families<sup>97</sup>. Results from the micro-simulation model suggest that the Kakwani progressivity index could increase from 0.445 in the temporary scheme pre-reform to 0.452 under measurements approved with the reform.

**Overall, the measures supported under this Prior Action are expected to have no effect on poverty rates and the positive effects of reducing inequality.** Changes in personal income tax rates by (i) unifying rates from a different source of income, (ii) modifying limits to exemptions and deductions that affect those at the top of the income distribution, and (iii) introducing a permanent tax on personal wealth are estimated to reduce the Gini coefficient slightly by 0.34 percent, and the Theil index by 1.34 percent. In other words, these measures will take the Gini from 0.506 to 0.505 at the disposable income after including transfers and subtracting direct taxes.

**The proposed Triggers would focus on strengthening social protection, with expected positive and distributional impacts.** By increasing adequacy and coverage and improving targeting, as well as the adaptiveness of programs, these measures will benefit the poor. A recent report shows how the social protection system is not currently equipped to respond to shocks – both economic and increasingly frequent climate-related shocks- and how these shocks are disproportionately affecting poor regions.<sup>98</sup>

#### **Prior Action 2: Taxes on sweetened beverages and ultra-processed foods**

**This prior action is expected to have long-term positive poverty and distributional effects and mild short-term negative effects.** Excess SSB consumption is directly linked to a range of adverse health effects, such as obesity, type 2 diabetes, and cardiovascular disease.<sup>99</sup> As a response, more than 50 jurisdictions worldwide have implemented SSBs taxes<sup>100</sup>. SSBs taxes contribute to reducing inequalities and promoting equity in health and welfare. SSBs taxes are associated with a reduction in disability-adjusted life years, prevalence and incident rates of obesity and type 2 diabetes, as well as health care expenditures.<sup>101</sup> The main channels through which SSB tax can lead to gains in welfare outcomes, in the long run, are by increasing retail prices, raising public awareness, incentivizing non-price industry responses, and mobilizing government revenue.<sup>102</sup> By increasing retail prices, the measure aims at incentivizing changes in consumption preferences, promoting gains in reducing out-of-pocket medical expenses and higher lifetime earnings, and subsequently increasing productivity. These benefits are expected to be higher

<sup>97</sup> Berg, K., & Hebous, S. (2021). Does a Wealth Tax Improve Equality of Opportunity? IMF Working Paper. WP/21/85; Halvorsen, E., & Thoresen, T. O. (2021). Distributional effects of a wealth tax under lifetime-dynastic income concepts. *The Scandinavian Journal of Economics*, 123(1), 184-215.

<sup>98</sup> World Bank (forthcoming)

<sup>99</sup> Singh, G. M., R. Micha, S. Khatibzadeh, S. Lim, M. Ezzati, and D. Mozaffarian. 2015. Estimated Global, Regional, and National Disease Burdens Related to Sugar-Sweetened Beverage Consumption in 2010.

<sup>100</sup> World Bank. 2020. Taxes on sugar-sweetened beverages: International evidence and experiences. Washington, D.C.: World Bank Group.

<sup>101</sup> Bourke, E. J., and J. L. Veerman. 2018. The potential impact of taxing sugar drinks on health inequality in Indonesia. *BMJ Glob Health* 3: e000923; Saxena, A., N. Stacey, P. D. R. Puech, C. Mudara, K. Hofman, and S. Verguet. 2019. The Distributional Impact of Taxing Sugar-Sweetened Beverages: Findings from an Extended Cost-effectiveness analysis in South Africa. *BMJ Global Health* 4:e001317. doi:10.1136/bmjgh-2018-001317

<sup>102</sup> World Bank. 2020. Taxes on sugar-sweetened beverages: International evidence and experiences. Washington, D.C.: World Bank Group.

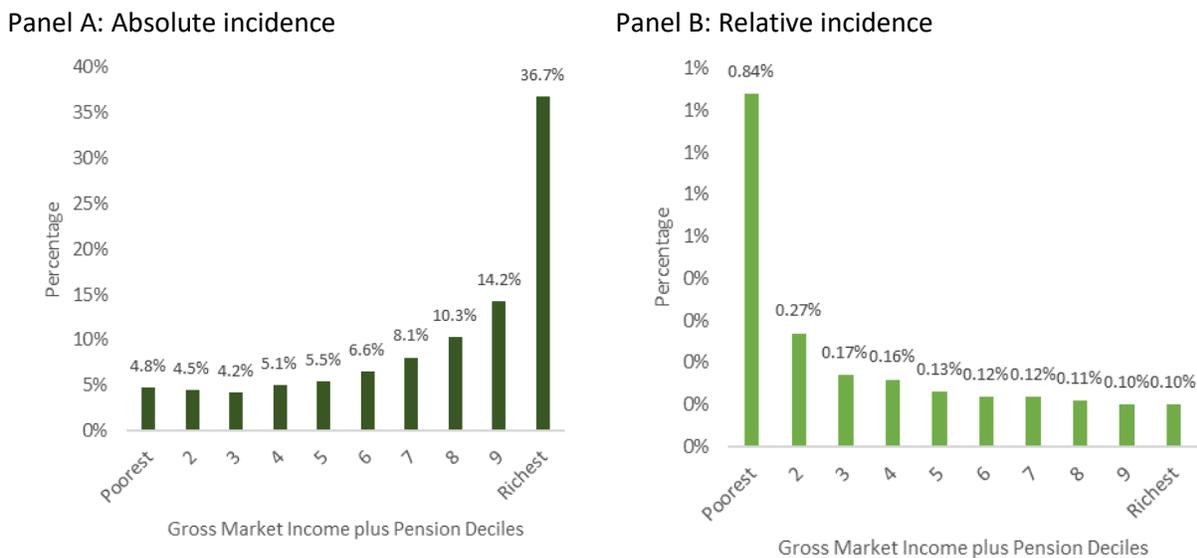


among those in the lower-income deciles, as poorer households benefit more from lower out-of-pocket spending and higher earnings over their lifetime.<sup>103</sup>

Nevertheless, assuming consumption patterns remain, the measure is progressive in absolute terms in the short run but slightly regressive in relative terms. Figure A3 shows the results when modeling the SSBs taxes in the fiscal micro-simulation tool that underpins the updated CEQ analysis.<sup>104</sup> In absolute terms, while only 4.8 percent of the tax is paid by the poorest decile, the top 10 percent is expected to contribute 36.7 percent of the total tax. However, the share of the tax over the incomes of the poorest (relative progressivity) is close to 0.84%, which is relatively low when comparing the burden of VAT on the poorest (16 percent). It is important to mention that these estimations do not account for changes in behavior, such as consumption patterns, due to the introduction of the tax, a key component in the theory of change of the tax policy. Evidence suggests that the SSBs taxes are among the most efficient and effective policies that structure the consumption of SSBs goods<sup>105</sup>.

Finally, the recent Poverty and Shared Prosperity report (World Bank 2022)<sup>106</sup> argues for health taxes, such as that supported by this Prior Action, as a tax that allows for countries to collect revenue while reducing inequality and not increasing poverty, and in a way that it is easy to implement. It also argues that “Health taxes that take the form of indirect taxes on tobacco, alcohol, and sugary beverages may seem regressive and small, but they are actually progressive over a taxpayer’s lifetime and offer large fiscal gains once health benefits are factored in.”

Figure A3: distributive incidence of SSBs taxes



<sup>103</sup> World Bank (2022). Poverty and Shared Prosperity. Correcting course. Washington D.C, ISBN (paper): 978-1-4648-1893-6.

<sup>104</sup> Banco Mundial (2023). Revisitando los impactos distributivos de la política fiscal en Colombia.

<sup>105</sup> Fuchs, Alan; Pierola, Denisse. 2022. The Distributional Impacts of Health Taxes. Equitable Growth, Finance, and Institutions Insight - Poverty and Equity; Washington.

<sup>106</sup> World Bank (2022). Poverty and Shared Prosperity. Correcting course. Washington D.C, ISBN (paper): 978-1-4648-1893-6.



Source: Own estimates based on Dávalos et al (forthcoming)

### Prior Action 3: Carbon taxation

**Carbon taxation is another tax considered to be an efficient way of collecting revenue without hurting the poor and in line with climate objectives.**<sup>107</sup> While mostly from high-income countries, there is substantive evidence that carbon taxes reduce emissions. There is also evidence that these taxes do not increase inequality while raising revenues, with little evidence supporting negative effects on GDP and employment.<sup>108</sup>

**The measures supported under this Prior Action are expected to have very limited negative effects on poverty in the short term.** Using the microsimulation tool developed under the upcoming CEQ Update, the carbon tax, assuming full pass-through to consumers, would be progressive in absolute terms (share of the tax paid increases with income). It would increase the share that the tax represents of the income of the poorest (first decile), although it remains very low (from 0.28% of their income to 0.37%).

**The Trigger supports the creation of a fund that will channel the revenues from carbon taxation, with expected positive distributional effects.** In particular, FONSUREC will facilitate spending aligned with climate objectives and prioritize municipalities with higher poverty and affected by conflict.

## Pillar 2- Promoting productive and social inclusion of vulnerable groups

### Prior Action 4: Gender equality

**Prior Action 4 is expected to have positive impacts on poverty reduction and equity in the short to medium term by (i) promoting female labor force participation, (ii) reducing barriers to women's employment, (iii) promoting women's autonomy and entrepreneurship, (iv) enhancing the gender balance in household care activities, and (v) preventing and responding to gender-based violence.** While 52 of women are in the workforce, around 77 percent of men are. In Colombia, women are 1.6 times more likely to be unemployed than men; the unemployment rate between October-December of 2022 was 4.1 percentage points higher for women than men (Figure A4). Moreover, women tend to have jobs of lower quality partly due to the disproportionate responsibility in households' tasks and care work.<sup>109</sup><sup>110</sup> While 16.8 percent of women care for children under 5 years, just 8 percent of men do (Figure A5). Advancing the implementation of the National Care System fosters shared responsibility of caring responsibilities between men and women, balancing care work between men and women and facilitating women's access

<sup>107</sup> World Bank (2022). Poverty and Shared Prosperity. Correcting course. Washington D.C, ISBN (paper): 978-1-4648-1893-6.

<sup>108</sup> Dussaux 2020; Martin, de Preux, and Wagner 2014; Metcalf and Stock 2020; Misch and Wingender 2021; Schroder 2021 Dorband et al. 2019.

<sup>109</sup> 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-femenino-en-colombia> Google Scholar.

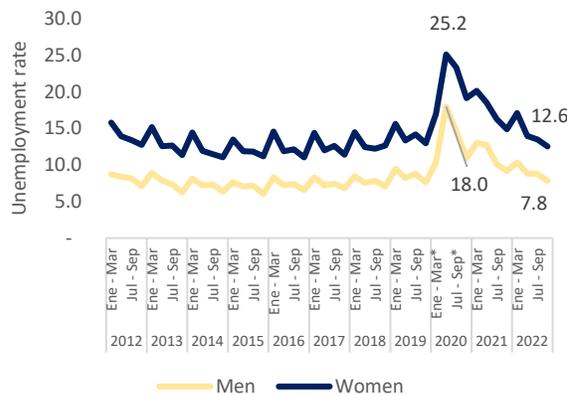
<sup>110</sup> Ramírez, N., Tribín, A. M., & Vargas, C. O. (2016). Maternidad y mercado laboral: el impacto de la legislación. En L. E. Arango, F. Castellani, & E. Lora (Eds.), *Desempleo Femenino en Colombia*. (pp. 267-300). Bogotá, Colombia: Banco de la República. Recuperado de <http://www.banrep.gov.co/es/publicaciones/desempleo-femenino-en-colombia> Google Scholar.



to economic opportunities. The non-discriminatory policies also potentially reduce 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.<sup>111</sup>

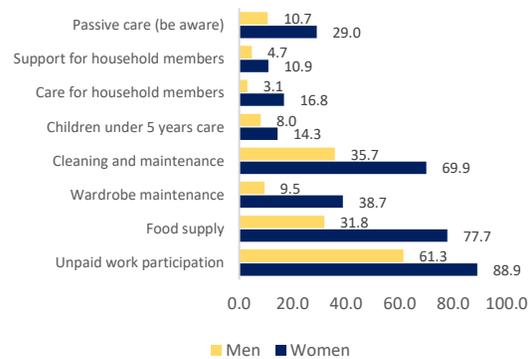
**To prevent and respond to GBV, strengthening institutions through the supported Prior Action can build economic security and expand women’s agency to fight against violence, facing structural factors that create gender gaps.** Violence against women is inflicted primarily in the home. Around 48 percent of married women and over 27 percent of women in union reported experiencing emotional and physical violence by their partners in Colombia, respectively.<sup>112</sup> Establishing shelter houses for victims of domestic violence provides a more effective protection response for affected women. Violence against women can have several economic implications. Not only domestic violence tends to affect the poorest and least educated women<sup>113</sup>, but it also increases their economic and social disadvantage. Violence in general, including domestic violence, represents a cost to the economy equivalent to 11 percent of the GDP, while the economic cost of domestic violence alone accounts for 4 percent of GDP.<sup>114</sup>

Figure A4. Unemployment rate by gender. 2012-2022



Source: GEIH. DANE

Figure A5. Activities in Household care



Source: ENUT- Sep-Dec 2020. DANE

**The proposed Triggers would further advance the gender equality agenda, with positive effects on reducing poverty and inequality.** While advancing care policies, they also promote gender equality in rural areas through initiatives to title women’s land and improve access to economic opportunities. World Bank (2019)<sup>115</sup> describes a clear urban-rural divide in women’s access to economic opportunities. Rural

<sup>111</sup> Data from the World Bank Equity Lab: <https://www.worldbank.org/en/topic/poverty/lac-equity-lab1/poverty/contribution-of-income>

<sup>112</sup> World Bank Group. 2019. Colombia Gender Assessment. World Bank, Washington, DC. © World Bank.

<https://openknowledge.worldbank.org/handle/10986/32006> License: CC BY 3.0 IGO.

<sup>113</sup> Ana María Iregui-Bohórquez, María Teresa Ramírez-Giraldo & Ana María Tribín-Urbe (2019) Domestic Violence Against Rural Women in Colombia: The Role of Labor Income, *Feminist Economics*, 25:2, 146-172, DOI: 10.1080/13545701.2019.1566752; Ribero, R., & Sánchez, F. (2004). "Determinantes, efectos y costos de la violencia intrafamiliar en Colombia." Documento CEDE 2004-44, Universidad de los Andes. Bogotá, Colombia. Barón, J., (2010) La Violencia de Pareja en Colombia y sus regiones. Documentos de trabajo sobre economía regional. Banco de la República. No 128.

<sup>114</sup> Juan Luis Londono & Rodrigo Guerrero, 1999. "La violencia y sus costos en América Latina," Coyuntura Social 013025, Fedesarrollo; Ribero and Sanchez (2005). Determinants, effects, and costs of domestic violence. Documento CEDE ISSN 1657-7191; World Bank Group. 2019. Colombia Gender Assessment.

<sup>115</sup> World Bank Group. 2019. Colombia Gender Assessment; Gender Equality in Colombia.



women have lower participation in the labor market, lower quality jobs and less access to productive assets. As a result, women in rural areas have lower economic opportunities and higher poverty.

#### **Prior Action 5: Cadaster and ethnic groups**

**Measures promoted in Prior Action 5 can generate positive social impacts in the short run and positive poverty and distributional effects in the medium to long run.** Enhancing participation in local communities can generate a Multipurpose Cadaster more appropriate to territorial communities, especially for ethnic groups whose rights to own and use land and territory for survival have been violated due to historical inequalities or internal armed conflict. The participatory approach is already part of the country's multi-purpose cadaster process, providing social safeguards and guidelines for special attention to the needs of ethnic peoples and their concerns about benefits or possible adverse effects on territories and their communities once the new cadastral operation is defined.

**Specifically, ensuring effective and adequate participation of ethnic communities in developing the Multipurpose Cadaster can have positive distributional impacts through three channels. First, involving local communities such as indigenous, Afro-Colombian and Peasant communities in the decision-making process can strengthen the land governance scheme through better data collection and management of the Multipurpose Cadaster.**<sup>116</sup> Measures under Prior Action 5 put in the center of the agenda the territorial rights of indigenous and Afro-Colombian peoples toward respect for their right to Prior, Free and Informed Consultation, equity in the participation process inside those local communities, and recognizing the functions around the cadaster informally carried out by the ethnic authorities, such as the administration of the use and enjoyment of the territory, the delimitation of lands, and certification of possessions. In this sense, it contributes to promoting land tenure, as well as land planning and planning, since the interaction between the national authority and the communities' own governments generates relevant information on the delimitation and the tangible and intangible modifications of the territory and its individual and collective real estate.<sup>117</sup>

**Second, it is expected to mitigate the challenges faced in protected areas of insufficient representativity and connectivity, governance weaknesses and insufficient financing.** Enhancing a participatory Multipurpose Cadaster aims at improving mechanisms to fight against deforestation, increasing management effectiveness and co-responsibility when preserving ecosystems. Moreover, it aims at strengthening the capacity to respond to climate change impacts given the potential benefits of the instrument to design disaster risk planning, especially increasing the benefit accruing to local communities who make direct and sustainable use of natural resources, generating an improvement in their living conditions standards and well-being of local communities, who historically have been facing the lack of access to public goods.

<sup>116</sup> Koeva, M.; Stöcker, C.; Crommelinck, S.; Ho, S.; Chipofya, M.; Sahib, J.; Bennett, R.; Zevenbergen, J.; Vosselman, G.; Lemmen, C.; Crompvoets, J.; Buntinx, I.; Wayumba, G.; Wayumba, R.; Odwe, P.O.; Osewe, G.T.; Chika, B.; Pattyn, V. (2020). Innovative Remote Sensing Methodologies for Kenyan Land Tenure Mapping. *Remote Sens.* 12, 273. <https://doi.org/10.3390/rs12020273>.

<sup>117</sup> Zevenbergen, J.; Augustinus, C.; Antonio, D.; Bennett, (2013) R. Pro-poor land administration: Principles for recording the land rights of the underrepresented. *Land Use Policy*, 31, 595–604; Obeng-Odoom, F. (2013) The State of African Cities 2010: Governance, inequality and urban land markets. *Cities*, 31, 425–429. G. Mourafetis, K. Apostolopoulos, C. Potsiou & C. Ioannidis (2015) Enhancing cadastral surveys by facilitating the participation of owners, *Survey Review*, 47:344, 316-324, DOI: 10.1179/1752270615Y.0000000009.



And third, the Multipurpose Cadaster will generate qualified and differentiated information to address situations of territorial conflict, such as the dozens of events of occupations of indigenous people and peasants registered by the Defensoría del Pueblo in different departments of the country resulting from the lack of accurate cadastral information to define award processes, formalizing titles or ethnic claims on territories that communities claim for their survival.

This Prior Action takes place in the context of much higher poverty rates among ethnic communities compared to the national average or other groups. In other words, traditionally, poverty in Colombia has had a regional and ethnic dimension. Five years prior to the COVID-19 shock, poverty rates among ethnic minorities and migrants were more than 10 percentage points higher than those for households with a head born in Colombia. The pandemic only increased the poverty rates for these groups. However, as poverty increased during 2020 for those groups that were not traditionally poorer (the urban, for example), the gaps in poverty rates among these groups narrowed slightly in that year. Still, the recovery of those who were better off before the pandemic has been at a higher pace than for the most vulnerable, pointing to the persistent structural barriers to improving the living standards of these groups. The gaps increased again in 2021. Afro-Colombians and the indigenous population have also not yet benefited from the recovery. The indigenous population is still among the most vulnerable groups, experiencing a persistently high poverty rate of roughly 60 percent since 2014. In 2021, indigenous people were also experiencing the highest extreme poverty rate since 2014, leaving 33.7 percent unable to meet their basic needs. Similarly, the poverty rate for Afro-Colombians increased from 44.4 percent in 2020 to 46.1 in 2021 and remained 2.1 percentage points higher than pre-pandemic levels. See figures A6 and A7.

Figure A6. Gaps in the Total Poverty Rate between Groups

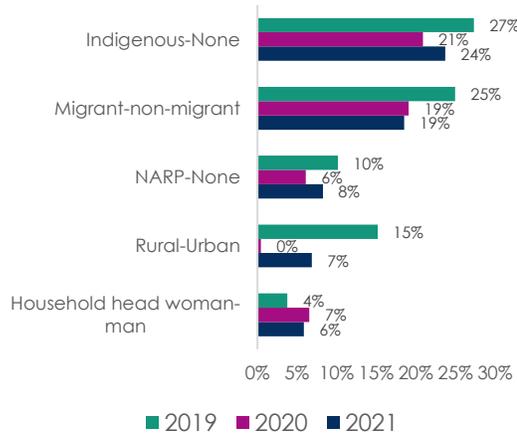
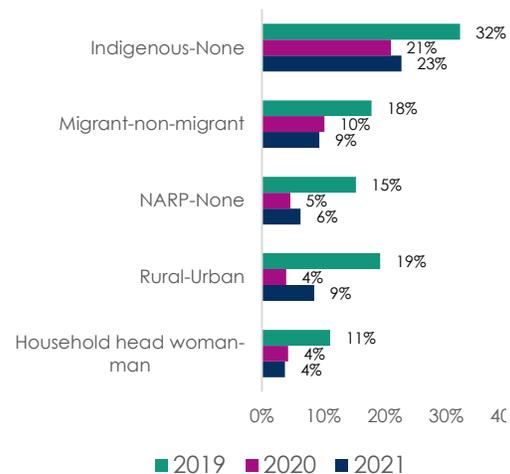


Figure A7. Gaps in the Extreme Poverty Rate between Groups (2019–21)



Source: Own estimates based on DANE, GEIH.

Notes. The Afro-descendant group includes Black, Afro-Colombian, Raizal, and Palenquero (NARP) populations. The rates of the Afro-descendant and indigenous groups are compared to those of people with no ethnic identification (group “none”). For 2020, the months of March to July are excluded due to data collection changes.

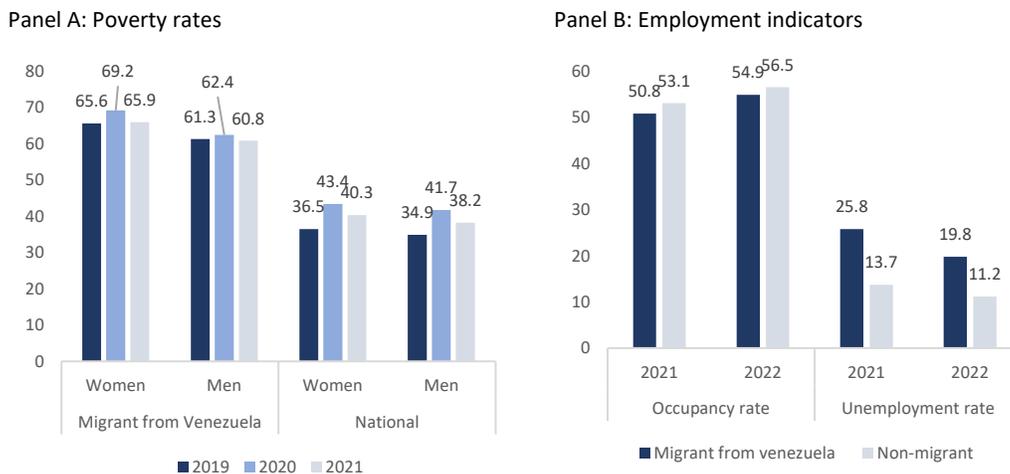
Prior Action 6: Migrants



**Prior Action 6 is expected to have positive welfare impacts for Venezuelan migrants in the short to medium run by facilitating access to assets and opportunities.** Employment and poverty rates are higher for migrants than non-migrants due to their high level of informality and fewer fallback options for many through, for instance, access to social programs. The heightened vulnerability of migrants, linked to a lack of better jobs, is expected to decline in the short and medium terms from the measures supported in Prior Action 6. Migrants from Venezuela were hard hit by the economic impacts of the COVID-19 crisis due to their high level of informality and lower earnings pre-crisis. The Venezuelan migrant population was overrepresented among those with informal jobs (incidence of informality was 9.9 percent higher among migrants compared to the average worker), and they worked in sectors particularly affected by the pandemic. Poverty increased from 63.5 percent in 2019 to 65.8 percent in 2020, while the extreme poverty rate grew 8 percentage points, reaching 26.7 percent in 2020. The economic recovery of 2021 led to a slight decrease in poverty to 63.4 percent and extreme poverty to 24.1 percent in 2021. Despite the economic recovery, in 2022, unemployment is also much higher among recent Venezuelan migrants (21.3 percent), driven by a 30 percent unemployment rate among migrant women. In terms of educational attainment, occupied young migrants have lower educational levels than non-migrants in the labor market. See Figure A8.

**Recognizing the TPP as a valid identification document to access services, such as the homologation of higher education titles, has the potential scope to generate economic opportunities and job creation and thus is expected to positively impact poverty among the Venezuelan population in Colombia and reduce inequality.** Data from the recent Venezuelan migrant survey *Pulso de la Migración* (led by the national statistics office DANE and with World Bank support) shows that 93 percent of migrants have not validated their titles due to a lack of documentation and information about the procedure.

Figure A8: poverty and employment indicators for migrants



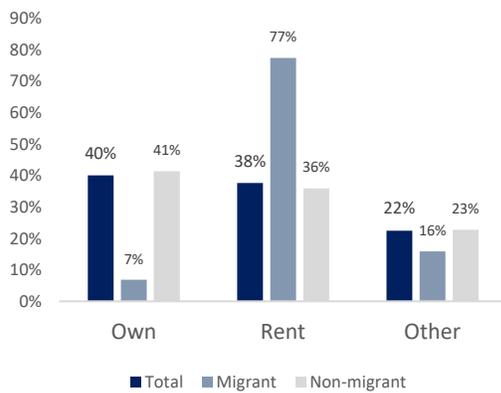
Source GEIH-DANE.

**Targeting Venezuelan migrants as eligible for housing subsidies can significantly reduce poverty by**



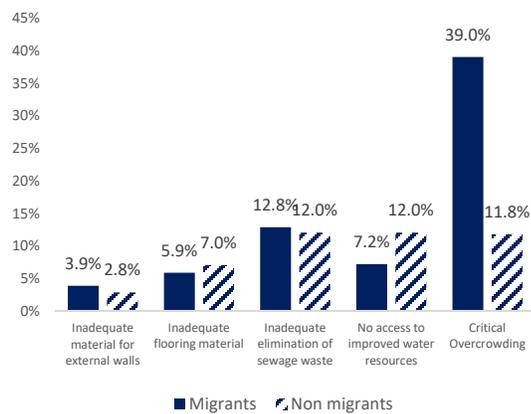
**improving the housing supply and quality conditions.** Disparities in access to housing are severe between migrants and host communities. Even when the share of Colombian population that does not own a house is high (40 percent), 7 percent of migrants own their house (see Figure A9). The vast majority rent, potentially exposing them to vulnerabilities vis-a-vis landlords. The situation is more precarious for Venezuelan migrants living in border areas. For instance, their access to an uninterrupted water supply system is lower (at 69 percent) than for Venezuelan migrants in non-border areas (at 75 percent)<sup>118</sup>, and data from the statistics institute showed that the urban housing deficit in 77 border municipalities was 10 percentage points higher than at the national level.<sup>119</sup> Housing deprivations show that inadequate elimination of sewage waste and inadequate material for external walls are dimensions for which immigrants face more deprivations. Overcrowding emerges as a severe deprivation for migrants compared to non-migrants (Figure A10). According to the GEIH 2021, there is evidence of overcrowding among migrants, with a higher number of persons per room among the migrant than the non-migrant population.<sup>120</sup> While the ratio of people per room is 1.7 for non-migrants, it reached 2.4 for migrants.<sup>121</sup> The housing deficit has significant equity implications, particularly affecting migrant women and girls. A recent survey revealed that migrant respondents in Colombia, 80 percent of whom were women, face an elevated risk of eviction.<sup>122</sup> A substantial benefit of access to housing subsidies relies on building resilience in areas not subject to hazards, preventing the risk of natural disasters and also preserving environmentally protected areas where access to public services and basic infrastructure can generate a resilient housing environment.

Figure A9. Type of housing



Source: GEIH 2019

Figure A10. Housing deprivation from Multidimensional Poverty Index



Source: ECV 2019

<sup>118</sup> Compared to Colombians at 77% at the national level, and the average Venezuelan migrant in Colombia with 73% access.

<sup>119</sup> World Bank (2018) Migración desde Colombia a Venezuela. Impactos y estrategias de respuesta en el corto y mediano plazo. <https://openknowledge.worldbank.org/bitstream/handle/10986/30651/131472SP.pdf?sequence=3&isAllowed=y>

<sup>120</sup> World Bank (2023). Barriers to the Integration of Venezuelan Migrants and Refugees in Colombia: Policy Lessons from the Migration Pulse Survey.

<sup>121</sup> World Bank-UNHCR (Forthcoming) Lecciones de política de la Encuesta Pulso Migratorio. Enero 2023

<sup>122</sup> Plataforma Regional de Coordinación Interagencial para Refugiados y Migrantes de Venezuela (R4V). 2021. Encuesta regional de desalojos de las personas refugiadas y migrantes de Venezuela: Análisis de los principales impactos y necesidades. <https://reliefweb.int/sites/reliefweb.int/files/resources/ENCUESTA%20REGIONAL-FEBRERO16-web.pdf>

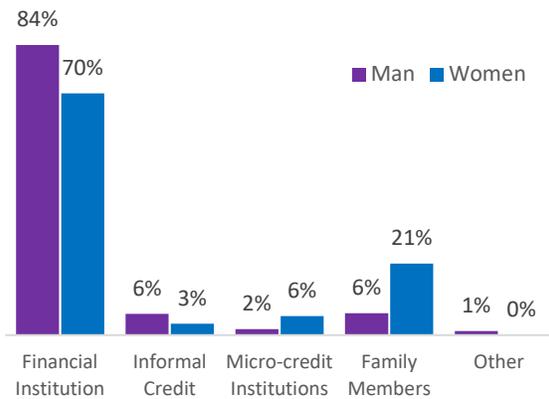


Pillar III: Inclusive and Green Private Sector Development

Prior Action 7: Access to credit for MSMEs and Open Finance

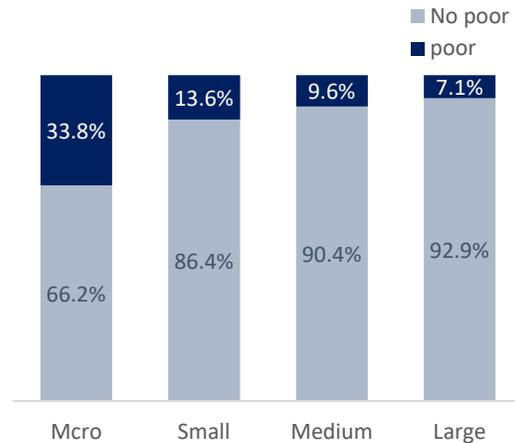
Providing scope for CACs to expand their services to MSMEs is expected to positively affect poverty by boosting access to credit for excluded groups, fostering income generation and incentivizing formality, positively impacting job creation and quality. CACs play an important role in financial inclusion, especially among women. Most micro-businesses have used their own resources or family loans (62 percent and 11 percent for women, respectively; in contrast to 65 percent and 7 percent for men, respectively) to finance their entrepreneurial endeavors. Lack of access to credit banks is spread among MSMEs, and it is still a gender gap factor: while 70.4 percent of informal women request and get credit approval in financial institutions, 84.4 percent of men do (Figure A11). Access to credit is crucial for boosting income generation among MSMEs, given that they concentrate a large share of jobs in Colombia. In terms of employment, MSMEs with up to 100 employees contribute 79.1 percent of total employment, 47 percent of formal employment and 97.6 percent of informal employment. Moreover, these firms generate about 80 percent of the employment among the poor and vulnerable (Figure A12). It is estimated that 45 percent of micro and small enterprises workers are considered vulnerable compared to 32 percent of workers in big enterprises. The supported measures are expected to enhance the network between CACs and MSMEs, easing credit access and promoting firm growth among vulnerable ones.

Figure A11. Credit accepted for informal microenterprises by gender



Source: Own estimations based on Microenterprise Survey (DANE, 2019).

Figure A12. Proportion of poor employees by businesses size



Source: Own estimations based on GEIH 2019 (DANE). Note: Micro enterprises have 1 to 10 employees, small 11 to 50, medium 50 to 100 and large enterprises more than 100

123 Own calculations based on Microentrepreneur Survey, DANE (2019). Female/male TEA is defined as percentage of female 18-64 population who are either a nascent entrepreneur or owner-manager of a new business, divided by the equivalent percentage for their male counterparts.



employees.

**Open Finance promises economic growth and poverty reduction** through a more inclusive, efficient, competitive and innovative financial sector. Accompanied by an adequate regulatory framework, it is expected to yield positive distributional and poverty reduction long-term effects from better-targeted financial services to underserved groups.<sup>124</sup>

### **Prior Action 8: Productive transformation that reduces climate emissions & Prior Action 9: Green bonds**

**Prior Action 8 is expected to have positive social and distributional effects in the medium to long run by enforcing measures to reduce carbon emissions and promoting a productive economic transformation.** This measure accelerates climate mitigation by boosting energy transition, and the installed generation capacity from renewable energy can generate economy-wide job creation.<sup>125</sup> The productive transformation supported by this Prior Action can lead to job transitions with implications (A13 and A14) for the poor and vulnerable. Taking a longer-term view of the decarbonization path, Colombia is expected to face a reallocation of resources towards less-carbon-intensive activities. This transition will affect workers' employment and earnings, particularly those in emissions-intensive economic activities, which will tend to shrink. Seventeen percent of total employment in Colombia is associated with emission-intensive sectors.<sup>126</sup> While the impact of climate mitigation policies on job transitions will likely have different geographic implications within Colombia that must be considered, recent evidence suggests that, overall, workers in lower-skilled occupations are more likely to be absorbed by sectors that will expand as a result of climate change mitigation, and that the poverty reduction effect is expected to be positive.<sup>127</sup> Moreover, this evidence suggests that under the assumption that Colombia implements the mitigation commitments in its NDC, sectors that account for a large share of total output and are expected to expand on the path toward decarbonization have the highest potential to lift many people out of poverty.<sup>128</sup> However, for the distributional benefits of the transition to fully materialize, policies must facilitate the transition of displaced workers to new job opportunities.

---

<sup>124</sup> World Bank (2022), *Fintech and the Future of Finance - Overview* (English). Washington, D.C.: WBG.

<sup>125</sup> World Bank (2022) *Employment Implications of a Competitive and Just Transition Towards a Less-Carbon Intensive Economy in Colombia*. Washington D.C.

<sup>126</sup> World Bank (2022): *Employment Implications of a Competitive and Just Transition Towards a Less-Carbon Intensive Economy in Colombia*.

<sup>127</sup> World Bank (2022): *Employment Implications of a Competitive and Just Transition Towards a Less-Carbon Intensive Economy in Colombia*.

<sup>128</sup> Using a macro-micro simulation following ADePT Tool approach and computing total value added and employment effects throughout the economy, the authors assign impacts across population groups using growth rates under two different scenarios from the literature. The main dataset for the simulation is *Gran Encuesta Integrada de Hogares* 2018. World Bank (2022): *Employment Implications of a Competitive and Just Transition Towards a Less-Carbon Intensive Economy in Colombia*.



Figure A13. Emission-intensive Net Job Flows (2016–2019) (in thousands of net jobs)

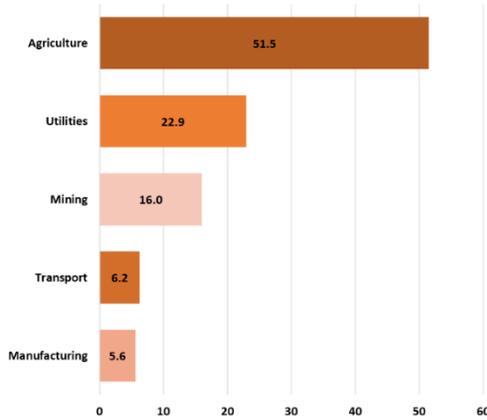
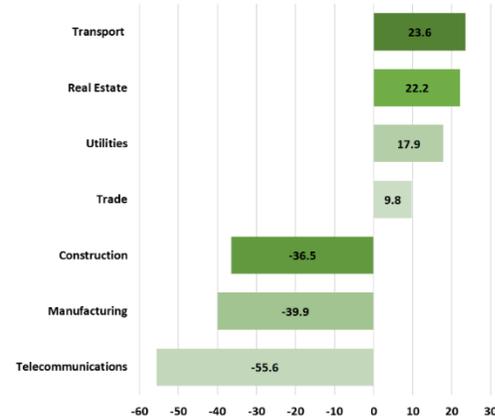


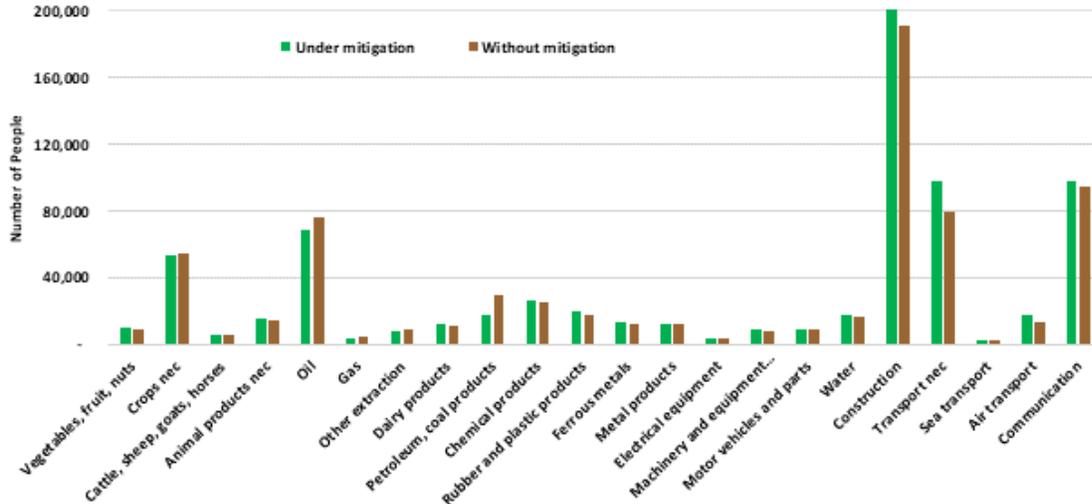
Figure A14. Climate Change Mitigation Net Job Flows (2016–2019) (in thousands of net jobs)



Source: World Bank Group (2022). Employment Implications of a Competitive and Just Transition Towards a Less-Carbon Intensive Economy in Colombia.

Evidence suggests that under the assumption that Colombia adopts climate mitigation measures across sectors to meet the new NDC targets<sup>129</sup>, key sectors can reduce poverty.<sup>130</sup> Sectors in industry and services activities such as transport, construction, and communication account for the greatest share of total output and gain the most from climate reforms. Figure A15 shows the number of people exiting poverty under both scenarios: mitigation, achieving NDC targets, and business-as-usual following Pelgrims et. Al. (2022) estimates.

Figure A15. Number of people exiting poverty: under mitigation and without mitigation scenarios



Source: World Bank Group (2022). Employment Implications of a Competitive and Just Transition Towards a Less-Carbon Intensive Economy in Colombia.

<sup>129</sup> it is a 51 percent GHG emission reduction by 2030, relative to the business-as-usual scenario.

<sup>130</sup> Using a Macro-micro simulation following ADePT Tool approach and computing total value added and employment effects throughout the economy, authors assign impacts across population groups taking growth rates under to different scenarios from Pelgrims et. al. (2022). The main dataset for the simulation is GEIH 2018. World Bank (2022) Employment Implications of a Competitive and Just Transition Towards a Less-Carbon Intensive Economy in Colombia. Washington D.C.



Economy in Colombia.

**Finally, Prior Action 9, through increased investments in social and green projects, is expected to have positive poverty and inequality reduction impacts.** Recognizing the difficulty of quantifying the impact of this Prior Action without knowledge of the projects that future investments will support, this Prior Action sets the conditions to ensure that they are aligned with clear and internationally recognized criteria that can both increase investments and their impact. Promoting a regulatory framework for thematic bonds can generate incentives to strengthen the development of the local green and sustainable bond market, boosting good corporate practices, improving the efficiency and transparency<sup>131</sup> with which firms allocate and utilize resources and making them more willing to finance sustainable production and climate-orientated projects.<sup>132</sup> Also, ensuring that the private sector's activities align with national policy goals on sustainability can increase the private sector's low-carbon and climate-resilient investment goals. Climate mitigation policies are crucial to limit inequalities that arise with climate change.<sup>133</sup> Actions that create conditions for developing instruments that mobilize green investment for sustainable growth can reduce environmental collateral effects on the most vulnerable groups.

---

131 Bernal-Ramirez, J., Ocampo, J.A. (2020) Climate change: policies to manage the macroeconomics and financial effects. Borradores de Economía No 1127.

132 Levine, R. 2004. Finance and Growth: Theory and Evidence. NBER Working Paper No. 10766, National Bureau of Economic Research, Cambridge, MA. Available: [www.nber.org/papers/w10766](http://www.nber.org/papers/w10766).

133 Taconet, N., Méjean, A. & Guivarch, C. Influence of climate change impacts and mitigation costs on inequality between countries. *Climatic Change* 160, 15–34 (2020). <https://doi.org/10.1007/s10584-019-02637-w>.