



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 29-Oct-2021 | Report No: PIDC33002



BASIC INFORMATION

A. Basic Project Data

Country Colombia	Project ID P176788	Project Name Equitable and Green Recovery DPF (P176788)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Mar 22, 2022	Practice Area (Lead) Poverty and Equity	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance and Public Credit	Implementing Agency Departamento Nacional de Planeación		

Proposed Development Objective(s)

The development objective of the proposed operation is to support measures that (i) reduce income and gender inequalities, and build households’ resilience to shocks, including those related to climate change; (ii) promote an economy-wide decarbonization and climate adaptation; and (iii) consolidate a low-carbon energy transition.

Financing (in US\$, Millions)

SUMMARY

Total Financing	500.00
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DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

As Colombia is recovering from the deep crisis brought about by COVID-19, it faces a series of interconnected challenges. The country remains one of the most unequal in the world, poverty reduction has stagnated and income inequality is on the rise, and climate change threatens to amplify shocks and exacerbate inequality. Projections show that the impact of climate change in Colombia will fall disproportionately on the poor, and the country's heavy dependence on hydropower and thermal generation makes the electricity supply vulnerable to climate events. Beyond the impact of climate change on inequality, global evidence shows that rising inequality, in turn, can lead to a faster rise in emissions.¹ COVID-19 has aggravated the country's equity challenges, generating an economic contraction of 6.8 percent in 2020, a rise in the national poverty rate from 35.7 to 42.5 percent, and an increase of the Gini index of income inequality from 0.527 to 0.544. The pandemic is also linked with a sudden and steep rise in deforestation in 2020 (+20 percent compared to 2019) after a few years of falling deforestation rates. This has had a negative impact on the country's greenhouse gas emissions and biodiversity.

Relationship to CPF

The proposed operation is aligned with the Country Partnership Framework (CPF) 2016-2021 for Colombia³⁸ and the Performance and Learning Review (April 23, 2019). The proposed DPF is aligned with *Pillar II: Enhancing Social Inclusion and Mobility through Improved Service Delivery* which, in line with the measures supported in this DPF, deepens support to design and implement tools for a more efficient social protection system. The climate pillar of the proposed DPF is aligned with *Pillar I: Fostering Balanced Territorial Development*, in particular its objective of fostering enhanced capacity for natural resource management, as well as *Pillar III: Supporting Fiscal Sustainability and Productivity*, and its objective to deliver improved infrastructure.

C. Proposed Development Objective(s)

The development objective of the proposed operation is to support measures that (i) reduce income and gender inequalities, and build households' resilience to shocks, including those related to climate change; (ii) promote an economy-wide decarbonization and climate adaptation; and (iii) consolidate a low-carbon energy transition. The DPF supports reforms structured around three pillars:

- **Pillar I - Reducing income and gender inequalities, and building resilience.** This Pillar aims at promoting equity, by tackling income and gender inequalities, and building households' resilience to shocks, including those related to climate change.
- **Pillar II - Building Back Better Through Economy-Wide Decarbonization and Climate Adaptation.** This Pillar advances and upgrades longstanding, cross-government climate mitigation and adaptation efforts to reduce Colombia's greenhouse gas emissions and adapting to climate change, including reducing the unequal distributional effects of climate change.

¹ Chance, Lucas (2021). <https://wid.world/news-article/climate-change-the-global-inequality-of-carbon-emissions/>



- **Pillar III – Consolidating the Low-Carbon Energy Transition.** This Pillar advances critical reforms in support of Colombia’s “Energy Transition Law”.

Key Results

The proposed program is expected to reduce income and gender inequalities, and build households’ resilience to shocks, including those related to climate change; promote an economy-wide decarbonization and climate adaptation; and consolidate a low-carbon energy transition.

D. Concept Description

The development objective of the proposed operation is to support measures that (i) reduce income and gender inequalities, and build households’ resilience to shocks, including those related to climate change; (ii) promote an economy-wide decarbonization and climate adaptation; and (iii) consolidate a low-carbon energy transition.

- Pillar I aims at promoting equity, by tackling income and gender inequalities, and building households’ resilience to shocks, including those related to climate change. It supports measures that improve the coverage and targeting of social transfers, and that provide a stronger social protection response to natural disaster and climate change shocks. It also supports reforms to paternity and parental leave, which will reduce gaps and barriers that woman face in access to economic opportunities.
- Pillar II advances and upgrades longstanding, cross-government climate mitigation and adaption efforts to reduce Colombia’s greenhouse gas emissions and adapt to climate change, including to reduce the unequal distributional effects of climate change. It will do this by legally formalizing Colombia’s NDC commitments, including expanding carbon pricing; defining a priority set of investments for financing through a cross-government policy program; facilitating the flow of private and public capital to support the country’s environmental priorities, and mitigating investment risks through transparent, standardized disclosure of climate risks for investment operations; and promoting sectoral contributions, including increasing the contribution that biodiversity conservation in protected areas can make to climate mitigation and adaptation.
- Finally, Pillar III advances critical reforms in support of Colombia’s “Energy Transition Law”. It includes policy and institutional reforms that consolidate Colombia’s large-scale adoption of Non-Conventional Renewable Energy (NCRE) by setting legal, regulatory, and fiscal frameworks for the development of solar, wind and geothermal resources, among others. The proposed program also supports the implementation of competitive NCRE procurement schemes for the deployment of grid-connected solar and wind electricity and contributes to address one of the key constraints for its large-scale deployment; that is, it updates the regulatory framework to reduce bottlenecks to evacuate NCRE power. Finally, the reform program supports policies to initiate the development of new storage technologies that would support the use of intermittent low-carbon energy, such as low-carbon hydrogen, thereby contributing to the economy-wide decarbonization path in the medium to long-term.



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

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

Poverty and Social Impacts

The prior actions supported by this operation are expected to have significant positive effects on distributional outcomes over the short to long term, particularly through improved social spending, narrowing of gender gaps, and a reduction in the potential of climate change to exacerbate inequalities. While a more comprehensive analysis will be carried out on the potential effects of the reforms supported under the operation, initial findings suggest a positive impact on poverty reduction, equity, and social indicators, in line with one of the main objectives of this operation. This, in the context of a large reversal in the path toward poverty and inequality reduction in Colombia, with poverty in 2020 increasing by 6.8 ppts, the Gini coefficient rising further from already high levels, going from 0.526 in 2019 to 0.544 in 2020, and a widening of gender gaps. Moreover, the effects of climate change are expected to further exacerbate inequalities.

Environmental, Forests, and Other Natural Resource Aspects

Consistent with WB OP 8.60, a general environmental analysis was carried out to assess if the proposed DPF is likely to cause significant adverse or positive effects on the environment, forest, and natural resources. The assessment was based on a secondary data review of the program, including the description of each prior action, evidence from the literature, legal evidence, and a comparative analysis between existing and proposed actions. The Prior Actions supported under Pillar 1 are not likely to result in any significant impact on the environment, forests, or natural resources. The Prior Actions supported under Pillar 2 and Pillar 3 have positive effects on the environment, forests, and other natural resources.



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APPROVAL

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Approved By

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