

SHAPING A SUSTAINABLE FINANCIAL SYSTEM

Future-proofing global finance for a net-zero, nature-positive world
COLOMBIA



INTRODUCTION

Colombia's updated NDC jumps from

20% to
40%

reduction of emission by 2030, with efforts to reach **net-zero deforestation** by the same year and **climate neutrality** by 2050.

Based on GDP, Colombia has the fourth largest economy in South America. Although it represents only around 0.4% of global emissions, its climate goals are among the most ambitious in the region. Colombia's updated NDC jumps from 20% to 50% reduction of emission by 2030, with efforts to reach net-zero deforestation by the same year and climate neutrality by 2050.

Furthermore, the 2020 NDC recognizes the importance of nature-based solutions (NBS), in line with a broad consideration of climate, forests and water¹.

Forestry-related targets are especially important because Colombia has the second-greatest biodiversity in the world – its Amazon alone comprises more than 40% of the territory². Unfortunately, in recent years, deforestation has been growing. After the peace process was concluded, forest areas formerly controlled by the guerrillas were replaced by devastating activities, which resulted in a broad deforestation strategy³. Now, studies are showing that up to 33% of greenhouse gas (GHG) emissions is related to deforestation⁴.

Another great challenge of this upper middle-income country is reducing the importance of the carbon intensive sectors relative to the size of the economy. Among the 1,000 largest companies by revenue in Colombia, 26.3% of the revenue comes from 141 companies from the oil, gas and coal industry. By 2020 the Colombian stock exchange had a total market capitalization of US\$86.65 billion, with 45% of market share coming from listed equity of oil and gas companies⁵.

Just to mitigate the effects of climate change alone, it is estimated that the country must increase its investment by COP 2.3 trillion per year to, at least, COP 3.1 trillion. In this scenario, the private sector would have to contribute more than 60% of the total⁶.



1. Government of Colombia. Colombia's Updated Nationally Determined Contribution.
2. Government of Colombia. Colombia, second-greatest biodiversity in the world.
3. Organization for Economic Co-operation and Development (OECD). OECD Economic Surveys: Colombia.
4. Government of Colombia. Colombia presents its Update Report on Climate Change.
5. ODI & Transforma. Consistency case study: actions supporting Article 2.1c of the Paris Agreement in Colombia.
6. La República. Investment to mitigate climate change must rise to \$ 3.1 trillion annually.

KEY SUSTAINABLE FINANCE POLICY ACTORS

Actor	Responsibilities and actions taken
REGULATORS	
NATIONAL PLANNING DEPARTMENT OF COLOMBIA (DNP)	The DNP is developing methodologies to track private finance for sustainability. Along with other policymakers and regulators, it is working to protect natural resources by creating guidelines and policies for the sustainable use of natural resources ⁷ .
MINISTRY OF ENVIRONMENT AND SUSTAINABLE DEVELOPMENT (MADS)	An inter-ministerial initiative by the SFC, the DNP, the MHCP, and this Ministry is discussing the criteria and eligibility for the country's green taxonomy. In September 2021, a public consultation with a preliminary version was announced, with relative alignment to international taxonomies (eg. EU).
MINISTRY OF FINANCE AND PUBLIC CREDIT (MHCP)	The MHCP is working with the SFC and the Central Bank to stimulate financial actors to adopt risk management considering environmental risks ⁸ .
FINANCIAL SUPERINTENDENCE OF COLOMBIA (SFC)	SFC oversees financial regulation and supervises market systems. It joined the NGFS in 2019. SFC published a voluntary best practices guide on the issuance of green bonds in line with the International Capital Markets Association (ICMA), which enabled the financial sector to lead the issuance of thematic bonds ⁹ . It also published a guide regarding ESG reporting information by private companies, highlighting how the financial sector must adapt its disclosure to future requirements ¹⁰ .
Central Bank of Colombia (Banco de la República)	The Bank joined the NGFS in 2019. It is working on an analytical framework to evaluate climate risks and incorporate them into macroeconomic scenario analysis ¹¹ .
VOLUNTARY INITIATIVES	
TASK FORCE ON RESPONSIBLE INVESTMENT	This multi-stakeholder forum aims to promote a responsible and sustainable investment agenda in the country through the exchange of experiences, collaboration, and production of knowledge. Their members signed a declaration in favor of responsible investment in the country.

7. National Planning Department of Colombia (DNP) et al. Methodological guide to classify and measure financing associated with mitigation and adaptation actions to climate change in Colombia.

8. Colombia's Climate Change and Assets Disclosure Initiative (CCADI). Informe de Política n° 1.

9. Colombia's Climate Change and Assets Disclosure Initiative (CCADI). Informe de Política n° 1.

10. Financial Superintendence of Colombia (SFC). Disclosure of sustainability information or ESG in Colombia

11. RAMIREZ et al. Finanzas sostenibles: cambio climático y estabilidad financiera.

KEY SUSTAINABLE FINANCE POLICIES AND REGULATIONS

Actor	Policy/Regulation	Supervisory/ Implementation	Positioning on Sustainable Finance	Year of Implementation	Addresses Climate Change?	Addresses the Safeguarding of Water Resources?	Addresses the Protection of Forests?
1	Código País	SFC	This corporate governance framework resulted in a comply-or-explain policy. It mentions best practices on non-financial disclosure without further detailing on ESG.	2007	-	-	
2	OECD Declaration on Green Growth	Executive level	OECD countries commit to green growth and green investments.	2012	-	-	-
3	National Development Plan 2018-2022 ('Pact for Colombia, Pact for Equity')	DNP, Multisector	Besides other objectives, the National Development Plan promotes green businesses and financial systems and the use of alternative energy sources.	2018-2022	These must define sectoral GEE reduction targets	X	X
4	National Climate Finance Strategy	DNP, Multisector	This set strategies to engage the financial sector and provides for a broad analysis of climate finance in its subsectors.	2018	X	X	X
5	National Green Business Plan (NGBP) (2018-2030)	MDAS, multisector	The NGBP also focusses on natural capital, comprehending the private sector as a whole and setting targets for 2030. It's innovative in its intersectoral approach.	2018-2030	X	X	X
6	Law no 1819	Multisector/DIAN (Dirección de Impuestos y Aduanas)	Tax deductions for renewables and carbon tax.	2016	X	-	-
7	Law no 1931	Multisector/DIAN	Guidelines for the management of the environment in the decisions of all private persons.	2018	Climate change must be taken into account in the different sectoral and territorial planning mechanisms, with budget and financial planning.	-	-
8	Law no 1943	Multisector/DIAN	This law has a clause favoring private entities undertaking adaptation efforts and projects on water and forests.	2018	X	X	X
9	External Regulatory Circulars 007 and 008	SFC	The SFC considered pension funds and insurance companies had preparedness for the drafts of 007 and 008, which consider the mandatory nature of ESG and climate risks and include these factors in risk management and investment decisions. The process is being held with an eye on TCFD recommendations and best international practices.	2021	The four pillars roadmap includes: <ul style="list-style-type: none"> ▾ Green Taxonomy; ▾ Transparency; ▾ Adoption of ESG criteria; ▾ Capacity building. 	-	-

Colombia has various economic and tax-related incentives for companies. Incentives for forest conservation, for example, include the Forestry Incentive Certificate (CIF) (economic) and the **Property Tax Exemption for Conservation** (tax-related).

Nb: This is not an exhaustive list of actors but key regulatory and policy initiatives in Colombia

Public-private initiatives are helping to drive more funds into green investments. One example is the **Colombian Climate Finance Committee (SISCLIMA)**, an advisory body mobilizing resources for adaptation and mitigation to climate change*.

ANALYSIS (INCLUDING GOVERNANCE CHALLENGES)

Colombia was among the first countries in Latin America to establish policies such as environmental administration along watershed boundaries, to define pollution taxes (e.g. carbon tax) and regulate polluters' activities^x. The country also stands out for its policies to green innovation, which contributed to turning Bogotá into one of the few capitals in the subcontinent with the potential of becoming a climate smart city^x.

However, surveys conducted by the SFC in 2018 and 2019 showed that financial regulators were not integrating environmental risks well¹².

Policy must push financial institutions to action but environmental best practices, risk management and disclosure are sparse in generalist regulations. Some concrete requirements for the sector include mentioning the positive environmental impacts of projects and reporting on ESG in annual reports¹³. This is why Colombia launched its comprehensive roadmap to greening the financial system, which is being updated in 2021¹⁴.

For financial actors to move towards green finance, Colombia must simplify its legal framework, as well as diminish the sluggishness

of processes like environmental licenses. Corporate structure and governance are still a factor of concern for the sector. Furthermore, structural issues like low market capitalization compromise the attractiveness of green investments.

Financial actors mention the government should lead market signals and sponsor green finance. This is especially important considering there is a lack of awareness of its financial performance and a short-term mindset in the sector. In Colombia, the financial market responds to signals from the real sector, in which the government can play an active role. There is a need to develop a robust green investments pipeline in the country and demonstrate competitiveness and profitability of green products and projects, reaching scale comparable to traditional projects¹⁵.

Way forward

▼ Building awareness of climate change frameworks like TCFD to improve reporting.

Recent research with listed companies in the Colombian Stock Exchange showed that climate scenario analysis was not widely considered, and there was no evidence that institutions were willing to align to international frameworks like the TCFD¹⁶.

Therefore, awareness on best international practices is needed in Colombia, and is likely to clarify the best international practices available.

▼ Make the case for transparency as a means of solving data disparity.

Promoting transparency in the Colombian financial sector is a priority. The SFC surveys demonstrated how technical gaps like lack of transparency were correlated to challenges such as lack of data comparability and standardization, as well as preparedness for materiality analysis and definition of metrics. Because transparency requirements are not ambitious enough, approaches adopted by institutions highly differ from each other.

Less than

10%

of **financial institutions** in Colombia adopt the TCFD recommendations¹⁶

12. Financial Superintendence of Colombia (SFC). Disclosure of sustainability information or ESG in Colombia

13. Inter-American Development Bank (IDB). Sistemas financieros y riesgo climático en América Latina.

14. Inter-American Development Bank (IDB). Sistemas financieros y riesgo climático en América Latina.

15. International Finance Corporation (IFC). Aligning Colombia's Financial System with Sustainable Development.

16. Financial Superintendence of Colombia (SFC). Disclosure of sustainability information or ESG in Colombia

▼ **Promote capacity building for all sustainable finance stakeholders.**

Besides financial sector companies, the Colombian regulator is just starting the supervising process after the first regulation was published in 2021. This means that the team in charge of assessing if the pension funds and insurance companies are implementing climate-related risks into their investment processes will need strong capacities in current risk management methodologies, metrics and targets. Therefore, capacity building to each subsector is the key to address different levels of advancement.

▼ **Integrate natural capital in Colombia's Green Finance Roadmap.**

Although Colombia's NDC takes a step forward in considering NbS, there is a long road to equally incorporate climate, forests and water in finance. There is one Colombian bank in the TNFD's informal group¹⁷, but similarly to other Latin American countries, there is not yet a broad discussion on nature-related financial disclosure. Considering natural capital at an early stage of the Roadmap is going to allow harmonization with emergent international frameworks, positioning Colombia as a key player developing country in sustainable finance.

▼ **Engaging key sectors to strengthen transition to a low carbon economy.**

Many of the national policies around climate finance in Colombia focus on the mobilization of private capital to adaptation and mitigation solutions. However, it lacks a perspective on how to help the financial sector transition to a low carbon economy. A process that is not only focused on the opportunities but also on

risk assessment and divestment from carbon intensive companies is needed.

▼ **Strengthen and diversify green incentives. Similar to India, Colombia's green finance instruments have a strong focus on fiscal incentives.**

However, in the context of the post-Covid recovery, developing countries are seeing an increase in their public debts¹⁸. Colombia needs not only to diversify and enhance market-base instruments at pace but also to set strategies for private participation. Credit, for example, plays an important role in Latin American countries, especially in financing zero-deforestation economic activities, but only 5% of the portfolios of Colombian banks are 'green'¹⁹.

▼ **Maximize its leading position in Latin American to adopt a taxonomy.**

Colombia's climate commitments comprehend a specific target for taxonomy. By 2030, the country must have developed and implemented its own green taxonomy. However, there is room for defining the principles, methodologies and governance before raising the bar of ambition. The country has a well-established system of MRV and is improving monitoring; bonds are issued aligned to principles like those from the International Capital Market Association (ICMA); alignment with international taxonomies is being considered; and a pilot of a green taxonomy is going to take place in 2021²⁰. Therefore, this pilot will give the final word in the definite adoption of a taxonomy. Taking too long to do so can leave the market isolated, as other jurisdictions are well-advanced in the agenda.

78%

of banks reported the lack of common agreement on taxonomy as the main barrier to green opportunities²⁰

17. TaskForce on Nature-related Financial Disclosure (TNFD). Financial institutions and private firms.

18. Inter-American Development Bank (IADB). Public finances and the Covid-19 crisis in the Andean countries

19. International Finance Corporation (IFC). Aligning Colombia's Financial System with Sustainable Development

20. Financial Superintendence of Colombia (SFC). Green taxonomy for the environmental goal of climate change.

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About CDP

CDP is a global non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of over US\$106 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 9,600 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2020. This is in addition to the hundreds of cities, states and regions who disclosed, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP is a founding member of the We Mean Business Coalition.

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