



## *IATI Report on UK-PACT Project*

### **Greening the Colombian Financial System: Implementing local green definitions to enable long-term investment into priority sectors**

A project delivered by: Climate Bonds Initiative and Metrix Finanzas from March 2021 to March 2022 with funding provided by BEIS (UK Government Business, Enterprise & Industrial Strategy Dept.)

This project sought to mitigate the issue of lack of common green definitions in the Colombian financial and non-financial sector. It aimed to support the implementation stage and socialization of the Colombian taxonomy of green criteria and definitions. These criteria will provide clarity to the financial market on what activities are green for mitigation and adaptation purposes.

#### **The expected project outcomes were the following:**

- Colombian Green Finance Guidelines (green definitions) are used as the primary set of definitions for decision-making on green assets and projects across the country.
- A strong foundation for a knowledge based self-sustaining ecosystem of green finance stakeholders in Colombia for a healthy and visible pipeline of green assets.
- Sustainable Sovereign Fund structuring for supporting available green projects and assets.

This project focused on helping government institutions in Colombia raise capital for sustainable projects. The results of the project provide them with the necessary support and tools to implement the National Taxonomy. In addition, having the necessary financial instruments to attract green investments to the country to finance green projects is key to contributing to the reduction of emissions. Green bonds and other green financial instruments and funds can enable emerging markets to attract more consistent investment from international debt capital markets. The project and the assets that are financed with proceeds from green bonds can accelerate the implementation and monitoring of the NDC. Building the capacities and skills base of policymakers and relevant stakeholders is therefore central to successfully transitioning to a new social and economic model that will be climate-neutral, resilient, sustainable, and inclusive.

Thanks to the support of the UK PACT program, this last year we approached important entities of the national government such as the Ministry of Finance and the Financial Superintendence of Colombia, which oversee the regulation and establishment of the policies of the Colombian financial system. Through this approach, we have jointly built the foundations of a Sovereign Climate Fund that will oversee the financing green projects from the Colombian public sector.

These accomplishments support the objective of greening the Colombian Financial System through the local implementation of green definitions to enable long-term investment into priority sectors.

#### **To achieve this, the Climate Bonds Initiative with its project partner Metrix Finanzas developed the following project outputs.**

1. **Output 1: Support knowledge-sharing and skill enhancement for project/activity assessment using the local and international taxonomies** which consisted of reviewing green assets through technical assistance to main financial market players, the beneficiaries of the output were



Financiera de Desarrollo Nacional, Banco Popular, Findeter, and Grupo de Energia de Bogota. Beneficiary institutions broadened their skills in identifying green assets, screening criteria, and being able to replicate the process. Additionally, we provide Technical Assistance to the Ministry of Finance devoted to reviewing the Ministry of Finance's template projects to analyse how green these were, how aligned they could be to national and international standards and what other information would be required. **The institutions that received the TA are considered confidential information.**

2. **Output 2: Further alignment of Colombia green finance definitions with international best practices and standards for green financial instruments** which consisted of supporting the Taxonomy Supervisory Committee on additional technical questions on green definitions to ensure alignment to global standards and best practices to the final green definitions on the Taxonomy through information sessions with CBI's technical experts. The official Taxonomy document is the result. Additionally, we assessed the CASA Colombia sustainable construction certification scheme as a recommended local proxy to the Climate Bonds Standard (CBS). CASA Colombia is a local scheme for residential construction developed by the Colombian Green Building Council. As a proxy, the program would receive international recognition, and Green Bond issuers using CASA will be able to get their green bonds certified under the CBS. This supported the objective of helping align national and international green definitions.
3. **Output 3: Improving local capacities through knowledge sharing** which consisted of delivering a technical workshop on the sector criteria of the Colombian Taxonomy for CBI's approved verifiers for disseminating Colombian green definitions and specific material to deep dive in topics requiring broadened knowledge. Additionally, we delivered two in-depth capacity-building training sessions online events for banks, the Ministry of Finance, industry associations, and potential issuers.
4. **Output 4: Technical Assistance on Financial Structuring for a National fund and instruments to support the MHCP** which consisted of the creation of the Fund Structuring Documents. The fund will define sustainable key indicators and a sustainable investment policy that is applicable for credit allocation and portfolio investment. The policy will confirm that the fund would respond to both green and sustainable labels. The fund will implement a corporate governance policy according to international standards and will have an underwriting strategy that complies with the sustainable funds' policy achieved through market segmentation, which will be overseen by an underwriting committee. Within this Output is also the design of financing instruments procedure that will give the fund profile of financial instruments will be made available for financing sustainable projects through national and international benchmarking of financial instruments available for sustainable projects. Additionally, we strengthen the engagement strategy with key financial actors through regular meetings.
5. **Output 5: Promote an overarching communications strategy** which consisted in creating a communications strategy to bridge the gap in the market for a sustainable, finance accessible, international knowledge-sharing medium for which there is growing demand. As part of the strategy, we designed a document on the Framework for sustainable financing under the Climate



Fund and we delivered a press release to announce the Colombian Taxonomy's launch for public consultation, and a webinar on International Taxonomies.

### The project results can be summarized in the following points:

- The team managed to train more than 50 people, who will serve as knowledge replicators, in Sustainable Finance, Green Bonds, and the Colombian Taxonomy through the technical assistance and training that we had during this project.
- Together with the Taxonomy Supervisory Committee, the team developed a national guide for the identification of green assets that will stimulate the creation and financing of green instruments in Colombia.
- The team help structure the Sovereign Climate Fund together with the Ministry of Finance, a Fund that will allow public and private resources to be channelled so that they are used efficiently in plans, projects and/or programs to combat climate change.
- After the Technical Assistance to the banks, they completely restructured their understanding on green definitions and the information required. The three banks' commercial teams started requesting disclosure on use of proceeds for new credit lines and requesting information to new clients.

This project was successful in achieving the goal of implementing local green definitions. The team supported the Taxonomy Supervisory Committee, in developing the Colombian Green Taxonomy that aims to create a common green language so that entities from the financial and non-financial sectors have a guide when developing or financing green or sustainable products or projects. During these twelve months, we also trained four important entities of the financial and non-financial system in sustainable finance, green bonds, and Colombian Taxonomy: two development banks, a private bank, and a company from the Colombian energy sector. This training gave them the necessary tools to analyse their portfolio and strengthen their internal sustainable policies to issue green or sustainable financial instruments.



## ACTIVITIES

### *Activities linked to Output 1 - Support knowledge-sharing and skill enhancement for project/activity assessment using the local and international Taxonomies*

#### **1.1 Technical Assistance to main financial market players** – Technical Assistance was given to support a green bond issuance to four institutions.

A Technical Assistance (TA) to the four beneficiary institutions: FDN, Findeter, Grupo de Energía de Bogotá (GEB) and Banco Popular was given. Technical assistance is divided into three stages; the first is a specialized workshop that we have developed for each entity according to its individual characteristics. In this workshop the entities learn about green finance in general, green bonds, the Taxonomy and certification scheme of Climate Bonds and, and about the Colombian Green Taxonomy. The second stage of the Technical Assistance is the review of the portfolios of the entities for them to identify what they need to be aligned with the Climate Bonds Taxonomy and the Colombian Taxonomy. The third stage consists of the decision making by the entity to define whether they are interested in issuing a green bond, in case of deciding to issue a green bond, Climate Bonds helps the entity in their process of developing their Green Bond Framework and reviewing it. The TAs were closed with a wrap-up and a portfolio summary meeting. One of the conclusions of the TA for the beneficiaries was that they have already marked a change in the way they conduct business as their commercial teams started requesting disclosure on use of proceeds for new credit lines and requesting information to new clients. **The institutions that received the TA are considered confidential information.**

Even though the team selected the institutions with more possibilities of issuing a green bond, a green bond issuance is not guaranteed as it will depend on their green pipeline, the market conditions, and the beneficiaries' financial situation. Nevertheless, at the end of the TAs, all beneficiaries expressed their intentions of issuing green bonds in the following months.

We will continue supporting them in their strong ambitions of issuing. we recognize the process the institutions have undertaken has advanced very quickly as they already have a Sustainable Framework. CBI focused on advising them to improve their Framework to make it greener and in line with Colombian and CBI taxonomies.

Furthermore, the strategic partnerships with the CCCS (the Green Building Council in Colombia) and with the banking association (Asobancaria) were essential to have conversations with companies and identify their disposition to become beneficiaries. Discussions were held with these companies but due to the interest that other entities presented in advance, the quotas for the technical assistance were completed and the development of the alliance with the construction companies could not continue under this project. Nevertheless, we hope to continue with the engagement process with construction sector in Colombia in the following stages of the project.

**1.2 A Special Technical Assistance to the Ministry of Finance** – Three documents necessary for the Sovereign Climate Fund's structuring were developed, including a fund that intends to finance sustainable projects in Colombia. The result was that these kinds of sources of climate finance, work as a mechanism for mitigating and adapting to climate change in a country that is strongly affected by its effects.

Throughout the project, the team kept a close engagement with the Ministry of Finance. The first part of the Technical Assistance was devoted to reviewing the Ministry of Finance's template projects to analyse how green these were, how aligned they could be to national and international standards and what other information would be required. After this analysis we started the process of developing



structuring the Sovereign Climate Fund having several meetings with other Funds and institutions. The team worked on an additional document, which is a summary document that condenses the technical and complex information of the other documents of the Climate Fund. The objective of this summary was to have an academic and comfortable version to read and explore what is required in the development of a Sovereign Climate Fund in a Development Country, more specifically for Colombia's situation.

To define the Fund's objective, Climate Change mitigation international objectives from the Paris Agreement were considered, the current national regulation on greenhouse gas reductions such as NDCs, the Colombian Green Protocol (bank's associations) and the commitment to the sustainability of the financial sector in Colombia. For the governance structure, funds from all over the world were analysed and their organizational structures were compared to find the most appropriate for the Sovereign Climate Fund considering the particularities of Colombia and the Ministry of Finance specifically. It is important to note that the function of the Fund is to support the other climatic and sustainable funds in Colombia instead of being a competitor.

### ***Activities linked to Output 2 - Further alignment of Colombia's green finance definitions with international best practices and standards for green financial instruments.***

#### **2.1 Support to the Taxonomy Supervisory Committee – Support for finalize the Colombian Green Taxonomy through recommendations and technical support.**

The Colombian Taxonomy has been finalized and is expected to be launched the last week of March 2022 as confirmed by the Supervisory Committee. The Colombian Taxonomy was released for public consultation on September 17th until mid-December, opening again for some final institutional comments in February 2022. This initial version included two technical documents, the first one with seven annexes from the different sectors: energy, construction, waste management and emission capture, water supply and treatment, transportation, information and communication technologies, and manufacturing sectors. The second technical document focuses on the main land use sectors in Colombia, including livestock, agriculture, and forestry sectors. However, for the final version to be released, the structure was modified to be only one technical annex including all the sectors. This change came to need from the public consultation comments, as it was necessary to make it clearer to the public. The classification and methodologies used in the elaboration of the different technical documents vary, due to the characteristics of the sectors. The team supported to the final stage of comment integration and once the taxonomy is finally launched, the team will support the public launch of the Colombian Taxonomy. Additionally, the team supported with the excel tool to utilize the Colombian Taxonomy, this tool has been updated to the last changes and updates and was delivered to the Taxonomy Supervisory Committee.

Climate Bonds Initiative provided technical support along with the IFC - International Finance Corporation and The World Bank to La Mesa Institutional or Taxonomy Supervisory Committee (conformed by Ministerio de Hacienda y Crédito Público, Superintendencia Financiera de Colombia, National Planning Department DNP, Departamento Administrativo Nacional de Estadística - DANE Colombia & Ministerio de Ambiente y Desarrollo Sostenible de Colombia) for the development of this Taxonomy, more specifically the team worked directly with the Financial Regulator (SFC).

The support to the Taxonomy Supervisory Committee also included the development and update of the Excel tool and the Recommendation Report based on the technical assistances we had to pilot the



use of the Colombian Green Taxonomy. This knowledge sharing ensured the Colombian Green Taxonomy to be aligned with global standards and best practices.

Given the global nature of financial markets and environmental challenges, the best practices of environmental sustainability and classification systems were incorporated in the construction process of the technical documents - such as the green taxonomy of the European Union, that of the Climate Bonds Initiative, the Green Bond Principles, and the United Nations Sustainable Development Goals. Likewise, it recognizes that there are important local and regional differences, and that the process of designing and updating the green taxonomy has considered the challenges, capacities, and specific realities of Colombia while being internationally aligned.

## **2.2 CASA Colombia certification scheme assessment for the proxy inclusion into Climate Bonds' Taxonomy and Standard** – The proxy was approved and Green Bond issuers using CASA will be eligible to get a certification under the Climate Bonds Standard.

The assessment of CASA Colombia certification scheme to determine its eligibility to be approved as a proxy under the Climate Bonds Certification Scheme was completed. The result was positive as the Technical Analyst confirmed that the proxy was approved. Several exchanges took place with the Green Building Council in Colombia (CCCS) and Climate Bonds Building experts. Communication's material was prepared to make CASA Colombia known as a proxy under the Climate Bond Certification Scheme.

The assessment whether CASA Colombia is aligned with the Colombian Taxonomy Building sector criteria started to be assessed during this project. However, this had to be stopped and the recommendation was to continue the assessment in the future, as the Colombian Taxonomy was still changing and considering the differences between certification systems due to the difference in their baselines and calculations was not possible at this stage as the information is guarded. Once the resolution 0549 is released by the Ministry of Housing, it will change again, therefore the team will assess the proxy under the Colombian Taxonomy once the resolution is released.

### **Activities linked to Output 3 - Improving local capacities through knowledge sharing.**

#### **3.1 Deliver Online Technical Workshop** – The Colombian Taxonomy Workshop was delivered on the different sector criteria of the Taxonomy.

This workshop was focused on the Colombian Taxonomy. The Taxonomy document is very complex therefore it requires a proper socialization with experts in each sector, who carry it out and maintain the knowledge in the country. The audience for these workshops were the approved verifiers by CBI considering they are strategic and relevant actors in the process of issuing green instruments and need to understand the technical complexities of the sector criteria. These workshops were technical; focusing on every sector criteria contemplated on the Colombian Taxonomy. It was one technical workshop developed for 4 hours and gathering all the necessary information to understand the 6 sectors excluding AFOLU (Agriculture, Forestry and Land Use).

The event consisted in a deep explanation about each sector of the Colombian Taxonomy, Energy, Waste, Water, Transport, ICT, and Manufacture. This included a general context on international taxonomies and the development of the Colombian Taxonomy before starting with the context of the sector in Colombia, examples, and tests for the participants about the specificities of the Taxonomy in each sector, also the projects and activities that would be eligible in each one of those. This space allowed the participants to know the eligibility criteria of the Colombian Taxonomy sectors and their applicability. The objective of this workshop was for verifiers in the region to understand the





definitions, criteria, and eligibility requirements of this taxonomy. This will give them the necessary skills to review portfolios that can be considered green or environmentally sustainable in Colombia.

### **3.2 Delivery of two in-depth capacity training sessions** – One training was delivered to the SFC and the other to the bond issuers identified by the Colombian Stock Exchange.

The first Green Bond Training prepared by the CBI's Training team included the basic concepts of green bonds and a special session as an introduction to the Colombian Taxonomy and sector criteria. This session was delivered partially by the SFC and the technical experts who worked directly in the Colombian Taxonomy development. The final session involved a practical exercise on analysing Green Bond Frameworks. This training was delivered to members of the SFC and the Ministry of Environment of Colombia, the beneficiaries participated actively in the training. This training was very beneficial to the SFC staff as they will be of answering questions on the Taxonomy once it is released and in charge of its continuous socialization. The Training was given to a total of 30 participants.

The second Green Bond training was delivered to potential green bond issuers identified by the Colombian Stock Exchange (BVC). Among the participants were more than 15 entities within which there were non-financial corporations, banks, representatives of local government and construction companies. This evidences the interest from all sectors in sustainable finance and the issuance of green bonds. The course agenda included green bond basics as well as a general introduction to the Colombian Taxonomy delivered partially by the SFC and the technical experts who worked directly in the Colombian Taxonomy development. The final session included a practical exercise on the development of a Green Bond Framework where the beneficiaries actively participated in the trainings. The training was given to a total of 29 participants. The Green Finance Training for Colombia was based on the Green Bond Training of the Climate Bonds Initiative. This course included four learning modules combined with interactive discussions and exercises, with topics including the landscape of climate finance, market infrastructure and policies, the green bond issuance process, market dynamics, market development and Colombian Taxonomy.

As a Bonus, Climate Bonds, delivered a shorter training to the Colombian Stock Exchange internal staff. This course included two learning modules: the first one focusing on the climate finance landscape, market infrastructure, the green bond issuance process, market development and the second one on the Colombian Taxonomy.

Climate Bonds also liaised with the Luxembourg Stock Exchange to join a conversation with the executive directors of the Colombian Stock Exchange with the objective of sharing Luxembourg Stock Exchange experience of becoming greener with the Colombian Stock Exchange executive directors.

### **Activities linked to Output 4 - Financial Structuring for a National Fund and the instruments to support it.**

*The activities linked to Output 4 were led by the project partner Metrix Finanzas with the support of Climate Bonds Initiative.*

#### **4.1 Fund Structuring** – This document will be used to promote the implementation of the Sovereign Fund.

Research on governance structures has been prepared and presented to elaborate the proposal on the governance structure and the functions of each governing body for the local green fund. Options were established for what would be the future financing structure of the Fund and the relevant sectors for Colombia have been identified considering the sectors prioritized by Colombia's environmental policy, which would be the possible green projects in which the finances of the Climate Fund would be



invested. The team worked to align the Ministry of Finance objectives with CBI's Taxonomy and other international parameters to the Green Fund. This document, as a Fund Structuring Recommendation Report will become a well-established deliverable that the Ministry of Finance will be able to use in the future and the team will use to continue engaging with the new government in the following phase of the project.

**4.2 Design financing instruments** – This document promotes the implementation of the Sovereign Fund including a section on available financial instruments and a section on Sustainable Projects Structuring Framework document.

This report includes a section on the available sustainable financial instruments which profiles the financial instruments available for financing sustainable projects and list recommendations for their employment. The document also includes a section on the sustainable projects structuring framework document which will be drafted to recommend the procedures that will allow the fund to structure projects that have a financing structure that supports, financial returns, risk profile and sustainability goals, and with profiles of financial products available in the market for sustainable projects. This report will be of use for any public or private sustainable fund to be implemented in the future. The fund will be conceived as a blended finance mechanism. This document was compiled with the Fund's Strategy Sustainable Framework Report for easier understanding. It will become a well-established deliverable that the Ministry of Finance will be able to use in the future and the team will use to continue engaging with the new government in the following phase of the project.

**4.3 Engagement Strategy** – Fund Structuring webinar entailed a strategy of private meetings to gain buy-in for the sovereign fund.

This webinar was ready to go during March, however, it had to be postponed at the last minute since the Ministry of Finance, our beneficiary asked to move it as they were not yet ready to have internal communications. They have asked us to change it to April 21st, 2022. We have uploaded the Webinar planning document. As the Ministry of Finance asked to not publicly promote the planning of the Sovereign Fund as with the for coming changes in the government, they are trying to create buy-in with changing internal actors to promote the Sovereign Fund in the next phase.

**4.4 Fund Structuring launch event** – The Fund structuring launch event entailed private conversations with different Funds.

To structure the Sovereign Fund, private conversations were held with different Funds. These meetings were important to gain internal knowledge on the specific details of how Funds work and to plan the structure of the Sovereign Fund developed with the Ministry of Finance. These meetings were also held with the stakeholders to assess their opinion and buy-in for the sovereign fund.

### **Activities linked to Output 5 - Promote and encompassing communications strategy.**

**5.1 Fund's strategy report for the Ministry of Finance** – The Ministry of Finance requested an additional document on the Framework for sustainable financing under the Fund for the green fund requirements.

The Ministry of Finance requested an additional document which will serve as a Framework for sustainable financing under the Fund, considering what the requirements for a Green Fund. This new document is now waiting for the validation of the Ministry of Finance to make it public. This document, as a Fund Strategy Summary Report went through an editing and design process to become a well-established deliverable that the Ministry of Finance will be able to use in the future. The team will use to continue engaging with the new government in the following phase of the project.





**5.2 Webinar** – Delivered a webinar on *The development of green and sustainable taxonomies in the world*.

This Webinar was originally planned to be for the Launch of the Colombian Taxonomy; however, this was continuously being postponed. The Financial Regulators asked to not plan anything until this happens. Continued supporting the Financial Regulator and the Colombian Taxonomy. The Supervisory Taxonomy Committee stated they will launch the Taxonomy in March, so as soon as this happens, the plan is to have the Taxonomy Launch webinar, this will most likely happen in April. Not being able to deliver this webinar by the end of this project, in the meantime, a webinar was delivered on *The development of green and sustainable taxonomies in the world* on March 17th to set the way into the Colombian Taxonomy launch.

**5.3 Press Release** – Delivered a press release to announce the Colombian Taxonomy's launch for public consultation.

Delivered a press release to announce the Colombian Taxonomy's launch for public consultation, as well as the announcement of the Colombian Sovereign Green Bond and the leading path of Colombia for green finance in Latin America.