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Minhacienda



# Colombia Sovereign Green Bond Framework

MINISTRY OF FINANCE AND PUBLIC CREDIT  
REPUBLIC OF COLOMBIA

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# Acronyms and abbreviations

**CBI**

Climate Bond Initiative

**CICC**

Intersectoral Commission on Climate Change

**CONFIS**

Council for Fiscal Policy

**CONPES**

Economic and Social Policy Council

**DANE**

National Department of Statistics

**DGCPTN**

General Directorate of Public Credit and National Treasury

**DNP**

National Planning Department

**GBP**

Green Bonds Principles

**GHG**

Greenhouse Gases

**ICMA**

International Capital Markets Association

**IDEAM**

Institute of Hydrology, Meteorology and Environmental Studies of Colombia

**MADS**

Ministry of Environment and Sustainable Development

**MHCP**

Ministry of Finance and Public Credit

**NDC**

Nationally Determined Contributions

**SDGs**

Sustainable Development Goals

**PAC**

Monthly Cash Annual Program

**PGN**

General National Budget

**PND**

National Development Plan

**PIGCCS**

Comprehensive Sectoral Climate Change Plans

**SISCLIMA**

National Climate Change System

# 01 Introduction

Colombia is the second most biodiverse country in the world and the country with the greatest biodiversity per square meter.<sup>1</sup> Colombia ranks first in diversity of birds and orchids, and second in variety of plants, amphibians, and freshwater fish. Colombia's biodiversity, together with its human capital, and ethnic and cultural diversity<sup>2</sup>, are key factors for the country's economic development.

Colombia is committed to sustainable growth and development and has set medium to long-term goals that contribute to the international agendas of biodiversity, climate change, and disaster risks management, among others. It also recognizes physical, human and natural capital as pillars of sustainable growth. Therefore, Colombia guides its actions by the ambitious climate change adaptation and mitigation goals it has set and seeks to facilitate a balance between growth and economic development, the population's well-being and the conservation of the environment, so that the country's natural wealth is preserved as a strategic asset of the Nation. This, in turn, enhances the mobilization of resources for the transition of the country towards a resilient, sustainable, and low-carbon economy<sup>3</sup>.

Several national and territorial strategies aim to promote the country's great potential for investment in green and low-carbon activities. These strategies translate into the actions included in the 2018-2022 National Development Plan (PND) and are furthermore defined within long-term agendas, such as the implementation of policy and programs to achieve the Sustainable Development Goals (SDGs), as well as the commitments made to reduce Greenhouse Gas (GHG) emissions and disaster risks.

The Government of Colombia seeks to develop a green bond program that will improve the country's competitiveness in a development path that is resilient to climate change, enables low-carbon growth in line with the commitments made in international agreements, and is aligned with national environmental objectives and priorities. Such investments and expenditures also contribute to the SDG agenda and the country's key policies and sector strategies, many of which are included in the 2018-2022 PND and its Pact for Sustainability: Produce by Preserving, and Preserve by Producing (Pacto por la Sostenibilidad: Producir conservando y conservar produciendo). In this context, the Government of Colombia has developed this Green Bond Framework to enable the issuance of sovereign green bonds that will channel funds to the Nation's green investments and expenditure projects.

This Green Bond Framework, hereinafter the "Framework", together with the issuance of sovereign green bonds in Colombia, constitute a key element in the development of the country's green bond market. Finally, the Framework is aligned with the International Capital Markets Association's (ICMA) Green Bond Principles (GBP)<sup>4</sup>.

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<sup>1</sup> Instituto Alexander Von Humboldt (2020). Sistema de Información sobre Biodiversidad de Colombia. Available at: <https://cifras.biodiversidad.co>

<sup>2</sup> According to the 2018 National Population and Housing Census, the Black, Afro-Colombian, Raizal and Palenquera (NARP) population totaled 4,671,160 people in that year, corresponding to 9.34% of the overall national population, DANE (2019). Available at: <https://www.dane.gov.co/index.php/estadisticas-por-tema/demografia-y-poblacion/grupos-etnicos/informacion-tecnica>

<sup>3</sup> Presidency of the Republic of Colombia. National Planning Department (2019). Plan Nacional de Desarrollo 2018-2022: Pacto por Colombia, pacto por la equidad. [PDF file] Available at: <https://id.presidencia.gov.co/especiales/190523-PlanNacionalDesarrollo/documentos/BasesPND2018-2022.pdf>

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<sup>4</sup> Green Bond Principles ([icmagroup.org](http://icmagroup.org))





CHAPTER

02

**Colombia's  
environmental  
and climate  
commitments**



As part of the country's agenda for sustainable development, the "2018-2022 PND: Pact for Colombia, Pact for Equity" ("Pacto por Colombia, Pacto por la Equidad") highlights the Pact for Sustainability, a commitment by the National Government to implement actions that lead to a balance between the country's economic development and the conservation of the environment. This Pact introduces four lines of action<sup>5</sup>:

- i.** Implement economic strategies and instruments so that productive sectors are more sustainable, innovative, competitive and reduce their environmental impacts, with a focus on circular economy and climate change mitigation;
- ii.** Convert biodiversity and natural capital into strategic assets of the Nation, by controlling deforestation, conserving ecosystems and preventing their degradation, based on territorial control and the creation of new sustainable economic opportunities at the local level;
- iii.** Promote knowledge of and reduce natural disaster risks, and facilitate climate change adaptation, focusing on development-driven decision-making and encouraging financial protection against disasters; and
- iv.** Strengthen environmental institutions and research, by promoting social transformation that values biodiversity through environmental education and the effective management of social and environmental conflicts.

These lines of management of the PND builds on the commitments of the 2030 Agenda and the Paris Agreement. Within the SDGs, "guiding goals" include reducing the country's deforestation, protecting ecosystems, reducing pressure on the use of polluting materials, and adopting renewable energy. Among the goals established by the country are the restoration of ecosystems through payment for environmental services, which seeks to cover an additional

260,000 hectares by 2022; the energy transition goal, which will increase generation from unconventional energy sources from 22.4 MW to 1,500 MW; and the electro-mobility strategy, which aims to reach 6,600 registered electric vehicles by 2022 (PND 2018-2022).

Colombia has also developed a series of CONPES, policy documents<sup>6</sup> approved by all cabinet members, which aim to reduce the impact on natural resources, including the National Policy on Deforestation Control and Sustainable Forest Management, the National Policy on Urban and Regional Mobility, the Policy for the Modernization of the Automotive Cargo Transport Sector, the Policy for the Circular Economy for the Management of Drinking Water Services and Wastewater, the National Policy on Sustainable Buildings, the National Policy on Disaster Risk Management, and the National Policy on Climate Change, among others. The government also adopted a national program for the payment for environmental services and recently approved an Energy Transition Law.

Climate change is a cross-cutting policy issue and the country has developed national strategies to meet the GHG emission reduction goals included in the Paris Agreement framework, ratified by Law No. 1844 of 2017. In the latest update to the Nationally Determined Contribution (NDC) in 2020, the Government of Colombia pledged to limit the level of emissions to 169.44 million tCO<sub>2</sub>e in 2030, (which is equivalent to a 51% reduction in emissions compared to the 2030 emissions forecast in the reference scenario)<sup>7</sup>. Additionally, Colombia is preparing the 2050 National Long-Term Climate Strategy (E2050 Colombia, per its name in Spanish) which will be presented prior to COP26. Its goal is to support efforts at the national and subnational levels towards an innovative and competitive economic model aimed at promoting sustainable development.

<sup>5</sup> Presidency of the Republic of Colombia, DNP (2019). Plan Nacional de Desarrollo 2018-2022: Pacto por Colombia, pacto por la equidad. [PDF file]

<sup>6</sup> For more information: <https://www.dnp.gov.co/CONPES/documentos-conpes/Paginas/documentos-conpes.aspx>

<sup>7</sup> Nationally Determined Contribution (NDC)

Available at: <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Colombia%20First/NDC%20actualizada%20de%20Colombia.pdf>



As part of its efforts related to climate change mitigation and adaptation, the country has established, through Decree No. 298 of 2016, the National Climate Change System (SISCLIMA) and the National Policy on Climate Change, which sets guidelines, actions and strategies to foster sustainable and low-carbon development<sup>8</sup>.

Finally, Law No. 1931 of 2018 sets guidelines for climate change management both in the public and private sectors, and establishes SISCLIMA's Intersectoral Commission on Climate Change (CICC)<sup>9</sup> as the body responsible for the inter-agency coordination of the implementation of the National Policy on Climate Change. The CICC leads the sectoral coordination process to reduce GHG emissions in compliance with the NDC. It also coordinates the strategic

sector lines that promote emission reductions from energy efficiency, electric mobility, and efforts to decrease deforestation.

Under this Law, the different ministries and departmental authorities that participate in SISCLIMA must formulate and implement Comprehensive Sectoral Plans for Climate Change Management (PIGCCS) that enable the incorporation of GHG mitigation and climate change adaptation measures in the policies and regulations of their respective sector. These plans must include guidance for the implementation of sectoral GHG adaptation and mitigation measures at the subnational and local levels as well as guidelines on their financing.

In line with these national policies and strategies, the public finance sector (Sector Hacienda) has been promoting an agenda that incorporates the challenges associated with climate change and the impact of natural resources into its management. This agenda focuses on enabling the country to meet its SDGs by establishing measures that support the mobilization of resources through green finance, including the development of carbon pricing instruments, strategies for the financial sector, a disaster risk finance strategy, macroeconomic modelling involving these concepts, and the development of green bonds.

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<sup>8</sup> These strategies include: the Colombian Low-Carbon Development Strategy (ECDDB), the National Climate Change Adaptation Plan (PNACC), the National Strategy for Reducing Emissions from Deforestation and Forest Degradation (ENREDD+), the National Disaster Risk Management Plan, the Strategy for Financial Protection Against Disasters, and the National Climate Finance Strategy.

<sup>9</sup> Decree No. 289 of 2016 established SISCLIMA, which is the group of public, private and nonprofit entities that compile policy, standards, processes, resources, plans, strategies, instruments and mechanisms to coordinate GHG emission reduction actions and measures, contributing to climate change adaptation.



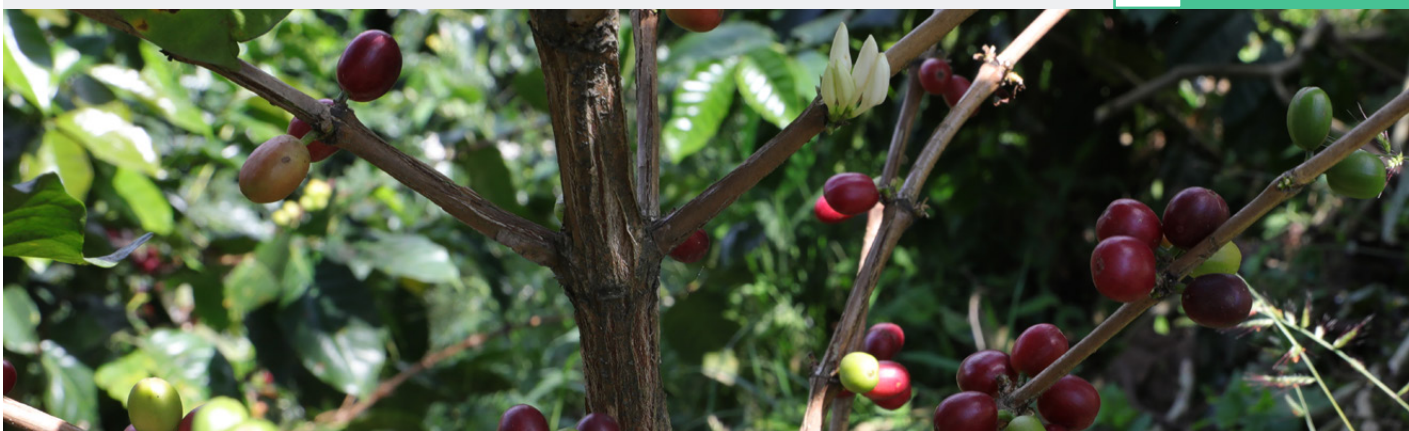


CHAPTER

03

# Colombia's sustainable finance strategy





Implementing the different national strategies and policies aimed to meet climate change and biodiversity goals will require unprecedented levels of investment in sustainable and low-carbon technologies, services, and infrastructure. Resources mobilized will be key to enable the required capital flows. However, the successful allocation of resources to investments considered strategic for the country demands the coordination of fiscal and financial resources, incentives, and connecting public and private sector actors.

Colombia has advanced in the development of a policy framework that fosters the implementation of innovative sustainable finance initiatives and instruments with a high environmental and social impact. In this context, the country has been designing green finance initiatives as well as promoting dialogues between the public and private sector, including SISCLIMA Financial Management Committee, the National Climate Finance Strategy, the Green Protocol, the Task Force on Responsible Investment, and the 2018-2022 PND<sup>10</sup>.

In particular, the MHCP, aware of the challenges of achieving a balance between economic production and environmental conservation, has channeled its efforts into ensuring that investment strategies are driven towards the preservation of the country's climate change and biodiversity commitments.

The MHCP has joined the Coalition of Finance Ministers for Climate Action (the "Coalition"), which seeks global action on climate change, to reaffirm commitments, and accelerate actions to implement the Paris Agreement. After its launch, the Coalition established the 'Helsinki Principles', a set of six principles that promote national climate action, especially through fiscal policy, the use of public finance, and the promotion of private financing<sup>11</sup>.


These principles are reflected in the "Comprehensive Sectorial Climate Change Management Plans" (PIGCCS in Spanish acronym) of the Ministry of Finance, which includes actions related to public finance, macroeconomic and fiscal policies, green budgets, transparency of financial risks caused by climate change, and the development of economic and financial instruments, which together enable the implementation of the climate change and sustainable development goals.

In this context, one of MHCP's missions is to implement a roadmap for the development of the green bond market as a public funding tool to meet the country's environmental, climate and sustainability targets.

<sup>10</sup> The 2018-2022 PND established actions to encourage the private sector, through the implementation of a climate finance strategy that includes the identification of new finance schemes and fiscal, non-fiscal and market-based instruments that foster the development of programs, projects, and measures to reduce GHG emissions in the productive sectors.

<sup>11</sup> A coalition of more than 20 countries whose goal is to boost their collective action on climate change and its impacts. For more information on the Helsinki Principles of the Coalition of Finance Ministers for Climate Action, please visit <https://www.cape4financeministry.org/sites/cape/files/in-line-files/Helsinki%20Principles%20-%20final.pdf>



A dense mangrove forest with numerous thin, vertical prop roots extending from the foliage down to the water. The water is calm, reflecting the green leaves and the light filtering through the canopy. The overall scene is lush and natural.

CHAPTER

04

**Green sovereign  
bonds and  
Colombia's debt  
management  
strategy**



The National Government uses three main funding sources: **i)** issuance of public debt securities in the domestic capital market (long- and short-term TES), **ii)** issuance of public debt securities in international capital markets through the placement of global bonds, and **iii)** loans with multilateral and bilateral development banks, as well as other funding sources. The funding strategy is based on a broad diversification of sources, borrowers, strategic partnerships, and local and foreign investors.

In view of this, the Colombian Government is developing the use of green bonds as a public policy tool to channel resources to green initiatives that promote sustainable economic growth, encourage the participation of other Colombian issuers in the green bond market, and diversify the investor base in local capital markets, attracting even more socially and environmentally responsible investors to the country. The issuance of sovereign green bonds is expected to send a clear signal to the market about:

- » Colombia's commitment to foster sustainable finance mechanisms that enable the development of a low-carbon, climate-resilient economy, oriented to the conservation of ecosystems and biodiversity;
- » The contribution to the development of a green bond market with a diversified investors base, and potentially more competitive funding costs for both public and private issuers;
- » The alignment of financial, social and environmental incentives for key actors, such as the Government, the private sector, investors, multilateral banks, and international cooperation agencies.





A vibrant underwater scene featuring several clownfish swimming among diverse coral reefs. The fish display various patterns, including black, white, orange, and yellow stripes. The coral includes large, branching structures and dense, green leafy patches. The water is clear and blue, with sunlight filtering through from above.

CHAPTER

05

**Colombia's  
sovereign  
green bonds  
framework**



Under Article 4 of Law No. 2073 of 2020, the MHCP is responsible for establishing the Sovereign Bond Frameworks for Sustainable Development Financing. The MHCP will therefore design and adopt through an administrative act the frameworks for the issuance of sovereign thematic bonds such as green bonds, social bonds, sustainable bonds, blue bonds, and other thematic bonds deemed suitable and related to expenditures included in the National Budget (PGN for its Spanish acronym) to foster sustainable development.

This Framework is the document that will accompany the issuance of sovereign green bonds of the Republic of Colombia and establishes pre- and post-issuance procedures in line with the ICMA Green Bond Principles. It aims to:

- » Define the roles and responsibilities of the MHCP, the National Planning Department (DNP), relevant line ministries and other entities in relation to the transaction, before and after the issuance of green bonds of the Republic of Colombia, in line with their respective functions
- » Facilitate the identification of eligible green expenditures
- » Outline post-issuance allocation and impact reporting commitments

This Framework is applicable to ongoing and future sovereign green bonds issued both in local and international capital markets, which in turn must comply with Colombia's Public Credit regime, particularly as it relates to the issuance of government bonds<sup>12</sup>. The MHCP, through the General Directorate of Public Credit and National Treasury (DGCPTN), will be the entity responsible for preparing and updating the Framework as necessary, supported by the DNP, the Ministry of Environment (MADS), and the Institute of Hydrology, Meteorology and Environmental Studies of Colombia (IDEAM).

<sup>12</sup> The bonds issued in the local market will be regulated by a Decree authorizing the issuance of bonds, to be published on a yearly basis for each applicable term.

Payments of principal and interest relative to the issuances made under this Framework will be made from the debt service appropriations in the PGN, executed by the DGCPTN, and will not be conditional upon the selection or performance of eligible green expenditures. Investors in the bonds issued under this Framework do not assume any risk related to the specific projects indicated in the green portfolio (see section a. Use of Proceeds). Additionally, green bonds issued under this Framework rank *pari passu* with each other and with other domestic debt securities or external bonds issued by the Republic of Colombia.

Colombia's Green Bond Framework is aligned with the ICMA Green Bond Principles 2021. Therefore, it is presented based on the following core components:

- a. Use of proceeds
- b. Process for Project Evaluation and Selection
- c. Management of proceeds
- d. Reporting

Furthermore, the Framework has been reviewed by an independent external reviewer (Vigeo Eiris) in accordance with the recommendations of the ICMA Green Bond Principles 2021.

## a. Use of proceeds

The net proceeds of the green bonds issued by the Republic of Colombia, i.e., the nominal amount issued at market price net of commissions and expenses, will be used to finance general budget purposes of the current year, under the principle of annual public budgeting<sup>13</sup>. At the same time, the Nation will present in the annual report (see section d. Reporting) the amount allocated<sup>14</sup> to eligible green

<sup>13</sup> Decree No. 111 of 1996, II. De los principios del sistema presupuestal, article 14. Anualidad. The fiscal year begins on January 1 and ends on December 31 of each year. After December 31, no commitments can be made against appropriations for the fiscal year ending on that date, and appropriation balances not affected by commitments will expire without exception (L. 38/89, art. 10).

<sup>14</sup> The word allocation when used in this Framework, refers

expenditures, which will be equivalent to the net proceeds of the issuance.

### Eligible Green Expenditures

Eligible green expenditures are expenditures included in the PGN, such as investments, operating expenses and debt service, and should comply with the Criteria for the Classification of Eligible Green Expenditures defined below.

Eligible green expenditures to be included in the portfolio and disclosed to investors in the annual report may include: **i)** recent expenditures, i.e., expenditures included in the PGN of the fiscal year prior to the effective date of the green bond issuance, provided that these have been duly committed; **ii)** current year expenditures of the PGN, i.e., the year the green bond is issued; and **iii)** future expenditures to be made in the fiscal year following the green bond issuance<sup>15</sup>. The annual report does not imply a change in the general national budget appropriations.

Eligible green expenditures are those whose funding sources are unrestricted resources, excluding PGN expenditures financed through specific purpose loans or with resources of the executing entity itself. This to prevent double counting of green expenditures. Should recent expenditures be considered in the project portfolio of a bond issuance, the estimated percentage of such expenditures will be disclosed before each issuance.

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to the match between general purpose resources and green bonds net proceeds, that the Ministry of Finance will present to investors in the annual report. However, it does not imply a change in the general national budget or the earmarking of bonds proceeds to projects.

<sup>15</sup> Decree No. 111 of 1996, Article 71. "... no authority shall incur obligations for non-existent appropriations, or in excess of the available balance, or without the prior authorization of the CONFIS (Supreme Council for Fiscal Policy) or by whoever it delegates, to pay future budget commitments (vigencias futuras), and to make commitments charged to authorized credit resources..."

### Criteria for the Classification of Eligible Green Expenditures

An expenditure must meet the following requirements to be classified as an eligible green expenditure:

- » Contribute to at least one of the following environmental objectives, in line with the country's sustainable development needs and international commitments: **i)** climate change mitigation, **ii)** climate change adaptation<sup>16</sup>, **iii)** natural resource conservation and management, **iv)** biodiversity conservation, and **v)** pollution prevention and control;
- » Contribute to the country's SDG "guiding goals"<sup>17</sup>, such as SDG 6: Clean water and sanitation, SDG 7: Affordable and clean energy, SDG 9: Industry, innovation and infrastructure, SDG 11: Sustainable cities and communities, SDG 12: Responsible consumption and production, SDG 13: Climate action, SDG 14: Life below water, and SDG 15: Life on land, as well as the objectives of the National Development Plan;
- » Reaffirm Colombia's commitment to environmental management and sustainable development;
- » Feature key environmental characteristics in its structure, aligned with the country's environmental regulations,<sup>18</sup> and in the future, with its National Green Taxonomy.

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<sup>16</sup> International commitments include meeting the NDC target as part of the mitigation and adaptation commitments under the Paris Agreement.

<sup>17</sup> For more information, visit <https://ods.gov.co/es/objetivos>

<sup>18</sup> The Colombian Environmental Information System (SIAC) webpage, the Single Regulatory Decree (Decreto Único Reglamentario) of the Environment and Sustainable Development Sector, and the National Adaptation Plan, among others, compile most of this regulation.





### Possible Eligible Green Expenditures

Eligible green expenditures may include the following National Central Government expenditures:

- » Investments in real assets (land, infrastructure, etc.);
- » Investments in intangible assets (research and development, human capital, and organization);
- » Specific projects and/or programs;
- » Operational expenditures (especially for agencies, institutes, units, companies or local authorities that contribute to the country's climate and environmental strategy);
- » Transfers to co-finance regional or local investment projects;
- » Debt servicing of sovereign green bonds;
- » Any expenditure that can be used to implement Colombia's environmental and climate policy.














Table 1 presents the categories of eligible green expenditures, project definition and types, and the corresponding SDGs and environmental goals of the Republic. These categories are expected to serve as reference for ongoing and future sovereign green bond issuances. The categories of eligible green expenditures are: **i)** Non-conventional energy sources, energy efficiency and connectivity; **ii)** Ecosystem services and biodiversity; **iii)** Sustainable agricultural production, with low emissions and adapted to climate change; **iv)** Clean and sustainable transport; **v)** Sustainable water management, use and sanitation; **vi)** Sustainable buildings adapted to climate change; **vii)** Waste and circular economy; and **viii)** Management of natural disaster risks associated with climate change.

The categories and types of projects included in Table 1 are merely illustrative and not exhaustive. Expenditures included in the PGN that contribute to any of the green categories and meet the established criteria are eligible under this Framework.

**Table 1:** Green categories and examples of Eligible Green Expenditures

Green category	Definition and types of eligible green projects in Colombia <sup>19</sup>	SDG and associated environmental goal
Non-conventional energy sources, energy efficiency, and connectivity	<ul style="list-style-type: none"> <li>» Generation, improvement, and access to energy from non-conventional sources* (solar, wind, and other) <b>See footnote at the end</b></li> <li>» Energy efficiency or connectivity</li> <li>» Policy, laws and research on energy transition</li> <li>» Energy transmission from non-conventional sources</li> <li>» Energy storage</li> </ul>	<p><b>ODS: 7, 11 and 13</b></p>  <ul style="list-style-type: none"> <li>» Mitigation</li> <li>» Pollution prevention and control</li> </ul>
Ecosystem services and biodiversity	<ul style="list-style-type: none"> <li>» Reforestation, deforestation control, and forest governance</li> <li>» Protection, conservation and sustainable use of biodiversity and ecosystem services</li> <li>» Protection and conservation of natural resources management</li> <li>» Management of ecosystems associated with water provisioning</li> <li>» Research and capacity building for the management of ecosystem services and biodiversity</li> </ul>	<p><b>ODS: 3, 6, 14 and 15</b></p>  <ul style="list-style-type: none"> <li>» Adaptation</li> <li>» Conservation and management of natural resources</li> <li>» Biodiversity conservation</li> </ul>
Sustainable agricultural production, with low emissions and adapted to climate change	<ul style="list-style-type: none"> <li>» Silvo-pastoral and agroforestry systems</li> <li>» Other primary low emission production activities</li> <li>» Protection against climate risks</li> <li>» Agroclimatic information and early warning systems</li> <li>» Sustainable commercial reforestation or soil restoration</li> <li>» Sustainable agricultural production focused on protecting ecosystems, biodiversity and water resources</li> <li>» Sustainable or low impact agriculture</li> </ul>	<p><b>ODS: 2, 6, 12, 13 and 15</b></p>  <ul style="list-style-type: none"> <li>» Adaptation</li> <li>» Mitigation</li> <li>» Pollution prevention and control</li> <li>» Conservation and management of Natural Resources</li> </ul>
Clean and sustainable transport	<ul style="list-style-type: none"> <li>» Urban development and mass passenger transport</li> <li>» Non-motorized mobility</li> <li>» Infrastructure development and active transport</li> <li>» Infrastructure for electric transport</li> <li>» Reconversion of the transport fleet (Scrapping)</li> <li>» Low carbon transport systems</li> <li>» Multimodal freight transport that reduces GHG emissions</li> <li>» Air quality monitoring networks in mass transportation systems</li> </ul>	<p><b>ODS: 11 and 13</b></p>  <ul style="list-style-type: none"> <li>» Mitigation</li> <li>» Pollution prevention and control</li> </ul>

<sup>19</sup> The definition and types of projects in this Table is not exhaustive. The Government of Colombia may incorporate other eligible projects in the future.

Sustainable water management, use and sanitation	<ul style="list-style-type: none"> <li>» Restoration in strategic areas where basins that supply municipal aqueducts are located</li> <li>» Management of information for sustainable use, planning and management of water resources</li> <li>» Construction and maintenance of aqueducts and sewers, and basic and environmental sanitation</li> <li>» Network systems for monitoring the quality and quantity of water resources Establishment of wastewater treatment plants</li> <li>» Network systems for monitoring weather conditions and atmospheric phenomena</li> </ul>	<p><b>SDG: 2, 3, 6, 12 and 14</b></p> <div>     </div>  <ul style="list-style-type: none"> <li>» Mitigation</li> <li>» Pollution prevention and control</li> </ul>
Sustainable buildings adapted to climate change	<ul style="list-style-type: none"> <li>» Sustainable constructions in terms of energy, waste management and water (hospitals, schools, buildings, housing, etc.)</li> <li>» Constructions with climate change adaptation approach.</li> </ul>	<p><b>SDG: 9, 11 and 13</b></p> <div>    </div> <ul style="list-style-type: none"> <li>» Mitigation</li> <li>» Adaptation</li> </ul>
Waste and circular economy	<ul style="list-style-type: none"> <li>» Use, reuse and management of solid waste</li> <li>» Technical systems for the management of national information on waste</li> </ul>	<p><b>SDG: 6, 11 and 12</b></p> <div>    </div> <ul style="list-style-type: none"> <li>» Adaptation</li> <li>» Conservation and management of natural resources</li> <li>» Pollution prevention and control</li> </ul>
Management of natural disaster risks associated with climate change	<ul style="list-style-type: none"> <li>» Knowledge and reduction of natural disaster risks associated with climate change</li> </ul> <ul style="list-style-type: none"> <li>• Knowledge: risk identification and characteristics (analysis, evaluation, and communication)</li> <li>• Monitoring systems for the identification and management of disaster risks associated with climate change</li> <li>• Reduction: corrective and prospective risk intervention. It also refers to financial protection from disasters' impacts</li> </ul>	<p><b>SDG: 11 and 13</b></p> <div>   </div> <ul style="list-style-type: none"> <li>» Adaptation</li> <li>» Conservation and management of natural resources</li> </ul>

**\*Footnote:** According to the Colombian regulatory framework, non-conventional energy sources are alternative energy sources that are available but are not used or are only marginally used and without extensive commercialization. In particular, these are renewable energies, such as hydro or wind energy, which are found in a dispersed way in the nature but, unlike conventional energies, cannot be concentrated, which favors their more equitable use by the population.

**Available at:** <https://www.minenergia.gov.co/faq?idPregRespuestaConsulta=1667>



## Exclusion Criteria

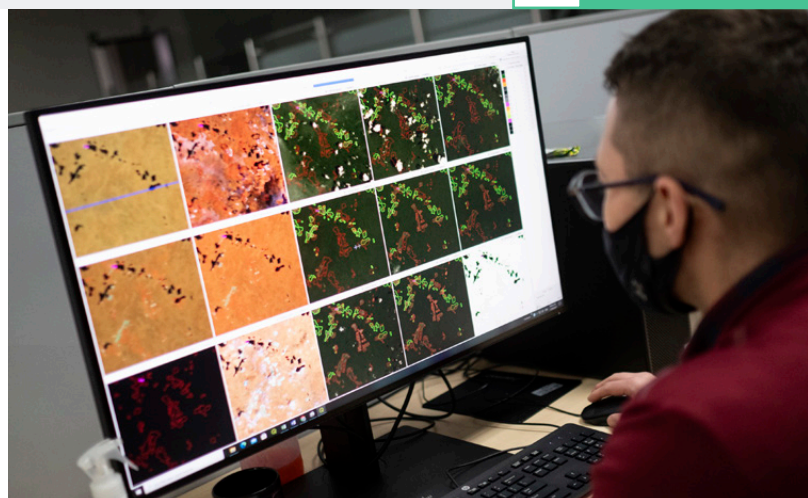
Any project, asset or expenditure related to the following activities will be excluded from eligible green expenditures, noting that some of these activities are open to sources of financing other than sovereign green bonds:

- » Exploration, production and distribution of fossil fuels, burning of fossil fuels as the unique source of power generation, or nuclear power generation;
- » Production or trade in any product or activity considered illegal under national or international laws or regulations, conventions and agreements Colombia is a party to;
- » Deforestation or forest degradation; and
- » Alcohol, weapons, tobacco or gambling industries.

## b. Process for Project Evaluation and Selection

The evaluation and selection of eligible green expenditures will be led by the MHCP and the DNP, supported by the MADS and the IDEAM, in a strategic working group denominated the “Sovereign Green Bond Working Group,” which will be responsible for the following:

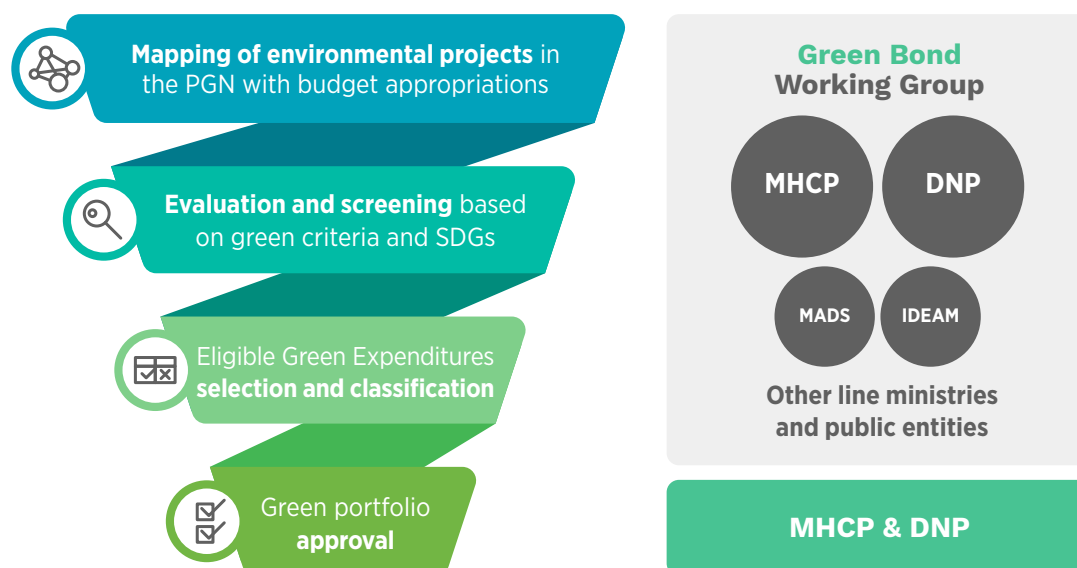
- » Reviewing and verifying the eligible green expenditures for compliance with section a. Use of Proceeds;
- » Ensuring the amount allocated to eligible green expenditures is equivalent to the net proceeds of the issuance;
- » Coordinating any future updates to the Framework;
- » Preparing the post issuance reports under section d. Reporting.



Line ministries and other government entities will present projects to the Green Bond Working Group, which will determine their alignment to the eligible green expenditures criteria, provided that these are included in the PGN approved by Congress. The Group will review the supporting documentation and the necessary information to verify the eligibility of the expenditures presented by each entity. The Group may also be advised by independent entities (Figure 1).

To identify eligible green expenditures, the Green Bond Working Group, led by the DNP and the MHCP in line with their legal powers in budgeting matters, will screen the PGN projects, and in collaboration with the entity or ministry involved, will analyze the characteristics of each project or expenditure, and the amounts allocated and disbursed per year, to ensure compliance with the provisions in section a. Use of Proceeds – Eligible Green Expenditures. The Group will verify that the eligible projects or expenditures have performance indicators or potential indicators of impact, as applicable. The IDEAM will support the latter. The MADS in turn will participate in the classification of eligible green projects in each of the previously defined categories (see Table 1).

Figure 1 below shows the structure that will be used for the evaluation and selection of eligible green expenditures included in the Green Portfolio:

**Figure 1.** Eligible Green Expenditure Evaluation and Selection Process

### c. Management of proceeds

This Framework applies to all current and future green bond issuances by the Republic of Colombia in domestic or international capital markets and, as established in section a. Use of Proceeds, the net proceeds will be used for general budget purposes.

The MHCP will be responsible for verifying that the amounts allocated with eligible green expenditures are equivalent to the net proceeds of the issuance, based on information provided by the DNP, line ministries or entities within one year after the issuance of the bond. It will also verify that this type of expenditure is not financed by other sources, i.e., that the same expenditure is not being accounted twice<sup>20</sup>. The DGCPTN will manage any outstanding resources (those that have not been allocated with eligible green expenditures), according to its treasury policy.

The eligible green expenditures in the green portfolio are expected to be higher than the net proceeds of the green bond. Therefore, if any expenditure is no longer eligible or its amount is reduced it may be replaced by another eligible green expenditure.

### d. Reporting

For all bonds issued under this Framework, the Republic of Colombia will provide investors with Placement and Allocation Reports, as well as expected Performance and Impact Reports, for eligible green expenditures with the information available at the time of reporting.

The MHCP will publish both reports on the MHCP website and in the Investor Relations page within one year after the issuance and then annually until the allocated amount of eligible green expenditures is equivalent to the net proceeds of the issuance.

The reports will be prepared based on information provided by the DNP, in the exercise of its functions and in accordance with the database it manages.

<sup>20</sup> Other sources of financing of the Republic include specific purpose loans with multilateral entities, international cooperation grants, specific purpose taxes, among others.

This database will include information provided by each entity executing eligible green expenditures relative to the execution of the investment projects and programs. Additional information may be requested from executing entities for the reporting of impact indicators, and those entities shall be solely responsible for consolidating and verifying the veracity and accuracy of the information reported to the DNP.

### Placement and Allocation Reporting

The MHCP, in coordination with the DNP, will publish an annual report on the use of proceeds that shall contain<sup>21</sup>:

- » Description of and total amount allocated with eligible green expenditures, according to information provided by each entity executing eligible green expenditures;
- » Alignment of eligible green expenditures with environmental goals and the SDGs;
- » Aggregate amount and percentage of resources allocated with and executed in each green category;
- » Amount and percentage of resources allocated with recent expenditures and current year expenditures; and
- » Balance of unallocated proceeds, including implementation information provided by each entity implementing eligible green expenditures. Co-financing percentage by eligible green expenditure or project, as applicable.

The first report will be published in the year following the bond issuance, and then published on a yearly basis until the full allocation of proceeds, according to information available. The report will be verified by an external independent auditor.

### Performance and Impact Reporting

The MHCP, with input from the DNP and technical support from IDEAM, will publish an Impact Report for all or some of the green projects, based on information provided by each entity implementing the eligible green expenditures. The DNP will be responsible for liaising with the other line ministries and public entities involved to integrate the expected environmental impact of the green projects into the Report. The Report may include, depending on the information available:

- » The expected impact of eligible green expenditures;
- » Qualitative performance indicators, and where feasible, quantitative performance measures of the projects' impact;
- » The methodology and underlying assumptions used in the quantitative performance indicators.

The first Impact Report will be published within a year of the first green bond issuance and then annually until the proceeds have been fully allocated. The allocated amounts will be broken down by each green category defined in accordance with the World Bank's "Green Bond Proceeds Management & Reporting" Guide,<sup>22</sup> and published whenever information is available, which will depend on the ability of each executing entity to perform the relative metrics. This Report may be published in the same document as the Placement and Allocation Reports.

Table 2 shows some examples of indicators that could be included in the Report. The list of indicators is not exhaustive.

<sup>21</sup> Should confidentiality agreements or competitive considerations limit the amount of detail that can be made available, the information will be presented in generic and/or aggregated terms.

<sup>22</sup> Green Bond Proceeds Management and Reporting [PDF file]. Available at: <http://pubdocs.worldbank.org/en/768111536944473808/WB-Green-Bond-Proceeds-Management-and-Reporting-Guide.pdf>



**Table 2.** Examples of indicators

Green category	Indicators
Non-conventional energy sources, energy efficiency, and connectivity	<ul style="list-style-type: none"> <li>» Number of photovoltaic power generation units installed, maintained or upgraded</li> <li>» Number of generation plants expanded, built or upgraded</li> <li>» Reduced or avoided CO2 emissions</li> <li>» Energy consumption savings in MWh/GWh</li> <li>» Number of technical assistance services for structuring energy projects</li> <li>» Number of installed non-hydro generation units or sources</li> </ul>
Ecosystem services and biodiversity	<ul style="list-style-type: none"> <li>» Hectares reforested</li> <li>» Hectares of ecosystems conserved or undergoing restoration</li> <li>» Hectares declared as protected areas</li> <li>» Number of research and planning documents and guidelines focused on increasing the importance of in situ conservation of biodiversity</li> <li>» Number of buildings for the administration, surveillance and control of protected areas</li> <li>» Hectares of forests that have a forest management plan</li> <li>» Hectares of forests, vegetation cover or ecosystems with biodiversity monitoring plans</li> </ul>
Sustainable agricultural production, with low emissions and adapted to climate change	<ul style="list-style-type: none"> <li>» Technical support service for the efficient use of natural resources in strategic ecosystems</li> <li>» Reduction of GHG emissions compared to the baseline scenario</li> <li>» Hectares reforested</li> <li>» Hectares under sustainable agroforestry systems</li> <li>» Hectares of commercial forests or established protective plantations</li> </ul>
Clean and sustainable transport	<ul style="list-style-type: none"> <li>» Kilometers or meters of urban roads built or improved for the operation of public transportation services</li> <li>» Number of stations, terminals or additional construction works built or improved for the operation of public transportation systems</li> <li>» Number of air quality surveillance and monitoring networks</li> <li>» Reduction of GHG emissions compared to the baseline scenario</li> <li>» Kilometers or meters of railroad tracks built or improved for better operating conditions</li> </ul>
Sustainable water management, use and sanitation	<ul style="list-style-type: none"> <li>» Number of stations for monitoring hydrological conditions operating continuously</li> <li>» Number of laboratories and information systems strengthened and updated</li> <li>» Number of aqueducts and sewers improved, built and optimized</li> <li>» Cubic meters of treated water</li> <li>» Number of wastewater management projects</li> <li>» Number of projects designed to promote efficient water use and savings</li> <li>» Number of documents that provide technical guidelines for climate change management, comprehensive water management or environmental management</li> <li>» Number of regional institutional programs to monitor water quality and quantity</li> <li>» Number of plans for the development and management of water basins</li> <li>» Increase in the amount of water treated in m3 – yearly, monthly or weekly</li> </ul>

Sustainable buildings adapted to climate change	<ul style="list-style-type: none"> <li>» Number of sustainable constructions or buildings</li> <li>» Number of constructions or buildings with climate change adaptation features</li> </ul>
Waste and circular economy	<ul style="list-style-type: none"> <li>» Tons of waste used, reused or recycled</li> <li>» Number of companies assisted in circular economy and sustainability-related themes</li> </ul>
Management of natural disaster risks associated with climate change	<ul style="list-style-type: none"> <li>» Number of studies, guidelines, policies or programs focusing on identifying, analyzing, evaluating and preventing natural disaster risks associated with climate change</li> <li>» Financial protection instruments</li> <li>» Number of regional centers for weather and atmospheric phenomena forecasting</li> </ul>

## e. External review

### Second party opinion

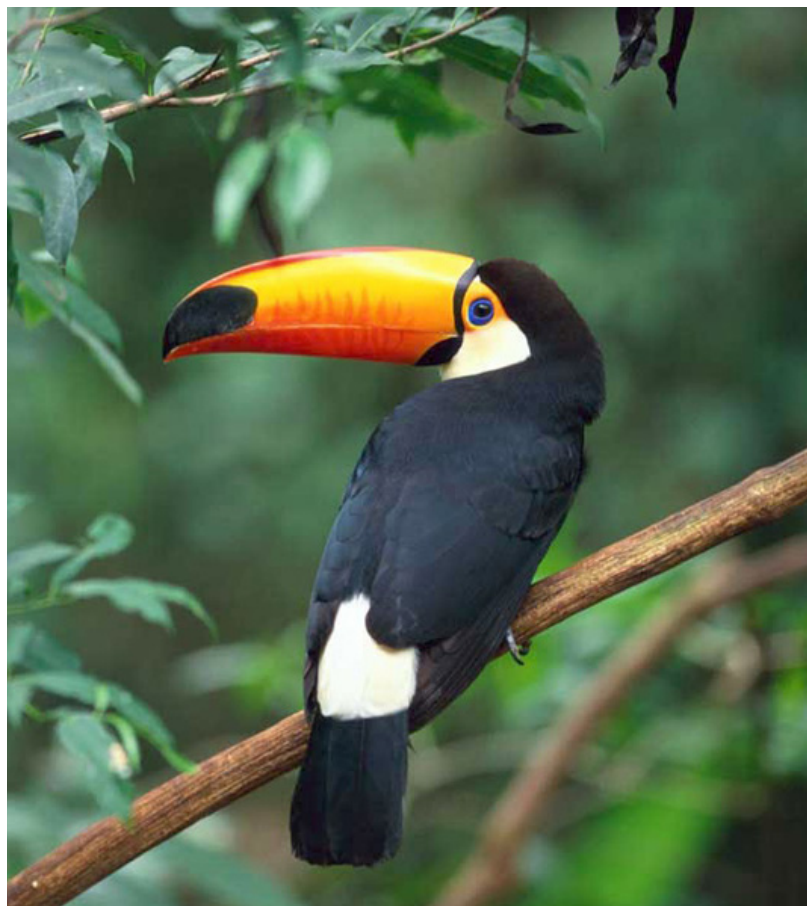
Vigeo Eiris- V.E, part of Moody's ESG Solutions, has provided a second party opinion on this framework, which can be found on the MHCP and Investor Relations websites.

### Verification

The MHCP will request an external auditor to perform an independent verification on the use of proceeds for the Green Bond's eligible green expenditures in line with this Framework's criteria. A report will be published on a yearly basis until the proceeds of the green bond have been fully allocated. The verification reports will be available on the MHCP and Investor Relations websites.

### External certification

The Government of Colombia reserves the right to request further certifications of green bonds and will consider any such request on a case-by-case basis before the bond is issued.





## Disclaimer

The Ministry of Finance and Public Credit reserves the right to modify this sovereign green bond Framework to reflect best international practices or Colombia's international commitments. The Colombian government does not assume, however, any responsibility or obligation to update or revise this Framework, regardless of whether it is affected by the outcomes of new information, future events or other.

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The original version of this document is in Spanish language. In case of any conflict or inconsistency between the English version and Spanish version, the Spanish version shall prevail.





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# Colombia Sovereign Green Bond Framework

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