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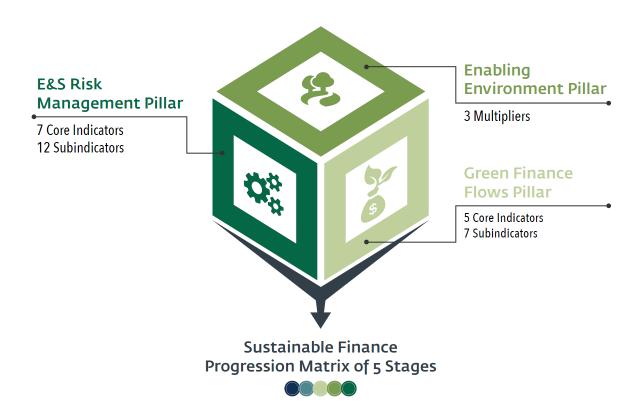
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## 1. Introduction

Market-based sustainable finance initiatives led by members of the Sustainable Banking Network (SBN) have made significant progress in directing the financial sector toward sustainability. Established with International Finance Corporation's (IFC) support in 2012, SBN represents a community of financial sector regulators and banking associations from 34 emerging markets. SBN members now represent over US\$42.6 trillion in banking assets, accounting for more than 85 percent of the total banking assets in emerging markets.

The SBN Global Progress Report is based on a unique measurement framework, the first of its kind to assess sustainable finance initiatives across emerging markets. The SBN Global Progress Report for the first time presents a systematic view of progress on sustainable finance among emerging economies that are represented by SBN. A rigorous measurement framework was developed and agreed on by members. The SBN Measurement Framework draws on international best practice as well as SBN members' experiences and innovations. This framework will be continuously applied to measure progress annually.



The Global Progress Report draws on the findings of **15 individual country progress reports prepared for members, including this report.** These 15 countries, with US\$38.3 trillion in banking assets, account for more than 76 percent of emerging market banking assets.

Country-specific progress reports were prepared for 15 SBN members with sustainable finance initiatives. These reports contain a thorough analysis of the country's policy or principles in relation to the environmental and social (E&S) risk management and to the green finance flows, as well as a contextual analysis of the local policy landscape and the enabling environment. Country reports detail each country's good practice and highlight areas of focus in order to support and encourage members to further accelerate sustainable finance.

**All SBN member countries are advancing sustainable finance at differing stages of development.**Countries are mapped to five different stages of their development, from initiating to mature.

## SBN Progression Matrix with Assessment Results, based on progress up to and as of June 2017



<sup>\*</sup> Pakistan launched its policy in October 2017, after the cut off date of June 2017 for the report

## 2. Executive Summary

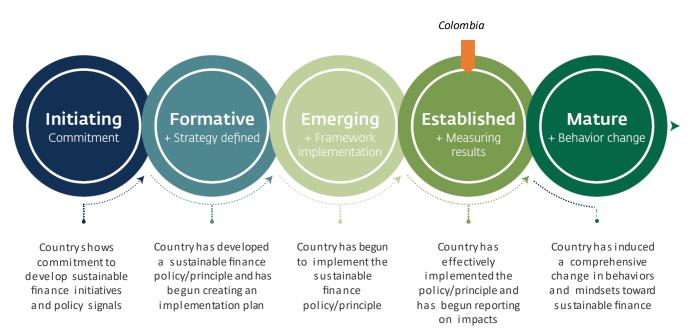
Colombia developed environmental and social (E&S) regulations in the early 1990s to address issues related to the protection of the environment and the management of natural resources. Monitoring and transparent reporting on the management of such risks has been promoted via several initiatives, such as **Sustainable Colombia** in 2015, in collaboration with the Inter-American Development Bank.

In 2012, Asobancaria, the Colombian Banking Association, launched an E&S framework for the financial sector—the **Green Protocol** (Procotolo Verde, or the Protocol). In 2016, it released **General Guidelines for the Implementation of Environmental and Social Risk Analysis**.

Colombia has achieved a good assessment under the Environmental and Social Risks Management Pillar. The approach of the Green Protocol with regard to E&S risk management is ambitious, with detailed guidance and useful tools provided for financial institutions (FIs).

Colombia has also demonstrated good practices related to the Green Finance Flows Pillar. Three local FIs have successfully issued green bonds. The government has also released a roadmap for the development of green financial products, and annual reporting of green finance flows is recommended and backed up with a user-friendly tool. Further development could include an official definition for green projects, green financial products and services, and the enhancement of reporting methods for green finance flows (such as broadening and systematizing current reporting processes).

#### **Overall Results**



#### **Good Practice**

- Colombia's banking association, Asobancaria, received support in the development of the sustainable banking framework from the President of Colombia Republic and the Ministry of Environment and Sustainable Development, who have signed the Green Protocol. The Ministry also participated in roundtables to prepare the framework.
- Asobancaria has issued detailed guidance on E&S risk management, in order to provide banks with examples and tools so that they can implement E&S risk assessment and management.
- Although the bond market in Colombia is still at an early stage, the country is very active on green bonds: three FIs have already issued green bonds and the government has released a roadmap to encourage the development of this market.

## **Areas for Improvement**

- The sustainable banking framework could be extended to other financial activities, including insurance and institutional investors.
- Asobancaria could provide guidance to banks regarding international good practices to assist efficient E&S risk management.
- The development of a standard definition of green finance and clarity regarding the measurement of environmental impacts and the benefits of green financial assets could help promote green finance flows.

#### **CONTEXT:**

## 3. Enabling Environment

## **Country Profile**

Since the 1990s, the Colombian economy has been booming. Colombia is now the fourth largest economic power in Latin America. During this period, gross domestic product (GDP) per capita has grown by ten-fold. The country's growth is mainly driven by the production and export of commodities. Colombia's major sectors of economic activity are energy (oil and gas), mining, industry, construction, and agriculture. Along with this economic boom, a number of E&S issues have arisen, including biodiversity destruction, deforestation, air pollution, and damage to soil and water quality—as well as social inequality, poverty, drug trafficking, lack of security, and political uncertainty.

The Colombian government decided to tackle E&S issues by creating the **Sustainable Colombia Initiative** (covering 2015-2030) in 2015, in collaboration with the Inter-American Development Bank. This initiative is based on the UN Sustainable Development Goals (SDGs) and aims to ensure more transparency and standardization of data related to these goals.

Colombia's Congress ratified the Paris Agreement on Climate Change in June 2016. The country committed to a 20 to 30 percent reduction in greenhouse gas emissions by 2030, compared to business as usual. The lower reduction target is unconditional, whereas the top reduction target is subject to the provision of international support. Colombia will also consider communicating a target for 2025, depending on the outcome of the Paris talks.

### Background and Strategy of the Sustainable Banking Framework

To enable financial industry players to address growing E&S issues, Asobancaria launched voluntary guidelines known as the *Protocolo Verde* (Green Protocol) in 2012. The Green Protocol was originally signed by 12 banks, including the country's major commercial and development banks.

In 2016, Asobancaria issued a complementary document, the **General Guidelines for the Implementation of Environmental and Social Risk Analysis** (the General Guidelines), in order to provide further guidance for banks on how to apply the Protocol.

The development of a Sustainable Banking framework in Colombia results from a voluntary initiative led by Asobancaria, in collaboration with the Ministry of Environment and Sustainable Development. Its development was mainly triggered by the international context and various international initiatives that Colombia was involved in—such as the UN SDGs or the Paris Agreement, which brought forward the need to address E&S issues, and assess related E&S risks and opportunities.

The General Guidelines issued in 2016 were signed by both the Ministry of Environment and Sustainable Development and the President of the Colombian Republic, which demonstrates the government's support and involvement in the elaboration and implementation of the E&S Framework and further increases its impact and level of ambition.

To date, 22 banks have signed the Protocol, and 11 banks have implemented an E&S risk management system. Participants meet on a monthly basis, sharing best practice and participating in dedicated working groups.

## **Support from Regulators**

Sustainable banking in Colombia relies on voluntary initiatives developed by the banking association. The Financial Superintendence of Colombia (SFC), the technical body of the Ministry of Finance that regulates the Colombian financial system, is not directly involved in the Protocol. The Ministry of Finance was consulted during the drafting of the Protocol and is now considering additional regulations to strengthen the guidance.

#### RISK:

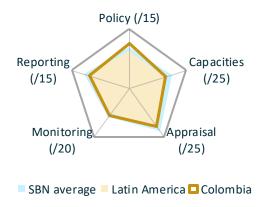
## 4. Environmental and Social Risk Management

The national banking sector is stable and concentrated: there are 25 banks, with the top five banks accounting for two thirds of total assets. The regulatory system is considered robust and has developed impactful measures, such as a cap on interest rates, solvency ratios, and profitability measures.

In 2012, 12 banks, including the major commercial and development banks, signed the Green Protocol, and 22 banks have joined this initiative to date.

Overall, the sustainable banking framework in Colombia appears to be well balanced, according to SBN measurement framework evaluation criteria. Going forward, the framework could be enriched with more specific guidance that is based on the good practices already implemented by the most advanced banks.

Banks in Colombia are active in adopting international sustainability initiatives. 19 financial intermediaries have signed the UN Global Compact. Bancolombia adopted the Equator Principles (EP) in 2008 and signed the UN Principle of Responsible Investment (PRI) in 2014. Bolsa de Valores de Colombia, the Colombian stock exchange, has joined the Sustainable Stock Exchange Initiative.



Subpillars	Comments on good practice and areas for improvement
Policy	- The Green Protocol and Environmental and Social Risk Management (ESRM) Guidelines require the formalization and implementation of an E&S policy (with details regarding the scope covered by the policy), and require clear E&S performance standards, examples, and tools.
	- Relevant international standards are listed, but their application is not required.
	- Banks are not yet required to formalize a climate risk management policy or develop a climate strategy aligned with Colombia's climate commitment or with a 2°C trajectory.
Capacities	- The sustainable banking framework requires banks to build up and maintain capacity to manage E&S risk, including developing training sessions and tools.
	- Defining specific roles and responsibilities would ensure efficient E&S risk management.
Appraisal	- The Green Protocol requires banks to implement an E&S review and monitoring process to screen and categorize projects, and monitor risks accordingly.
	- Incorporating E&S provisions and investment conditions into legal agreements would strengthen the impact of the review and monitoring process.
Monitoring	- Banks are required to ensure that mitigation measures are implemented, as set out in the Environmental and Social Action Plan (ESAP).
	- Annual monitoring reports from subprojects on E&S aspects, periodic portfolio reviews, or site visits of high-risk subprojects could also be promoted.
	- For further progress, banks could perform periodic portfolio reviews and onsite visits of high-risk projects, as well as incorporate climate risk into their lending decisions.
Reporting	- Banks are required to report periodically on the implementation of the Protocol, using indicators that they have defined, such as the amount of loans that have been analyzed from an E&S perspective.
	- Asobancaria could encourage banks to build a system to accept and respond to concerns from stakeholders affected by banks' investment.

#### **OPPORTUNITY:**

## 5. Green Finance Flows

The Green Protocol and the General Guidelines encourage banks to "generate guidelines and tools to promote sustainable finance through loan and/or investment and programs" in order to address issues related to renewable natural resources, protection of the environment, competitiveness of the country's productive sectors, and the quality life of the population.

To date, the guidance does not set requirements or standards regarding the development of green finance flows. However, the guidance encourages banks to "continuously improve the portfolio of banking products and services intended to finance activities and projects with social and environmental benefits."

Although Colombia's bond market is just emerging, three banks have already issued green bonds in local currency: Bancolombia in 2016 (about US\$115 million), Davivienda (about US\$149 million), and Bancóldex (about US\$67 million) in 2017. The government has released a roadmap in order to launch a green bond market in Colombia. This roadmap sets out the ambitions for the country and outlines objectives to be met in the near future. In addition, the development of social impact bonds is also being considered.

On the reporting side, Asobancaria requires its members to take part in an annual survey on sustainability practices. This survey is quite detailed and comprehensive, and it includes questions on sustainable financial products.

Colombia is working on each of the subpillars in the assessment, aiming to generate more green finance flows.



Subpillars	Comments on good practice and areas for improvement
Initiatives	<ul> <li>The sustainable banking framework explicitly encourages banks to expand green finance. There are tax incentives for certain green sectors (Law 1715, adopted in 2014), but there are currently no significant financial incentives, such as subsidies or lower interest rates. At the regional level, FELABAN (the Federation of Latin American Banks) has introduced a green award, but there are no similar awards at the national level.</li> <li>Voluntary initiatives (such as a 2°C strategy or participation in think tank activity) could be considered to encourage green finance, with national good practice in the financial sector serving as an example.</li> </ul>
Definitions	<ul> <li>In 2017, Colombia released a Roadmap of Actions to Launch a Green Bond Market in the country. While this is not a guideline for bond issuers, the roadmap is a key milestone to supporting creating a green bond market in Colombia.</li> <li>Although certain green sectors (such as sustainable building) are already defined, a harmonized definition for green finance and green financial assets could help to promote the development of green finance flows.</li> </ul>
Analytics	- Asobancaria could develop guidelines and a methodology to assess the environmental benefits of green finance and monitor green finance flows.
Reporting	<ul> <li>Since 2014, Asobancaria has conducted an annual survey on sustainability practices among its members. The survey, conducted via an easy-to-use tool, includes the reporting of data regarding financial products that have a positive impact (either environmental or social). In 2014, 27 FIs took part in this survey, and 30 FIs participated in 2017.</li> <li>Operational guidelines that encourage more detailed reporting and disclosure regarding banks' green finance performance would further the development of green financial flows.</li> </ul>