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Promoting green growth in Colombia

A post-conflict opportunity?

Only 41 days after the initial peace accord was rejected by a small margin in the plebiscite of 2 October 2016, the Colombian government and the FARC guerrilla group reached a new one. Should the new peace accord succeed, the political stability that is likely to ensue would bring new opportunities for the country. One of these would be to connect peace in the territories previously outside state control to the development of a more energy secure and green economy while living up to national climate pledges. The country would now also be able to decide to reduce its historic reliance on oil and coal exports. High awareness among the public concerning climate change and domestic electricity production that is already relatively low carbon may speed up this process. Yet, structural features of fragmentation and resistance within the state towards green growth pose some of the biggest obstacles. This policy brief outlines the arising framework of opportunities for Colombia and addresses the hurdles that need to be overcome if it is to unleash its green energy potential. It stresses the importance of a post-conflict environment for green growth, especially when it is linked to financial and tax incentives that support renewable energy development and improve local-national and centre-periphery links.

The peace process and opportunities for green energy growth

If the new peace accord is approved, it will end a 52-year old conflict that has left over 200,000 dead, displaced six million people and divided the central state and peripheral regions.¹ Development of and investment in rural and war-torn areas remains a central theme of the new agreement.² Once the

accord is ratified by Congress in November,³ which is likely considering the concessions made by the FARC, these development schemes would lay the groundwork in which green (and decentral) energy growth could fit. Moreover, a final peace deal would herald a critical juncture in Colombia's national development as the state regains territorial control over parts of the country, leading to more political stability and a stable climate that stimulates investment, whether 'green' or

1 International Crisis Group, *Colombia's Final Steps to the End of War*, 2016, September.

2 Such as the strengthening of smallholder economies, integrated rural reform, guarantee of food security, nutrition and access to markets, and improvement of centre-periphery connections.

3 See Acuerdo Final para la Terminación del Conflicto y la Construcción de una Paz Estable y Duradera, La Oficina del Alto Comisionado para la Paz, <http://www.altocomisionadoparalapaz.gov.co/herramientas/Documents/Lo-que-hemos-acordado-el-acuerdo-final-de-paz.pdf> (accessed November 2016).

'grey' in nature. The peace process thereby shapes to a significant degree the context in which green growth can materialise.

Colombia's ambitions for green growth

As a country that is highly vulnerable to the effects of climate change, Colombia stands out for the recognition across society for stronger environmental regulation and for the need to address climate-related effects. Buoyed by high rates of economic growth and initial successes in the peace process, President Juan Manuel Santos' administration has sought a more positive and proactive profile for Colombia after decades in which the country was absorbed by its own internal security crises. It has made strenuous efforts to align with the multilateral system, above all through seeking membership of the Organisation for Economic Cooperation and Development (OECD). This has resulted in a critical review of Colombia's environmental policies, which in turn spurred the country's embrace of green growth in its latest **National Development Plan** – the overarching document shaping all government social and economic policies. Although Colombia generates only 0.46 percent of the world's greenhouse gases, the government has pledged to reduce its emissions by 20 percent by 2030 compared to the business-as-usual scenario. To achieve this, significant gains can be made in the renewable energy sector, serving not only climate goals but also the issue of energy security in a rapidly developing country with a rising energy demand and fast-growing cities. The transport sector is of key importance in this regard, as it accounts for over one-third of Colombia's total energy demand.⁴ Yet while there have been local initiatives to make the sector more 'green', there is an overall sense that a sound overarching

4 Climate Investment Funds (CIF), *Colombia*, <https://www-cif.climateinvestmentfunds.org/country/colombia> (accessed September 2016).

strategy on how to reduce emissions from this sector is lacking.

Colombia's economy and energy situation

Overall, Colombia's prospects are mixed. From being one of the fastest growing economies in Latin America it moved into a period of significant slow down due to a drop in commodity prices: the expected growth in 2016 dropped to 2.3 percent after reaching levels close to 5 percent in 2014. On the positive side, poverty rates are declining, life expectancy is on a steep rise, and primary and secondary education have become more accessible. With a population of 48.2 million people and a GDP of US\$292 billion (in 2015), Colombia is an upper-middle-income country. However, thus far a large proportion of its economic growth has been driven by exports of coal and oil. In 2014, the sector managed to attract up to 30 percent of foreign direct investment, while accounting for over 50 percent of export earnings⁵ and 7.3 percent of GDP.⁶

Despite Colombia's success over the past decades, its reliance on commodity exports points to a structural weakness in the economy as the national budget and the exchange rate of the Colombian peso are vulnerable to international oil price variations. The recent economic dip and the 23 percent drop in GDP illustrate this problem.⁷ As a response, more licences have been issued for exploration and production activities, thereby further increasing the country's dependency on fossil fuel exports.

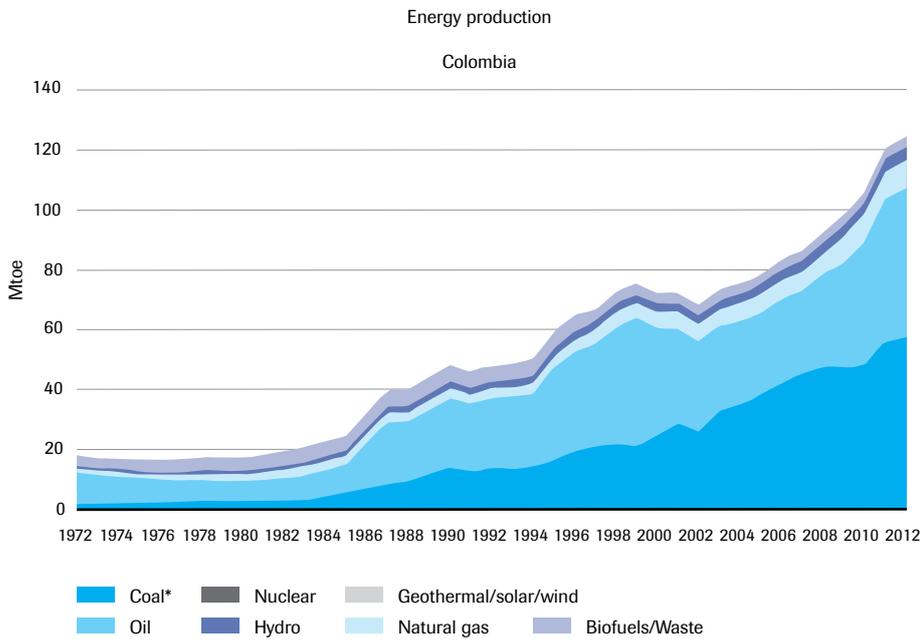
Colombia's reliance on and investments in fossil fuel production appear hard to match

5 International Crisis Group, *Colombia's Final Steps to the End of War*, 2016, September.

6 Mine and Energy Planning Unit (UPME), *Plan energético nacional Colombia: Ideario energético 2050*, Bogotá: UPME, p. 33.

7 For the fiscal year 2015 compared to 2014. *Colombia*, World Bank Data, 2016, <http://data.worldbank.org/country/colombia> (accessed September 2016).

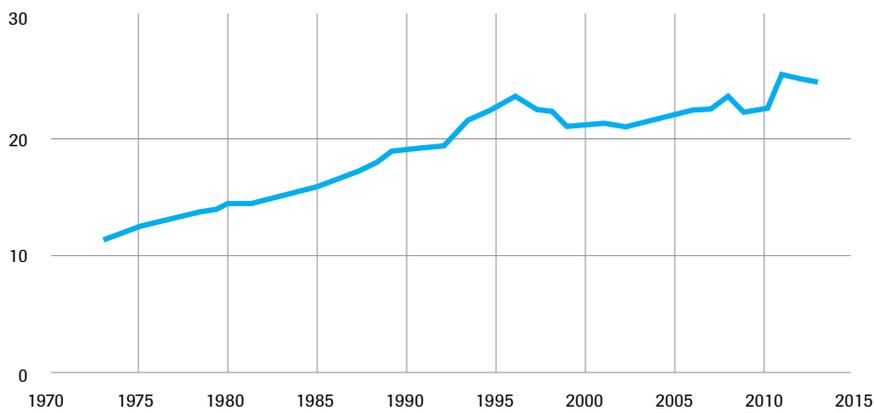
Figure 1 Energy production in Colombia, 1972–2012



*In this graph, peat and oil shale are aggregated with coal, when relevant.

Source: International Energy Agency

Figure 2 Total energy consumption in Colombia for 1973–2013 (million tonnes of oil equivalent)



Source: International Energy Agency

with its climate change and renewable energy aspirations. This is reflected even more by domestic oil subsidies that at a certain point accounted for up to 1.6 percent of GDP. In recent years, the Colombian government has committed to a gradual phase-out of fossil fuel subsidies, although this remains problematic for diesel, which is used to a greater degree by low-income households (for instance, through public transport or for electricity in remote areas not connected to the grid system). Moreover, the positive link between fuel prices and the currency rate obstructs fuel price increases as this would hurt traditional and export-oriented economic sectors.⁸

Despite Colombia's fossil fuel dependency, the major part of the country's domestic electricity supply is derived from hydropower sources (i.e., 67 percent). Electricity is sold in a highly liberalised market and energy access is relatively high, connecting 48 percent of the territory and 96 percent of the population.⁹ Economic growth, greater public spending and urbanisation have led to a doubling of energy consumption over the past 25 years, which reflects a steady annual growth rate of around 3 to 4 percent.¹⁰ This increase in demand is expected to continue for at least the coming 15 years. Current installed capacity is around 16 GW and with new hydropower plants coming into operation in 2017/18 installed capacity would be raised significantly. The high share of hydro-energy sources in the country's power sector may increase pressure on energy security in the coming years. Due to the effects of climate change, runoff levels will decrease in the north of the country and the

Andean region, thereby reducing potential generation capacity.¹¹

In 2014 the Colombian government passed *Law 1715*, which intends to foster partnerships between the national government, the private sector and local authorities to bring about greater production and use of (other) renewable energy sources. The law provides various tax incentives for renewable energy production and eases access to capital. High on the list of priorities is the substitution of diesel in non-connected areas, as well as the creation of a fund to support renewable sources, small-scale energy sources and efficient energy management. When this law is successfully implemented, it could significantly boost Colombia's renewable energy potential – particularly if it is backed up by funds to develop (remote) regions to support implementation of the peace agreements.

Vested interests and the centre–periphery divide as obstacles to green growth

However, it is not a given that Colombia will embark on a green growth trajectory. There are major hurdles that may prevent this and they can be attributed directly to competing, and often opposing, interests within the state itself. One hurdle comprises the extractive industries, consisting of both domestic and multinational businesses, which have shown themselves unwilling to forsake their lucrative businesses. Representatives and exponents connected to these industries often hold key ministries and policy-making positions, blurring the line between private and public interests. The ensuing dominance of private sector agendas in the state have divided ministries and state bodies and led to a weak

8 Romero, Helena Garcia and Laura Calderon Etter. 2013. 'The Political Economy of Fuel Subsidies in Colombia', *Organisation for Economic Co-operation and Development*, environment working paper (61).

9 *World Development Indicators*, World Bank Data, <http://databank.worldbank.org/data/reports.aspx?source=2&country=COL&series=&period=> (accessed September 2016).

10 International Energy Agency (IEA), *Colombia: Indicators for 2013*, OECD/IEA 2016, <http://www.iea.org/statistics/statisticssearch/report/?year=2013&country=COLOMBIA&product=Indicators> (accessed September 2016)

11 *Mainstreaming Climate Change in Colombia*, United Nations Development Programme, Bogota, 2010, <http://www.undp.org/content/dam/aplaws/publication/en/publications/environment-energy/www-ee-library/climate-change/mainstreaming-climate-change-in-colombia/CC%20risk%20Mainstreaming%20Climate%20Change%20in%20Colombia-EN.pdf> (accessed November 2016).

commitment towards the implementation of green growth strategies. This is exemplified by power-sharing agreements where Vice-President Vargas Lleras controls the *Agencia Nacional de Licencias Ambientales* (the government body responsible for the issuing of environmental licences) as well as the 'locomotives' of growth (i.e., infrastructure, housing and extractive industries and ministries). For the vice-president, environmental regulations are understood as either legal hurdles that need to be overcome or obstacles to competitiveness that cannot be endorsed. Both positions undermine the implementation of green growth strategies. Some interest groups operating closely with ministries prevent crucial information from circulating so as to protect their own agendas. These aspects of Colombia's political practice in turn reflect and reinforce a broader style of arbitrary and exclusionary governance. As noted in the World Justice Project *Rule of Law Index 2015*, Colombia performs relatively poorly at Latin American level, where it is placed 9th out of 19, and in the bracket of upper-middle-income countries it stands at 20th out of 31 countries. Of particular note in the index's findings are Colombia's corruption levels, lack of respect for due legal process, and limited capacity for legal enforcement.¹²

The conglomerate of private and public sector interests that are inimical to green growth exacerbates a deep disconnect between Bogotá and the country's periphery. Whereas the forces and interest groups arrayed against efforts to strengthen Colombia's environmental protection and green growth trajectory are powerful and well connected, the primary victims of climate change are the poorest and least powerful communities in remote areas. On the issue of land, the centre still seeks to impose its control, even though local and departmental administrations have by law the mandate to plan the use of their territory, and as such are key actors in green growth strategies and implementation (involving civil

society, public institutions and the private sector through a process of consensus-building). Local decisions on land use and resource management are continuously at risk of being exploited with the blessing of central government, which can make use of *Proyectos de Interés Nacional* (projects of national interest, or PIN) to override local agreements. Projects of national interest include all sectors linked to the so-called and abovementioned locomotives of growth. Consequently, the discrepancy between regional and local authorities on the one hand and the central state on the other concerning land use, economic priorities, energy options and sustainable industries is impeding renewable energy growth and is often the source of significant social and political conflict.

Beacons of hope: The peace process and international pressure

Notwithstanding the issues currently facing Colombia's green growth potential, there is reason for optimism. The multiple formal declarations of the Colombian government in favour of green growth and climate change mitigation, combined with a highly aware public and rising middle class, form strong beacons of support on the ground for green growth policies. Moreover, as the Colombian government has recently ratified the Paris Agreement of 2015, it has committed the country to implementing the Agreement's climate ambitions. As the Agreement enters into force, international pressure will stimulate Colombia's green growth efforts, and the country can utilise its wealth of domestic scientific knowledge and information-gathering instruments. The Paris Agreement also gives a signal to foreign investors that investments in fossil energy sources may result in stranded assets. It remains to be seen what effect potential unilateral climate policy change in the US will have on these issues.

The outcome of the peace process will to large degree shape the success of Colombia's green growth strategies. If the process succeeds, the ensuing political

12 See *Rule of Law Index 2015*, World Justice Project, Washington DC, 2015, p. 77. <http://worldjusticeproject.org/rule-of-law-index> (accessed September 2016).

stability and peace will attract foreign investment in the energy sector while the government can divert resources formerly used to combat the country's largest militia into developing poorer regions and stimulating renewable energy projects. It is therefore of utmost importance that in the new peace deal rural and post-conflict territory development schemes are not negated. These offer an unrivalled opportunity to bring the benefits of decentralised small-scale energy production, preservation of environmental resources and local decision making over future land use to large swathes of Colombian territory. In turn, the peace process offers a crucial chance for the Colombian state to increase cohesion between the centre and periphery on the one hand and pursue a trajectory of green growth on the other.

Recommendations

- *Links to post conflict.* If a new deal succeeds, one concrete recommendation would be for the government to link financial and tax incentives of the 2014 *Law 1715* on renewable energy production with post-conflict development programmes. The aim would be to encourage take-up of renewable energy in these areas so as to ensure that communities have access to a stable electricity supply, while offering a new energy model to other areas of Colombia.
- *Greening the private sector.* Important sections of Colombia's private sector not only support green growth but have actively pushed to transform their own production processes.¹³ These examples need to be disseminated and replicated across the entire Colombian business community as operational models that do not harm the revenue-making potential of the companies in question. This is even more important at a time when the

government expects the private sector to finance 63 percent of the country's climate commitments.¹⁴ Targeted tax and subsidy arrangements, as recommended by the OECD in its 2014 review of Colombia, could also encourage greater corporate uptake.

- *The local vanguard.* The most outstanding practical applications of green growth in Colombia take place at local level. As a matter of priority, central state institutions, such as the National Environmental System, should play a stronger role in transmitting local programming to the centre in order to inform and shape future policy. Linking implementation of the peace agreements in the territories with context-specific locally driven green growth strategies would ensure the pairing of territorial peace with environmental peace.
- Other policies could support these positive developments by targeting the politics of the 'revolving door' (moving from the private sector to public office). This could prevent further fragmentation of the state around green growth and result in less resistance by the so-called 'locomotives of growth' as public and private interests become less blurred in the decision-making process.
- *Remaining issues.* Two outstanding issues remain to be addressed in terms of strategy, policy and implementation. One is to align green growth strategies and Paris Agreement commitments with the increasing energy demands of the transport sector, amidst a lack of appetite in that sector to address pollution costs and its heavy reliance on fossil fuels. The second is to align energy security expectations with the risks of heavy reliance on hydropower in the face of Colombia's high vulnerability to climate change.

13 Businesses associated with the energy sector are spearheading these efforts, as well as the banking sector with the introduction of green banking initiatives, and the ever growing B Corporations, which now include Latin American multinationals operating in Colombia.

14 See Colombia necesita \$56 billones para cumplir metas de cambio climático, <http://www.eltiempo.com/estilo-de-vida/ciencia/inversion-contra-cambio-climatico-en-colombia/16755130> (accessed November 2016).

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About the authors

Santiago Villaveces-Izquierdo is International Consultant.

Ernst Kuneman is Research and Project Assistant / Clingendael Institute.

Louise van Schaik is Coordinator of the Knowledge Group on EU in the World and Senior Research Fellow / Clingendael Institute.