



# Sovereign sustainability snapshot: Colombia

Colombia is a pioneer in the sustainable bond market, and its direction of travel on nature and biodiversity is encouraging. However, as with all nations, broader sustainability trends paint a mixed picture.

## Introduction



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One of the most biodiverse nations on the planet, Colombia was a fitting host for the recent UN Biodiversity Conference ([COP16](#)). While various conference delegates and commentators pointed to global shortcomings, biodiversity trends within the host nation are encouraging. Colombia has also been pushing the boundaries on the burgeoning green, social, sustainable and sustainability-linked (GSSS) sovereign bond market. However, viewing the country through a broader sustainability lens reveals some important areas for improvement.

## Sustainable bond market: pushing the boundaries

To date, Colombia has been a pioneer in the GSSS sovereign bond market. As we note [here](#), issuing local-currency denominated GSSS bonds is an important innovation for emerging markets and in 2021, Colombia became the first country in Latin America to issue a local currency denominated green bond. Further innovation relates to the bond's use of proceeds, with a significant share allocated to biodiversity related outcomes. Since then, Colombia has issued a sustainable bond in international markets, in the process becoming only the fifth country to earmark proceeds for expenditure on social programmes.

Broadly, Colombia's sustainable and green bonds screen well in our proprietary sustainable bond assessment framework and account for a significant share of the 53% total exposure that our Emerging Markets Sustainable Blended Debt strategy has to sustainable bonds.<sup>1</sup>

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<sup>1</sup> As at 31 October 2024. For further information on investment process, please see the Important information section. For further information on the investment team, please see Important information section.

## Mixed performance on broader sustainability trends

Beyond its role in the GSSS market, Colombia’s performance when analysed through a broader sustainability lens is more mixed, as summarised below based on our proprietary ESG trend score framework.

### Environment

Colombia ranks a respectable 31<sup>st</sup> out of the 116 sovereign issuers in our [Sovereign Biodiversity Index](#). It has made considerable progress on deforestation trends, but more work needs to be done to meet long-term goals such as the “30x30” commitment – a global pledge by governments to protect 30% of the Earth’s land and ocean area by 2030. Worryingly, however, Colombia’s rank in the [Red List of Threatened Species](#) (a global index classifying species at high risk of extinction) has been falling faster than its regional peers. Additionally, we find government policy to be lacking, with relatively low levels of environmentally aligned taxes and no improvement in protected areas in the past five years.

On other environmental issues, thanks to its high share of renewable energy and decreasing energy intensity, Colombia ranks well against its income peers in our [Net Zero Sovereign Index](#) (NZSI). However, its poor ranking in our [Climate and Nature Sovereign Index](#) (CNSI) reflects the country’s vulnerability to the impacts of climate change.

### Social

While Colombia’s universal health system is exemplary, there is room for improvement in several other areas: the quality of infrastructure has fallen in recent years due to lack of investment; access to education is relatively low; and there is a long-term structural unemployment issue (although policies are being introduced to address this).

### Governance

Colombia has made positive advancements on civil authority matters – such as the peace agreement with the FARC guerrilla group – and has credible economic policy underpinned by an independent central bank. However, corruption remains a significant challenge.

#### Pushing the boundaries in the sustainable bond market

Type (issuance year)	Green bond (2021)	Sustainable bond (2023)
Currency	Colombian peso	Euro
Example use of proceeds	Water treatment, ecosystem services and biodiversity, sustainable agriculture	Affordable basic infrastructure, access to essential health services and affordable housing
Example of KPIs	<ul style="list-style-type: none"> <li>– Increase in number of hectares of land protected or restored</li> <li>– Number of native trees planted</li> </ul>	<ul style="list-style-type: none"> <li>– Number of jobs created among vulnerable populations</li> <li>– Number of people provided with improved access to clean water</li> </ul>
Example of projects	<ul style="list-style-type: none"> <li>– Strengthening administration of protected areas</li> <li>– Safeguarding habitats for endangered species</li> </ul>	<ul style="list-style-type: none"> <li>– Construction of affordable housing projects</li> <li>– Building or upgrading schools in rural communities</li> </ul>

## Reflections on the future path

Colombia appears set to retain its pioneer status in the sustainable bond market. Its progress on biodiversity is commendable, and our engagements with authorities on deforestation and renewable energy capacity have revealed genuine commitment to positive change. However, areas for improvement in the country's broader sustainability trends include climate risk mitigation efforts – a likely area of focus for our future engagements.

**General risks:** The value of investments, and any income generated from them, can fall as well as rise. Past performance is not a reliable indicator of future results. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

### Specific strategy risks – Emerging Markets Sustainable Blended Debt

**Currency exchange:** Changes in the relative values of different currencies may adversely affect the value of investments and any related income.

**Default:** There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss.

**Derivatives:** The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss.

**Interest rate:** The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise.

**Sustainable Strategies:** Sustainable, impact or other sustainability-focused portfolios consider specific factors related to their strategies in assessing and selecting investments. As a result, they will exclude certain industries and companies that do not meet their criteria. This may result in their portfolios being substantially different from broader benchmarks or investment universes, which could in turn result in relative investment performance deviating significantly from the performance of the broader market.

**Emerging and Frontier market (inc. China):** These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

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