

An Overview of the Colombian Social Context

SOCIAL ANNEX

**Ministry of Finance and Public Credit
Republic of Colombia**

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Introduction

This document constitutes a supplementary annex to the Colombian Green, Social and Sustainable Sovereign Bond Framework Document, which aims to outline the current state of the country's social indicators, and the relationship between the National Development Plan "Colombia World Power of Life" and the eligible categories found in the Main Document of the Framework. The sections of such framework and the guidelines contained therein will remain unchanged and will not be deemed to be changed, modified, or superseded by this document.

Colombian Social Context in Figures

Throughout its history, Colombia has faced a number of social challenges, which have demonstrated the country's resilience in compliance with social commitments. Factors that have created challenges in social indicators include: Diverse population; gaps in inequality, especially between rural and urban populations; gaps in access to basic services compared to the international community; armed conflict and the subsequent peace agreement. As a result, the divergence between the municipalities and departments of the country has increased, resulting in poverty, inequality, and unmet social needs.

Despite the above, the country has made significant efforts to align with the Sustainable Development Goals (SDGs) and comply with the 1991 Political Constitution. The constitution establishes, among other things, that the improvement of the population's overall well-being and living standards are social purposes of the State. Therefore, the country has focused its public investment on meeting these objectives and improving indicators related to poverty and inequality.

The investments made in the country overtime have allowed Colombia to position itself as a middle-income country, according to World Bank figures (World Bank, 2020). However, Colombia still faces challenges in terms of socioeconomic indicators that distance it from its peer averages. Below is a

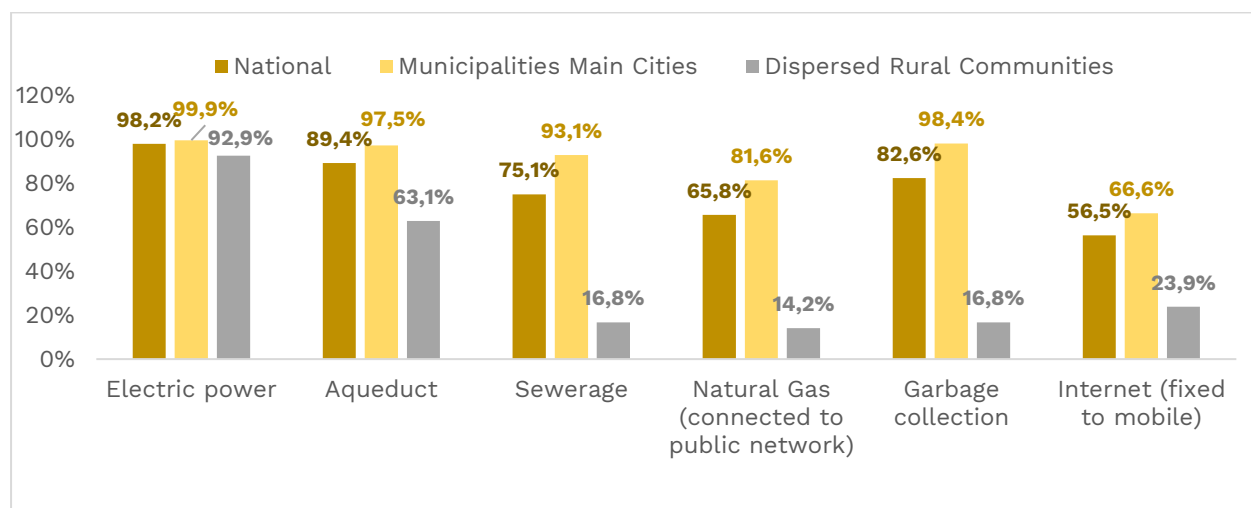
summary of the country's main social indicators including poverty, inequality and social mobility, along with a roadmap on how to improve the country's living standards.

Demographics and Level of Access to Public Services

According to the most recent official Colombian census from 2018, Colombia's population is estimated at approximately 48,260,000, where 51.2% are women and 48.8% are men. The predominant age group is 15–65 years, representing 68.2% of the population; followed by 0–14 years at 22.6%; and, finally, 65+ years, representing 9.1%. Regarding Colombia's ethnic makeup, 6.2% of the country's population identifies as Black, Afro-Colombian, Raizal and Palenque ("NARP" being the Spanish acronym) (DANE, 2019), whereas 4.4% identifies as indigenous. The population is distributed as follows: 77.1% in municipalities (main cities), 15.8% in the dispersed rural communities, and 7.1% in populated areas (DANE, 2018).

In terms of access to public services, the gap between municipalities and populated areas is around 51%, which represents an important factor to the overall inequality between rural and urban areas. Graph 1 summarizes the population's access to public services at the national level, in cities, as well as in populated areas and dispersed rural communities according to the 2020 National Quality of Life Survey (Encuesta Nacional de Calidad de Vida, ENCV). Electricity represents the public service with the greatest coverage, while internet has the lowest coverage, particularly in rural areas (DANE, 2021).

Gráfica 1: Acceso a Servicios Públicos a Nivel Nacional (ENCV-2020)



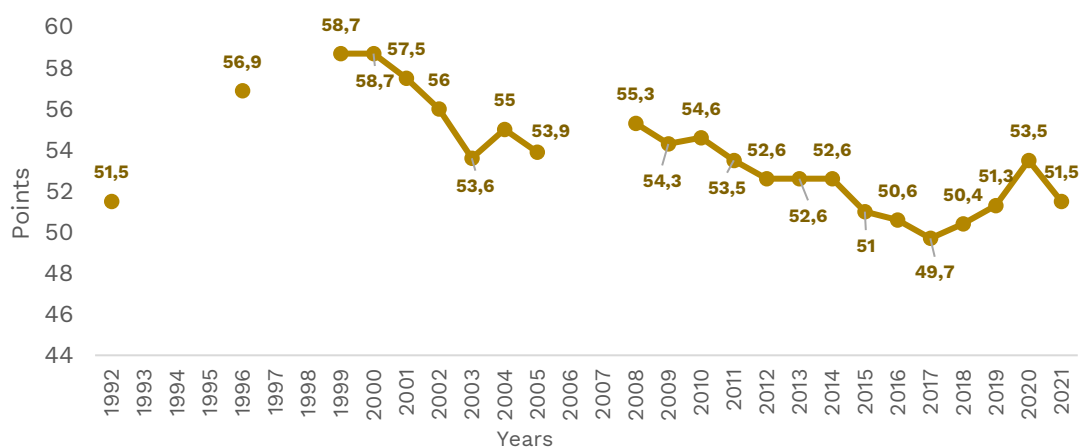
Source: (DANE, 2021)

Gini Index

According to the World Bank, the Gini index in Colombia for 2021 reached 51.5 points, making it one of the most unequal countries in the region, surpassed only by Brazil. While **Graph 2** does show improvement in the Gini Index, with a downward trend since the nineties, in 2020 it increased again to a value close to 2011 due to the COVID-19

pandemic. A major improvement happened in 2021, as a result of the post-COVID 19 money transfer programs which contributed to the country's economic recovery. Despite the country's efforts to reduce the inequality gap, there are still social issues that pose important challenges to the economy.

Graph 2: Gini Index Colombia (1992–2021)



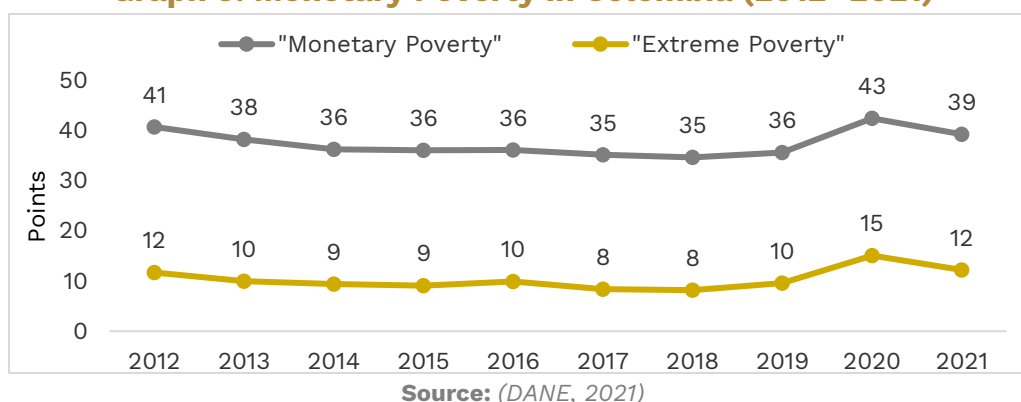
Source: (World Bank, 2021)

Monetary Poverty

A key indicator for determining social mobility is monetary poverty, which reached 39.3% of the population in 2021 and remains high. Monetary poverty calculates the cost of purchasing a basic food basket and the cost of other goods and services, expressed by the relationship between total expenditure and food expenditure (DANE, 2021) for the households ethnic groups in the country, and social groups such as displaced people or migrants.

As shown in **Graph 3**, monetary poverty and extreme poverty in Colombia remain stable, with a slight downward trend in the last two years. In 2020, there was a 7% increase due to the social impact of the COVID-19 pandemic. Given the above, it is a priority to continue the downward trend and try to reduce poverty from 12.2% to single digit figures.

Graph 3: Monetary Poverty in Colombia (2012–2021)

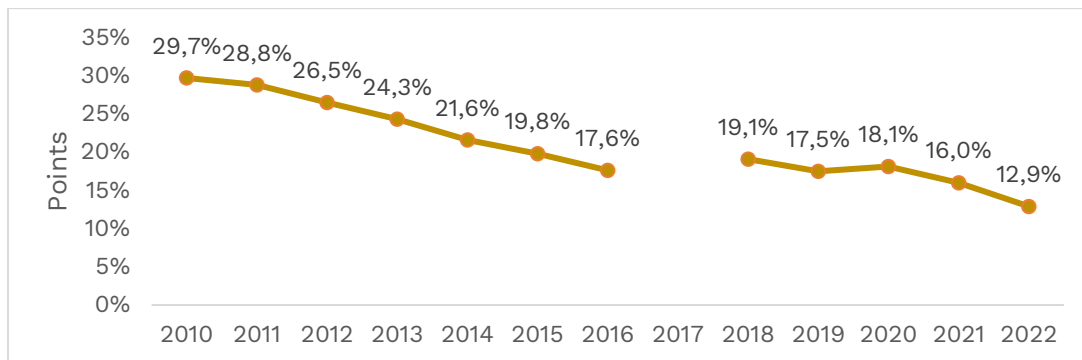


Multidimensional Poverty Index

In 2022, the percentage of people in multidimensional poverty in Colombia was 12.9% of the national total, as seen in Graph 4. The Multidimensional Poverty Index (MPI) examines the poverty experienced by households in terms of five components: educational conditions of the household; living conditions for children and youth; labor; health and access to residential public services; and housing conditions (DANE, 2022). This index has trended downwards, with a decrease of 16 percentage points

between 2010 and 2021. In 2020, the trend reversed slightly due to the COVID-19 pandemic; however, due to money transfers and economic recovery plans, figures came back to trend rapidly between 2021 and 2022. Although this index has improved overall, the difference between urban and rural persists. Thus, the percentage of people in a state of multidimensional poverty in populated areas and dispersed rural communities was 3.1 times that of the municipalities (main cities).

Graph 4: Multidimensional Poverty in Colombia (2010–2022)

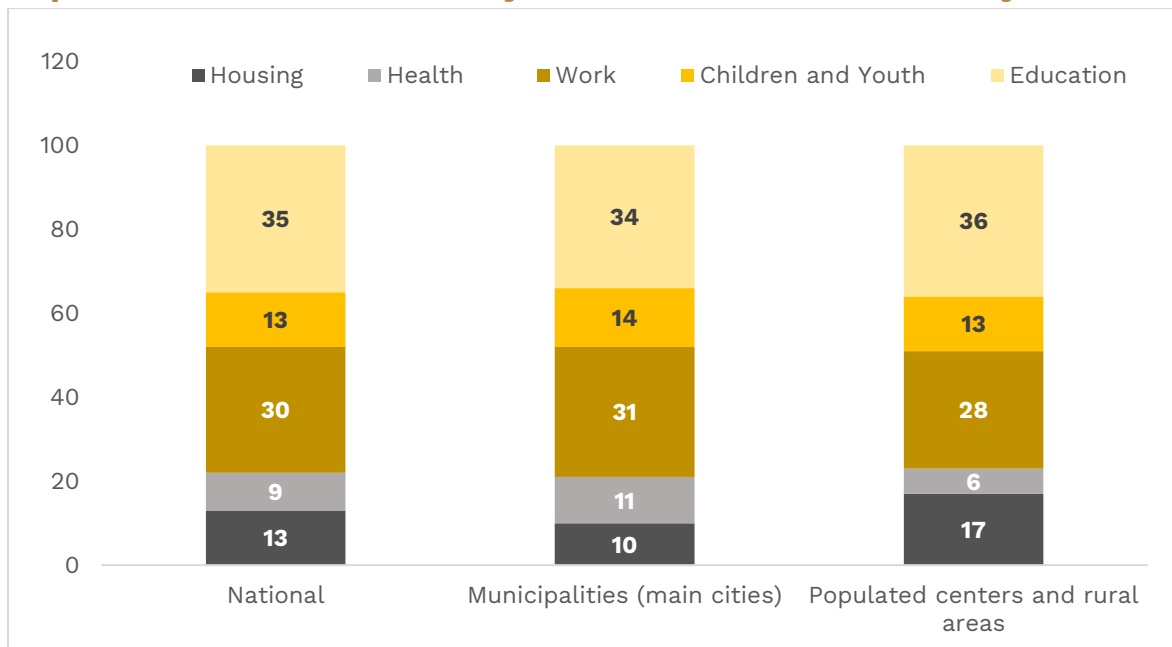


Source: DANE. *Owing to a distributional difference in the data collected for 2017, the figures are only representative for cities.

As seen in **Graph 5**, for the year 2021, education was the greatest contributor to the multidimensional poverty index (35%),

followed by labor (29.7%), childhood and youth (13.4%), housing conditions (13.4%), and health (8.5%).

Graph 5: Contributions to the Adjusted Multidimensional Poverty Index 2021



Source: (DANE, 2022)

By identifying which areas and sectors are key for the improvement of poverty and inequality indicators, the country can design programs that focus on improving the social well-being of the population. Below are

some key indicators that, can contribute to the reduction of poverty and inequality, when they are combined with effective social policies.

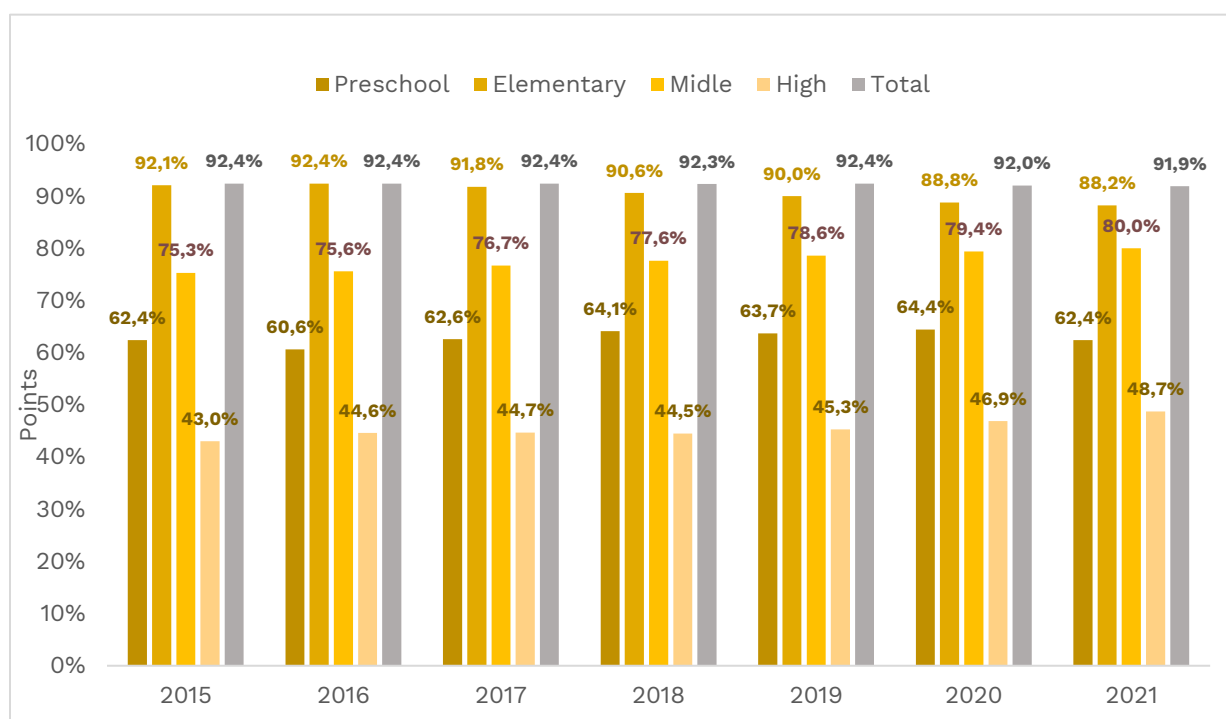
Education

Colombia recognizes the role of the education on the development of individuals and society. Therefore, the country is focused on addressing education in a way that is holistic, from early childhood education to higher education. One of the main goals of the education portfolio has been to sustain a high coverage ratio for each educational level; particularly focused on maintaining a ratio above 60% for the preschool stage to ensure that children under five years of age can receive a formal

education (Ministry of National Education, 2022) . As shown in **Graph 6**, the main achievement has been maintaining coverage above 90% on the elementary level and overall.

Investment plans in education have focused on improving infrastructure, increasing average coverage, improve entrance level to higher education institutions, and reducing dropout rates, which by 2021 reached 3.7% (DANE, 2022) .

Graph 6: Net Coverage Ratio by Education Level and Total (2015–2021)



Source: (DANE, 2022)

Nutrition

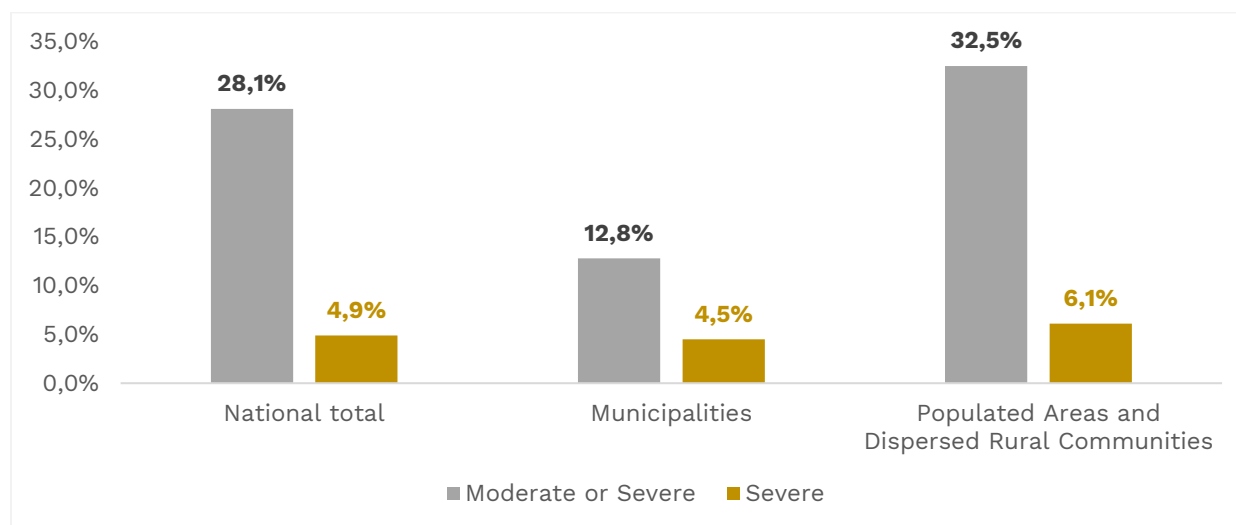
The prevalence of moderate or severe food insecurity in 2021 across the country's households was 28.1%. That means that 28 out of 100 households had to decrease the quantity and quality of food consumed, at least once during the last 12 months, due to lack of money and other resources.

Colombia recognizes that achieving SDG 2: Zero Hunger is a global urgency, which is why it rigorously tracks the Food Insecurity Experience Scale (FIES), a tool for measuring access to food in terms of quantity and quality. (DANE, 2022)

As indicated in **Graph 7**, of the national total, the prevalence of severe food insecurity was 4.9%, meaning that in 5 out of 100 households at least one person was unable to eat for an entire day due lack of money or resources in the last 12 months.

Thus, it is important to create programs aimed at improving nutrition indicators and eradicating hunger in early childhood

Graph 7: Prevalence of Food Insecurity 2021



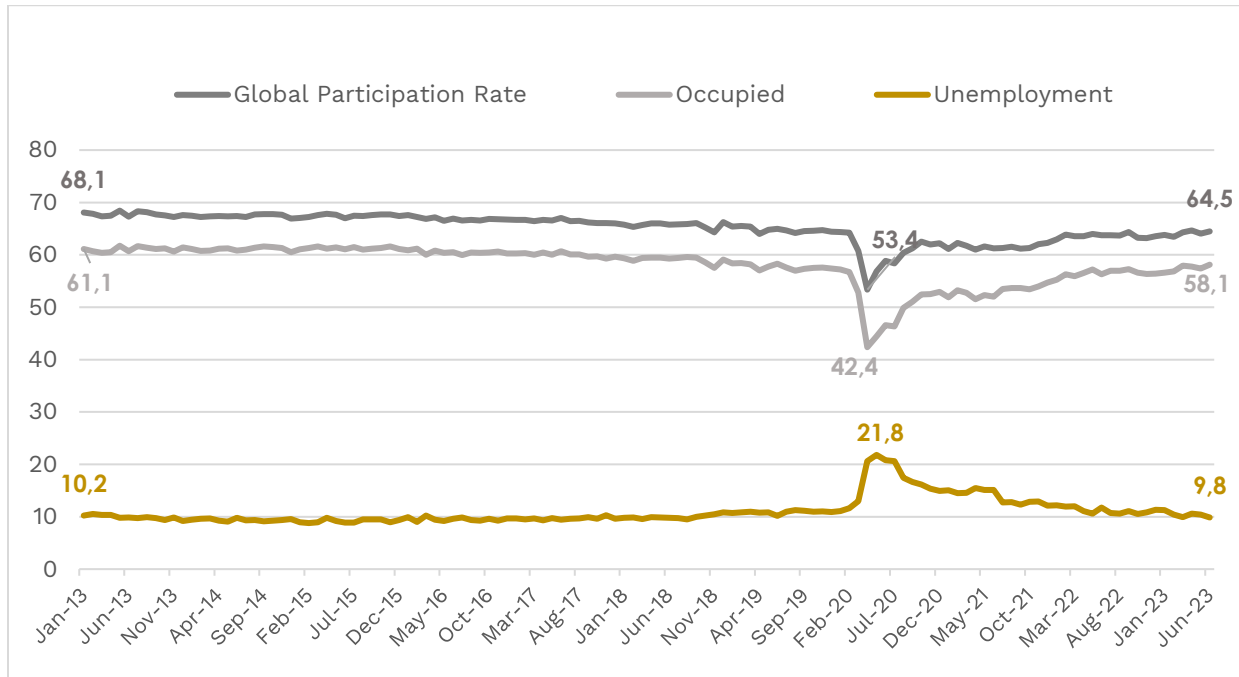
Source: (DANE, 2022)

Employment

Colombia faces significant challenges in its ability to create jobs and increase the formality rate, strengthen employment for young people, and decrease the unemployment rate to single-digit figures. As of June 2023, the unemployment rate stood at 9.8%. As shown in Graph 8, from 2013 to 2020, employment and unemployment rates remained stable, albeit in double-digit figures. During the COVID-19

pandemic, unemployment doubled to 22% at its worst, while the employment rate fell to 42.5% in April 2020. We've since observed a downward trend in unemployment as a result of the economic programs and employment stimulus created during the COVID-19 pandemic. However, there are still opportunities to strengthen employment policies and achieve single digit figures. (DANE, 2023)

Graph 8: Colombia Employment 2013–2023 (%)

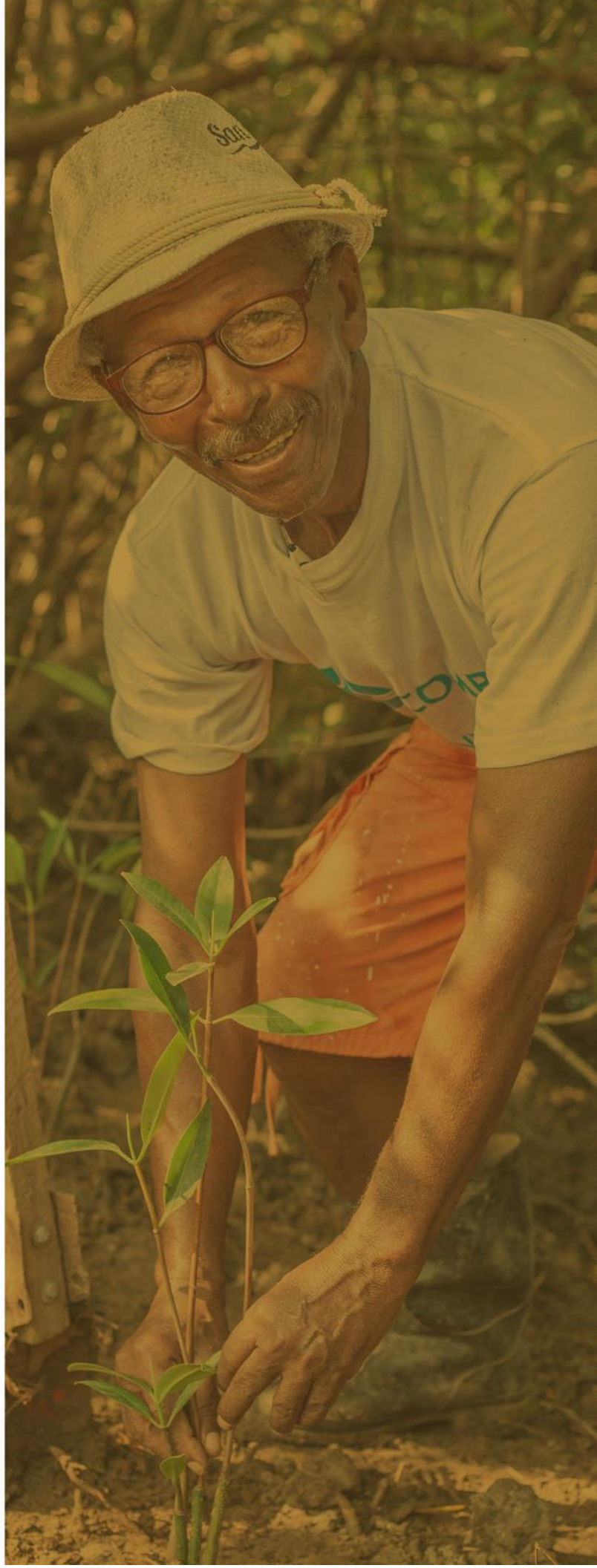


Source: (DANE, 2023)

ROAD MAP for closing **Gaps**

National Development Plan

“Colombia Potencia
Mundial de la Vida”



Transformations that Contribute to Closing Social Gaps

The purpose of the National Development Plan (NDP) 2022–2026: “Colombia World Power of Life” is to develop a new social contract – one that overcomes historical injustices and exclusions, and assures the non-recurrence of conflict, among others. This government plan highlights the importance of land management and geography as core components for social development in Colombia. It also puts a strong emphasis on aspects such as human safety, and convergence to bridge gaps between regions. (NDP, 2023)

The main goals of the National Development Plan 2022–2026 (NDP, 2023) are to meet the following social objectives associated with:

The Human Right to Food

- **Reduce extreme poverty** to single digits, from 12.2% in 2021 to 9.6% in 2026.
- **Infrastructure for food sovereignty:** Strengthening of ports infrastructure
- **Eradicate hunger in early childhood** to reduce the child mortality rate for children under 5 years old, lowering it to 3.37 per 100,000; and,
- **Lifetime production** to increase production in agricultural chains prioritized for the Human Right to Food by 10.38%, rising from 35.3 million tons of food to more than 38.9 million by 2026.

Regional Convergence

- **More housing:** Reduce the number of households with housing deficits in

the country to 26%. In 2021, housing deficits stood at 31%.

- **Tertiary roads to connect territories:** Reach more than 88,000 kilometers of improved tertiary roads. In 2022, this figure reached **55,240**.
- **Strengthen logistical capacity:** reduce the percentage of logistical cost on sales by 1.1%, from 12.6% in 2020 to 11.5%.
- **Decrease poverty to promote peace:** Reduce the Multidimensional Poverty Index gap in PDET (Development Programs with a Territorial-based Approach) municipalities from the national total of 12% to somewhere between 7.4% and 10%.

Human Safety and Social Justice

- **Improving the monetary poverty indicator** from 39.3% in 2021 to 35.5% by 2026.
- **Double internet access:** Increase internet access across the country from 38.3 million in 2021 to more than 71.4 million by 2026.
- **Higher education for a peaceful and knowledge-based society:** In Colombia, we will have the highest higher education coverage in history, increasing from 53.9% in 2021 to 62.0% at the end of the four-year period
- **Driving Popular Economy:** Increase by 6% the revenue from micro-businesses of the popular economy.

Land Management Around Water

- **Formalized small- and medium-sized land hectares of rural property:** Increase to 3.9 million hectares, formalized, and delivered by 2026
- **Hectares delivered for comprehensive rural reform:** Deliver 2.9 million hectares for the comprehensive rural reform.

Social Investments for the Generation of Change

The national government has focused its efforts on generating large structural changes in the country, one of them being social changes, which is expected to materialize as part of the five transformations adopted by Article 3 of the NDP 2022–2026.

The transformations most inter-related with the social aspects include Human Safety and Social Justice, Human Right to Food, and Regional Convergence and Land Management around water. These are expected to receive strong support in terms of investment of resources, as indicated in the 2023 Multi-Year Investment Plan (NDP, 2023)

Human Safety and Social Justice

About \$743.7 trillion pesos have been allocated towards Human Safety and Social Justice in the Multi-Year Investment Plan. This transformation is aimed at ensuring that all Colombians enjoy complete security, protection, and economic empowerment, fostering environments free of discrimination and exclusion throughout national territory. The country still has a

large proportion of the population living in poverty: 39% in monetary poverty, 12.2% in extreme poverty and 16% in multidimensional poverty. Likewise, 31% of the population is considered vulnerable or “at-risk”, meaning that if there is no timely action, they may go back to living in poverty.

In terms of access to services, about 3.2 million people lack adequate access to drinking water, 82% of which are in rural areas. In terms of the access to quality education, out of 100 children who enter preschool, only 30% graduate high school and only 20% pursue higher education.

Given these challenges, and through the regional dialogues that were held during the preparation of the National Development Plan, the need for transformative social policies became clear – policies that would allow us to envision a country with social justice, education, greater and better opportunities in the labor market, a preventative health system, the development of information technologies, overcoming basic deprivations, structural elements for the guarantee of the fundamental rights of the population, among others (NDP, 2023)

Human Right to Food

About \$46.1 trillion pesos are dedicated to the Human Right to Food, as established in the Multi-Year Investment Plan. These investments are focused on guaranteeing national food security so that all people in Colombia can have a decent, adequate and acceptable diet throughout their lifetimes.

Regional Convergence

Around \$138.4 trillion pesos are allocated towards this regional convergence. The objective is to reduce social and economic gaps between households and regions given the lack of physical, digital and communications connectivity between

territories, which contributes to disparities in productivity and competitiveness.

Land Management Around Water and Environmental Justice

Investments in this category are forecasted to be around \$28.8 trillion pesos until 2026.

The social component of Land Management lies in the formalization of land tenure and titling, given the collective need to carry out—among others—effective restitution processes as part of the fundamental objective of achieving full peace and overcoming social conflicts.

Some projects aligned with this objective are the formalization, regularization, and restitution of land ownership.

Generation of Transformations by Meeting the Sustainable

Development Goals (SDGs)

The national government is aligned with the generation of transformations that contribute to closing socioeconomic gaps which promote higher standards of living and in turn allow for the long-awaited stable and lasting peace. Thus, the 2030 Agenda adopted by the United Nations for Colombia is an opportunity to carry out transformations that the country needs. Some of these are closely related to the NDP 2022–2026 “Colombia World Power of Life.”

The 2030 Agenda forms part of the road map that leads to sustainable development. Indeed, the programs and policies defined in this National Development Plan, and to be implemented in the coming years, seek to be increasingly consistent with 10 of the 17 socially focused Sustainable Development Goals (SDGs), as indicated in **Figure 1**.

Figure 1: Sustainable Development Goals Affected by Social Projects



Source: Objetivos de Desarrollo Sostenible, 2020.

The definition of the target population is relevant to achieve the goals of the National Development Plan and to efficiently implement the proposed investment plan. As such, one of the fundamental priorities is

to generate a greater positive impact on the population that is considered to be poor or vulnerable, including victims of conflict, the unemployed, and women.

Colombia's Green, Social, and Sustainable Sovereign Bond Framework: An Instrument to Carry Out the National Development Plan 2022–2026.

The Colombian Green, Social and Sustainable Sovereign Bonds Reference Framework is a road map for sustainable financing that helps achieve the goals of the National Development Plan 2022–2026. It targets projects and programs that are aligned with the SDGs covering social categories. The projects and programs that are within the National Development Plan and that, in turn, constitute eligible expenditure for the issuance of Social or Sustainable Bonds by the Republic of Colombia, must be defined according to the following categories, according to the Green, Social and Sustainable Bond Framework:

- i) Socioeconomic progress and reduction of inequality,
- ii) Education: access, permanence and quality
- iii) iii) Peace-building,
- iv) iv) Job creation and promotion of productivity, including MSMEs,
- v) v) Dignified and affordable housing,
- vi) vi) Access to basic services,
- vii) Food and nutritional security; and
- viii) Effective access and quality of health service.

These categories correspond to both the transformative and transversal goals indicated in the National Development Plan.

Accordingly, the National Development Plan 2022–2026 makes a broad commitment, with about \$957 trillion pesos in transformations that directly contribute to bridging social gaps. Social projects aimed at aligning the Sustainable Development Goals (SDGs) and complying with the commitments established in the Political Constitution of Colombia can be developed and implemented with these investments.

The implementation of projects and programs related to the social SDGs, which, in turn, are funded via Social or Sustainable Bonds, have a positive impact on the quality of life and the overall well-being of Colombians. Likewise, they allow resources of the National General Budget to be focused on the reduction of basic, unmet needs and the reduction of poverty and inequality.

In summary, the NDP 2022–2026 “Colombia World Power of Life” contains transformations aimed at greatly enhancing social projects and closing regional gaps.

This has a positive impact on the target population and creates a platform to strengthen intra- and inter-regional ties, increase productivity, competitiveness, and innovation in territories, and reduce gender gaps. Finally, investments in the social sphere will strengthen the path to reduce inequality, monetary poverty, and multidimensional poverty.

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