

Facilitating, Enabling, and Triggering Sectoral Transitions: Colombia

Case Study 19. Green Building Market Transformation in Colombia

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When it comes to green buildings, no market has seen a more remarkable transformation than Colombia. Between 2021 and 2022, 27 percent of new buildings in Colombia were certified green with EDGE, a building certification tool that enables investors and developers to calculate the cost of going green (Lozada Andrade 2021). As of December 2022, a cumulative 11.5 million square meters (roughly equivalent to \$11.5 billion worth of floor space) of EDGE-certified green spaces had either been built or were under construction. Colombia owes the transformation of its construction sector in large part to strong government support and a strong local partner, the Colombian Chamber of Construction (CAMACOL).

Context

Colombia has a supportive policy framework and active commitment to climate mitigation and adaptation. In 2015 with International Finance Corporation (IFC) support and as part of its National Green Growth Strategy, the Colombian government enacted Latin America's first mandatory green building code. Soon after, it also introduced tax incentives for technical solutions such as insulation and energy-efficient air conditioning systems. By setting targets for energy and water savings through the code and offering incentives to support the financial viability of these new practices, Colombia achieved a progressive application of sustainable construction practices.

Opening Finance for Green Buildings

In 2016, IFC invested in Colombia's first private green bond, issued by Bancolombia for a total of \$115 million. Using its own resources alongside the proceeds of the green bond, the bank offered a reduced interest rate as an incentive to strengthen its green building portfolio. This gave rise to an aggressive green mortgages program in 2017.

IFC's investment also encouraged other banking institutions to follow suit. In 2017, Davivienda's \$149 million green bond, purchased by IFC, became the largest green-bond issuance by a private financial institution in Latin America. By 2021, five commercial banks in Colombia were offering green mortgages and green construction finance: Bancolombia, Davivienda, Banco Bilbao Vizcaya Argentaria (BBVA), Banco Bogotá, and Caja Social. Colombia has the most financial institutions offering this type of financial product targeting the construction sector across Latin America.

In 2017, IFC started working with CAMACOL to promote EDGE. An IFC innovation, EDGE provides a platform for designing and certifying green and zero carbon buildings. CAMACOL delivered dozens of EDGE training and capacity-building sessions to its members. Encouraged by access to green finance and with support from CAMACOL, Colombia's largest social housing developer, Constructora Bolivar, has certified over \$2 billion worth of floor space across the country.

In August 2022, IFC provided a loan of up to \$200 million to BBVA Colombia to support the bank's lending program for climate-smart projects, with a focus on green buildings and an emphasis on projects that achieve EDGE's advanced certification (IFC 2019). This is the first loan supported by the Market Accelerator for Green Construction Program in Colombia. Sponsored by the UK Department for Business, Energy and Industrial Strategy, this program aims to expand the green building market by encouraging financial intermediaries to develop new financing products for green construction.

IFC has also provided a \$40 million loan to Visum Rentas Inmobiliarias Real Estate Collective Investment Fund (Visum), the fifth-largest real estate investment fund in Colombia. Visum will use the loan to support its 2022–24 investment plan in green construction, which includes developing a world-class 80,000 square meter custom-built distribution center for leading regional retailer Falabella for its retail operations and electronic commerce.

Results and Impacts

IFC estimates that EDGE-certified floor space now exceeds 20 percent of new construction and represents a cumulative private sector investment of more than \$11.5 billion. There are now more than 157,000 EDGE-certified housing units across the country, and two-thirds of these are low-income and affordable housing. Taking into consideration that a low-income family can spend up to 15 percent of their monthly income on utility costs, reducing these through more efficient housing is a significant achievement. The key results of Colombia's green building expansion are summarized in table 3.5.

TABLE 3.5 Key Results of Colombia's Green Building Expansion

Result	Details
Increased EDGE certification	By June 2021, over 20% of all new builds in Colombia were EDGE-certified
Reduced energy and water consumption	Some of Colombia's EDGE-certified green buildings are using 45% less energy and 42% less water, respectively
Technical assistance to local governments	Building on its experiences in Peru, IFC is helping cities across Colombia to encourage the construction of green buildings through municipal incentives

Note: For more information on EDGE, see <https://edgebuildings.com/project-studies/foresta-etapa-1/>. IFC = International Finance Corporation.

Key Takeaways

There are four key elements to Colombia's successful green building market transformation:

- *Government support:* Creating the Green Building Code and appropriate tax incentives to bolster the interest of the private sector to build green provided the foundations for this transformation.
- *Financial institutions offering green products:* Colombia has the most financial institutions offering green mortgages, or a green product for the construction sector, in Latin America. The availability of these products has proven a game changer not only for developers, who receive attractive rates to finance their projects, but also for the end clients, giving Colombian families better interest rates for financing their green homes.
- *A committed local partner:* CAMACOL's commitment to forging a green real estate sector, its solid institutional position in Colombia's construction industry, and its interest in promoting EDGE as an effective tool to design green buildings was vital to effectively reach a large number of developers. CAMACOL estimates that 230 construction companies are certifying their projects as green.
- *Training of developers and professionals:* To date, Colombia has 136 EDGE experts, 42 percent of whom are women (IFC 2023). CAMACOL and its regional offices have offered dozens of trainings to guide developers and construction companies to design and build green projects in Colombia's major cities.

Looking to the Future

To achieve compliance with the Paris Agreement, new buildings must be net zero carbon in their operations by 2030, and existing buildings by 2050. Despite the green growth of the construction sector in recent years, sustainable buildings have yet to be consolidated as a general practice in all territories. For this reason, IFC and CAMACOL, with the support of the Colombia Green Building Council, are undertaking a capacity-building program to help municipal governments create municipal bylaws that offer incentives for green building. This program gathers the experience IFC has accumulated in fostering green building incentive ordinances in Peru. In January 2023, IFC's technical support resulted in the approval of Colombia's first-ever local bylaw to offer incentives for green buildings, in the city of Envigado.