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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$300 MILLION TO

THE REPUBLIC OF COLOMBIA

FOR THE

Third Disaster Risk Management Development Policy Loan with a Cat DDO

November 19, 2021

Urban, Resilience, and Land Global Practice
Latin America and the Caribbean Region

Republic of Colombia

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of Nov. 18, 2021)

Currency Unit

3,919 Colombian Pesos (COP) = US$1.00

ABBREVIATIONS AND ACRONYMS

ANI	National Infrastructure Agency (*Agencia Nacional de Infraestructura*)	INVÍAS	National Roads Institute (*Instituto Nacional de Vías*)
APL	Adaptable Program Loan	IPCC	Intergovernmental Panel on Climate Change
Cat DDO	Disaster Risk Management Development Policy Loan with Catastrophe Deferred Drawdown Option	LIVV	Green Road Infrastructure Guidelines (*Lineamientos de Infraestructura Verde Vial*)
CCA	Climate Change Adaptation	MADR	Ministry of Agriculture and Rural Development (*Ministerio de Agricultura y Desarrollo Rural*)
CCE	Colombia's Public Procurement Agency *(Colombia Compra Eficiente)*	MADS	Ministry of Environment and Sustainable Development (*Ministerio de Ambiente y Desarrollo Sostenible*)
CONPES	National Council for Economic and Social Policy *(Consejo Nacional de Política Económica y Social)*	MHCP	Ministry of Finance and Public Credit (*Ministerio de Hacienda y Crédito Público*)
COP	Colombian Peso	MoT	Ministry of Transport (*Ministerio de Transporte*)
CPF	Country Partnership Framework	MSPS	Ministry of Health and Social Protection (*Ministerio de Salud y Protección Social*)
CPI	Consumer Price Index	MTFF	Medium Term Fiscal Framework
DNP	National Planning Department (*Departamento Nacional de Planeación*)	MVCT	Ministry of Housing, Cities and Land (*Ministerio de Vivienda, Ciudad y Territorio*)
DPF	Development Policy Financing	NDC	Nationally Determined Contribution
DPL	Development Policy Loan	NPL	Non-performing Loans
DPS	Department of Social Prosperity (*Departamento de Prosperidad Social*)	OECD	Organisation for Economic Co-operation and Development
DRF	Disaster Risk Financing	PA	Prior Action
DRFI	Disaster Risk Financing and Insurance Program	PDO	Program Development Objective
DRM	Disaster Risk Management	PDSP	Public Health Plan
DRR	Disaster Risk Reduction	PFM	Public Financial Management
FCL	Flexible Credit Line	PND	National Development Plan (*Plan Nacional de Desarrollo*)
FDI	Foreign Direct Investment	PNGRD	National Disaster Risk Management Plan (*Plan Nacional de Gestión del Riesgo de Desastres*)
FOME	Emergency Mitigation Fund (*Fondo de Mitigación de Emergencias*)	POT	Municipal Land Use Plan (*Plan de Ordenamiento Territorial*)
GDP	Gross Domestic Product	PPP	Public-Private Partnership
GFDRR	Global Facility for Disaster Reduction and Recovery	PRASS	Sustainable Selective Testing, Tracking and Isolation Program (*Programa de Pruebas, Rastreo y Aislamiento Selectivo Sostenible*)
GHG	Greenhouse Gas	SDGs	Sustainable Development Goals
GRID	Green, Resilient and Inclusive Development	SECO	Swiss State Secretariat for Economic Affairs

GRS	World Bank's Grievance Redress Service	SECOP II	Colombia's Public Procurement System *(Sistema Colombia Compra Eficiente)*
IBRD	International Bank for Reconstruction and Development	SINA	National Environmental System *(Sistema Nacional Ambiental)*
ICA	Turnover Tax (*Impuesto de Industria y Comercio*)	SNGRD	National DRM System (*Sistema Nacional de Gestión del Riesgo de Desastres*)
ICMA	International Capital Market Association	SPD	Standard Procurement Documents
IDEAM	National Institute for Hydrology, Meteorology and Environmental Studies *(Instituto de Hidrología, Meteorología y Estudios Ambientales)*	UNGRD	National Disaster Risk Management Unit (*Unidad Nacional para la Gestión del Riesgo de Desastres*)
IGAC	Agustin Codazzi Geographical Institute *(Instituto Geográfico Agustín Codazzi)*	VAT	Value-added tax
IMF	International Monetary Fund	WBG	World Bank Group

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REPUBLIC OF COLOMBIA

THIRD DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A Cat DDO

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P176650	No

Proposed Development Objective(s)

To strengthen the Government of Colombia's program to manage risk resulting from adverse natural events, including disease outbreaks

Organizations

Borrower: REPUBLIC OF COLOMBIA

Implementing Agency: MINISTRY OF FINANCE AND PUBLIC CREDIT, NATIONAL PLANNING DEPARTMENT

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**300.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	300.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate

Results

Indicator Name	Baseline (2022)	Target (2025)
Results Indicator 1.1: Percentage increase in budget appropriation for the implementation of the Public Policy on Climate Variability.	0%	70%
Results Indicator 1.2: Percentage of national territory covered by subnational profiles strengthened through the incorporation of climate variability analytics.	0%	33%
Results Indicator 2: Number of hectares affected by deforestation (compared to 2019 baseline).	158,894	100,000[1]
Results Indicator 3.1: Number of disaster risk financing strategies approved by subnational entities, and their respective implementation plans formulated.	5	9
Results Indicator 3.2: Number of disaster risk financing strategies approved by prioritized sectors, and their respective implementation plans formulated.	0	2
Results Indicator 3.3: Percentage of households with female recipients participating in the Families in Action program that are eligible to receive an unconditional extraordinary or ordinary cash transfer following a disaster.	87%	100%
Results Indicator 4: Sovereign green bond issued, subject to market conditions, and results and impact report published.	No	Yes
Results Indicator 5: Percentage of the approved territorial development plans incorporating disaster risk management that are published through technology platforms developed by IGAC.[2]	0%	40%
Results Indicator 6.1: Number of kilometers of non-concessioned national roads incorporating risk analysis and risk reduction actions in new construction, renovation and/or upgrading projects.	0	1,160
Results Indicator 6.2: Number of contracted pilot projects for non-concessioned primary roads (sections) incorporating green road infrastructure guidelines.	5	25
Results Indicator 7.1: New Ten-Year Public Health Plan (PDSP)	0	1

[1] As agreed with Government, the target will be measured at the end of 2025 and reported by the end of June 2026.
[2] *Instituto Geográfico Agustín Codazzi* (IGAC) is the entity responsible for developing Colombia's official maps, basic cartography, and the national cadastre (land registry).

incorporating health risks in emergencies and disasters, informed by lessons learned from COVID-19, developed and approved.		
Results Indicator 7.2: Number of subnational health entities that report public health risk maps for dengue and/or malaria, and other climate change adaptation and mitigation actions, as part of the program for prevention and control of vector-borne diseases, in line with annual MSPS guidelines.	0	32

IBRD PROGRAM DOCUMENT FOR A PROPOSED THIRD DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A CAT-DDO TO THE REPUBLIC OF COLOMBIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Third Disaster Risk Management Development Policy Loan (DPL) with Catastrophe Deferred Drawdown Option (Cat DDO III) for US$300 million will continue and deepen support for the Government of Colombia's program to reduce disaster, climate and public health risks, with a particular focus on strengthening resilience at sectoral and subnational levels.** The operation builds on the successes achieved and lessons learned during the first and second DPL with Cat DDO projects,[3] as well as more than 20 years of partnership between the Government and the World Bank on disaster risk management (DRM) and climate change adaptation (CCA).

2. **As this is Colombia's third Cat DDO, the operation will deepen reforms across sectors and down to subnational level.** These reforms are critical given: (i) Colombia's significant progress over the last decade developing its overarching institutional, legal, and policy framework for DRM and CCA, (ii) the country's commitment to further strengthen that framework, and (iii) its highly decentralized fiscal and administrative structure in which a significant share of DRM and service delivery challenges are borne by the subnational tiers of government.

Colombia's disaster and climate risk profile

3. **Colombia has one of the highest rates of disasters caused by natural and climate-induced hazards in the Latin America and Caribbean region.[4]** Floods, earthquakes and landslides are the most prevalent hazards, followed by volcanic activity, tsunamis and hurricanes. It is estimated that 84 percent of Colombia's population and 86 percent of its assets are exposed to two or more natural hazards.[5] Roughly 86 percent of Colombia's population is exposed to high or medium seismic risk,[6] 31 percent to high or medium risk of landslides,[7] and 28 percent to high flooding risk.[8] Disaster and climate risks represent by far Colombia's largest contingent liability, estimated to have a potential impact of up to 4.4 percent of its gross domestic product (GDP).[9] Over the past 40 years, six disasters have resulted in physical damages of more than US$5 billion.[10]

4. **According to the Intergovernmental Panel on Climate Change (IPCC), an increase of 1°C in the average global temperature will increase the frequency and severity of extreme hydrometeorological and climatic events.** In Colombia, if no action is taken to invest greater resources in disaster risk reduction (DRR) and CCA, about 0.5 percent of GDP could be lost each year.[11] Under such a scenario, the Ministry of Environment and Sustainable Development (MADS) forecasts that two percent of Colombia's population and about 2.2 percent of its capital stock will be affected by floods and the loss of marine and coastal ecosystems, such as mangroves. Climate change may also lead to an increase in flood hazard levels, with coastal regions particularly affected. By 2050-60, the sea level on both the Pacific and Caribbean

[3] P113084 and P126583.
[4] Colombia ranks fourth in the region for disaster risk. EU Commission. 2019. INFORM Risk Index.
[5] DNP. 2014. *Bases del Plan Nacional de Desarrollo 2014-2018: Todos por un Nuevo País.*
[6] UNGRD. 2018. *Atlas de riesgo de Colombia: revelando los desastres latentes.* https://repositorio.gestiondelriesgo.gov.co/handle/20.500.11762/27179
[7] IDIGER. 2015. *Mapa Nacional de Amenaza por Movimientos en Masa escala.*
[8] World Bank. 2011. Analysis of Disaster Risk Management in Colombia: A Contribution to the Creation of Public Policies.
[9] Ministry of Finance and Public Credit, Medium Term Fiscal Framework, June 15, 2021.
[10] Obtained from CRED. 2021. EmDat – The international disasters database: Colombia data.
[11] DNP, CEPAL y BID. 2014. *Impactos económicos del cambio climático en Colombia. Síntesis.*

coastlines could rise by up to 40–60 centimeters above 1961–90 levels, increasing the exposure of more than a million coastal inhabitants and economic assets to greater risk from flooding and storm surges.[12] Moreover, 50 percent of the country's territory will be affected by changes in its hydrological system, with resulting impacts on economic activities and water supply.

5. **As a result of climate change, the levels of exposure presented above are expected to increase in the coming decades**. Colombia's tropical climate, affected by the La Niña and El Niño climate phenomena, is subject to both heavy and frequent rains and dry periods, respectively.[13] The La Niña event of 2010–2011 caused estimated damages of US$6 billion (COP11.2 trillion) and economic losses of US$1.1 billion (COP2 trillion).[14] The latest El Niño event, in 2015, was the longest since 1950, lasting 17 months: it caused record high temperatures and economic impacts of about 0.6 percent of GDP.[15] Climate change has already had a marked effect in the following critical sectors:

- **Transport**. Roads (and transportation infrastructure in general) are highly vulnerable to climate hazards, which routinely disrupt food and commodity supply chains, access to markets and passenger connectivity. Combined damages to infrastructure and lost economic activity on key corridors have entailed economic losses estimated at US$7.1 billion between 1970 and 2020. During La Niña 2010–2011, closures and diversions of roads caused losses of approximately US$222 million.
- **Housing**. The vulnerability of the housing sector to projected climate change scenarios is largely due to informal development in high-risk areas and inadequate incorporation of sustainability and resilience criteria in response to hydrometeorological hazards. According to historical disaster records (1914–2018), floods accounted for the largest share of homes destroyed (41 percent) and damaged (70 percent).[16] In 2010–2011, floods caused by the La Niña phenomenon affected 552,175 homes, 44 percent of which were located in urban areas.[17] Furthermore, considering the importance of the housing sector in terms of greenhouse gas (GHG) emissions from construction, cooking, heating or cooling, and waste generation, actions in this sector will make a pivotal contribution to climate change mitigation efforts in Colombia.
- **Health.** According to the Pan American Health Organization (PAHO), climate change may be the greatest threat to global health in the current century. Health can be affected by climate change, through: (a) direct impacts such as heat waves, droughts, severe storms, and sea level rise, which can cause injury, disease and mortality; and (b) indirect impacts through natural systems (like changes in the geographical and seasonal distribution of vector-borne and other diseases, both air-borne and water-borne) and socioeconomic systems (like food insecurity, inadequate water supply, malnutrition and forced displacement).[18]

6. **Deforestation and forest fires are key socioenvironmental challenges in Colombia. They are driven mainly by human encroachment into remote, uncontrolled areas and the increase in illegal logging, mineral extraction and**

[12] World Bank. 2011. Climate Risk and Adaptation Country Profile. Vulnerability, Risk Reduction and Adaptation to Climate Change: Colombia

[13] Hydrometeorological phenomena are the most recurrent, causing 85 percent of disasters registered between 1998 and 2018. In 2010–11 alone, the La Niña rainy season affected approximately 3.5 million people and caused unprecedented economic losses and damages. Source: UNGRD. 2018. *Atlas de riesgo de Colombia: revelando los desastres latentes.*

[14] BID, CEPAL. 2012. *Valoración de daños y pérdidas. Ola invernal en Colombia 2010-2011.* https://www.cepal.org/sites/default/files/news/files/ola_invernal_colombia_2010-2011_0.pdf

[15] DNP, MADS y UNGRD. 2018. Documento CONPES No. 39947. *Estrategias de actuación y coordinación para reducir las afectaciones ante la eventual ocurrencia de un fenómeno de variabilidad climática: El Niño 2018-2019.*

[16] UNDRR. 2021. *DesInventar* database.

[17] CEPAL and BID. 2012. *Valoración de daños y pérdidas Ola invernal en Colombia 2010-2011.* https://www.cepal.org/sites/default/files/news/files/ola_invernal_colombia_2010-2011_0.pdf

[18] PAHO. 2020. *Cambio Climático y Salud: Datos clave.* https://www.paho.org/es/temas/cambio-climatico-salud

expansion of the agricultural frontier. From 2001 to 2020, Colombia lost 4.66 million hectares (ha) of tree cover—most prominently in the *Amazonía* region—corresponding to a 5.7 percent decrease in total tree cover and roughly 2.59 gigatons (Gt) of CO_2 equivalent emissions.[19] A total of 11 high-deforestation hotspots identified by MADS accounted for 64 percent of total deforestation in the period 2000–18.[20] A continued increase in deforestation could cause roughly US$387 million (COP1.5 trillion) in GDP losses by 2030.[21] Additionally, the risk of forest fires has increased in recent years, particularly during more intense annual dry periods, with the attendant loss of ecosystems, increase in GHG emissions, and displacement, impoverishment and deterioration of the well-being of rural populations, including indigenous peoples. In 2015 alone, forest fires in Colombia caused 2,800 hectares to be deforested.[22] Due to the fragility of the soil in many forest areas, the removal or disturbance of green cover can cause erosion and degradation, compromising productivity and natural recovery and increasing the risk of runoff, floods, and landslides.

7. **Disaster risk is increasing in urban areas.** Colombia's urban population is expected to reach 89 percent by 2050, up from 81 percent in 2018.[23] The high concentration of people and assets in coastal cities exposed to natural hazards has resulted in increased disaster risk and is compounded by weaknesses in territorial planning, and inadequate housing and poor-quality construction, among other factors. Substandard housing is directly correlated with poverty, inequality, and lack of access to public services, as well as poor education and public health outcomes. A significant share of Colombia's urban population, especially the most vulnerable–including migrants, lives in high-risk areas, where their presence is exacerbating environmental degradation and putting these areas at even greater risk of flooding and landslides.

8. **Women and girls are disproportionately affected by disasters, which impact their already limited assets and livelihoods.[24]** Many studies have shown that women and girls often have limited access to shelter and limited income options. Disasters caused by natural and climate-induced hazards also exacerbate existing inequalities such as restricted mobility and lack of access to education, decision-making and economic opportunities, including those that would give them access to bank accounts, formal sources of finance and stable incomes.[25] The domestic burden on women and girls tends to increase after a disaster, as does gender-based violence.[26] If they lose a partner, women can often lose access to supportive services, housing, land and property. However, women are not only victims of disasters; they can also be important agents of change and recovery, particularly if they are involved in leadership and decision-making in local and community-level disaster planning, response and reconstruction.

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[19] Global Forest Watch. 2021. Colombia deforestation rates & statistics. https://www.globalforestwatch.org/dashboards/country/COL/
[20] DNP. 2020. CONPES No. 4021: *Política Nacional para el Control de la Deforestación y la Gestión Sostenible de los Bosques.* https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/4021.pdf
[21] Ibid.
[22] Ibid.
[23] United Nations Population Division. 2019. World Urbanization Prospects: 2018 Revision. https://population.un.org/wup/Country-Profiles/
[24] Colombia's Gender Development Index (GDI) value is 0.989, just above the regional average for Latin America and The Caribbean (0.978). Colombia's GNI per capita is US$11,594 for women and US$17,018 for men, a slightly better ratio than the regional average (US$10,708 / US$19,046). In terms of Gender Inequality Index (GII), Colombia ranks 101 out of 162 countries. While Colombia's female labor force participation rate (57.3 percent) is higher than the regional average (52.1 percent), it underperformed in terms of maternal mortality ratio (88 percent), adolescent birth rate (66.7 percent), female population with at least some secondary education (55.7 percent) and proportion of female members of parliament (19.6 percent). Source: United Nations Development Program. 2021. Human Development Report 2020: Colombia. http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/COL.pdf
[25] World Bank. 2012. Guidance Note 1: Making Women's Voices Count – Addressing Gender Issues in Disaster Risk Management in East Asia and the Pacific.
[26] Erman, A. et al. 2021. Gender Dimensions of Disaster Risk and Resilience. World Bank. https://openknowledge.worldbank.org/bitstream/handle/10986/35202/Gender-Dimensions-of-Disaster-Risk-and-Resilience-Existing-Evidence.pdf?sequence=1&isAllowed=y

The impact of the COVID-19 pandemic

9. **After two decades of sustained economic growth and reduction in poverty, the COVID-19 crisis hit Colombia's economy—and its society—hard, with effects that will take time to absorb.** Real GDP contracted 6.8 percent in 2020 against a pre-crisis projection of 3.6 percent growth. As a result of weak revenue collection and higher spending to support the economy and households during the crisis, the overall deficit of the general Government increased to 7.2 percent of GDP, from a projected 2.6 percent of GDP before the pandemic, and the general Government debt-to-GDP ratio reached 66.9 percent of GDP.[27] Colombia's solid economic growth since the early 2000s had led to significant social improvements (the extreme poverty rate fell from 17.7 percent in 2002 to 7.2 percent in 2018, and the moderate poverty rate dropped from 49.7 percent to 27.0 percent over the same period). Despite the mitigating impact of the Government's emergency response, the crisis has wiped out all of the net gains in poverty reduction realized over the past decade, as poverty increased from 35.7 percent in 2019 to 42.5 percent in 2020. Moreover, the early recovery from the pandemic is not closing the gender gap in Colombia, because whereas almost all the jobs lost by men have been recovered, only some of women's lost jobs have returned, in part owing to their concentration in sectors that have been slower to recover, such as tourism and services.[28]

10. **The COVID-19 pandemic has demonstrated the multiplier effects caused by compound risks and the opportunity to further strengthen financial preparedness to respond to increasingly complex, cascading and systemic shocks**. The simultaneous materialization of several risks creates multiplier effects and negative feedback loops, increasing both the impact of the disasters and the cost of response and recovery. For example, the impact of Hurricane Iota in Colombia's archipelago of San Andrés, Providencia and Santa Catalina in November 2020 presented a severe challenge to the Government's response and recovery capacity, despite the progress achieved in recent decades. In the current context—in which Government spending has dramatically increased, revenues dropped, and credit has tightened—Colombia's fiscal capacity to respond to additional shocks is severely constrained, as is the capacity of the private sector and the population to absorb their impacts. As the Government continues to tap into emergency funds, fewer resources will be available to respond to additional shocks or to invest in climate adaptation and mitigation. As has been demonstrated throughout the COVID-19 crisis, in which countries that were better prepared acted earlier and fared better,[29] investing in financial preparedness for future risks pays off.

Deepening spatial inequalities and increasing responsibilities at subnational level

11. **The benefits of Colombia's strong economic growth in previous years have not been evenly distributed**. Regional inequalities in Colombia are twice as high as those in other countries belonging to the Organization for Economic Co-operation and Development (OECD). Large gaps remain with regard to GDP per capita, poverty rates, access to public services, and standards of living across core and peripheral regions, within departments and municipalities, and between urban and rural areas.[30, 31] Moreover, discrepancies in economic well-being overlap with ethnic inequalities, as municipalities with the highest numbers of indigenous peoples and Afro-descendants tend to experience higher levels of unmet basic needs.[32] The compound impacts of the COVID-19 pandemic and the influx of migrants from Venezuela are exacerbating these existing inequalities.

[27] In this document, general Government debt is reported as gross, non-consolidated debt.
[28] World Bank. 2021. Building an Equitable Society in Colombia.
[29] World Bank. 2020. Crisis and Disaster Risk Finance: Short notes on COVID-19.
[30] For instance, poverty rates vary from as high as 59 percent in Chocó and 50 percent in Cauca to as low as 8 percent in Santander and 7 percent in Cundinamarca. Source: World Bank. 2019. Colombia Institutional Strengthening for Territorial Development DPL (P170728) – Program Document.
[31] World Bank. 2021. Building an Equitable Society in Colombia.
[32] Burger, M., Hendriks, M. and Ianchovichina, E. 2021. Happy but Unequal: Differences in Subjective Well-Being across Individuals and Space in

12. **Given Colombia's decentralized fiscal system, supporting the capacity of subnational governments is essential to ensure adequate incorporation of disaster, climate and public health risk reduction into infrastructure and service delivery**. As a result of progressive public governance decentralization reforms in the past four decades, Colombia has become the most decentralized country in the Latin America and Caribbean region. Under the current system, which is based on both devolution and delegation of assignments (including on public spending), subnational governments bear much of the burden for risk management and service delivery;[33] this burden has been particularly heavy in recent years with the surge of migration from Venezuela. This reality highlights the importance of strengthening policy reforms targeting subnational level to boost Colombia's resilience by enhancing the integration of disaster, climate and public health risks considerations into land use management, public investments,[34] and governance across all levels of subnational government.

Colombia's path toward developing a comprehensive DRM system

13. **Colombia's development of a national DRM policy and comprehensive DRM program has earned its recognition as a global leader in the field**. In recent decades, Colombia has made important strides to build a robust and innovative DRM system, moving from a reactive approach focused largely on disaster response to a more comprehensive one including risk identification, risk reduction, risk financing, emergency preparedness and response, and resilient recovery. The country modernized its DRM structure by establishing the National Disaster Risk Management System (SNGRD) and adopting the National Policy for Disaster Risk Management in 2012, and implementing a National Plan for DRM (2015–25).[35] It has also made progress in: (a) the expansion of monitoring networks; (b) preparation of hazard and risk studies to inform territorial and environmental planning; (c) development of sectoral DRM plans and instruments for use by SNGRD and various subnational and sectoral entities; and (d) the development of an ex-ante financial protection policy and strategy at the national and subnational levels to ensure that post-disaster recovery does not divert resources from important development programs.

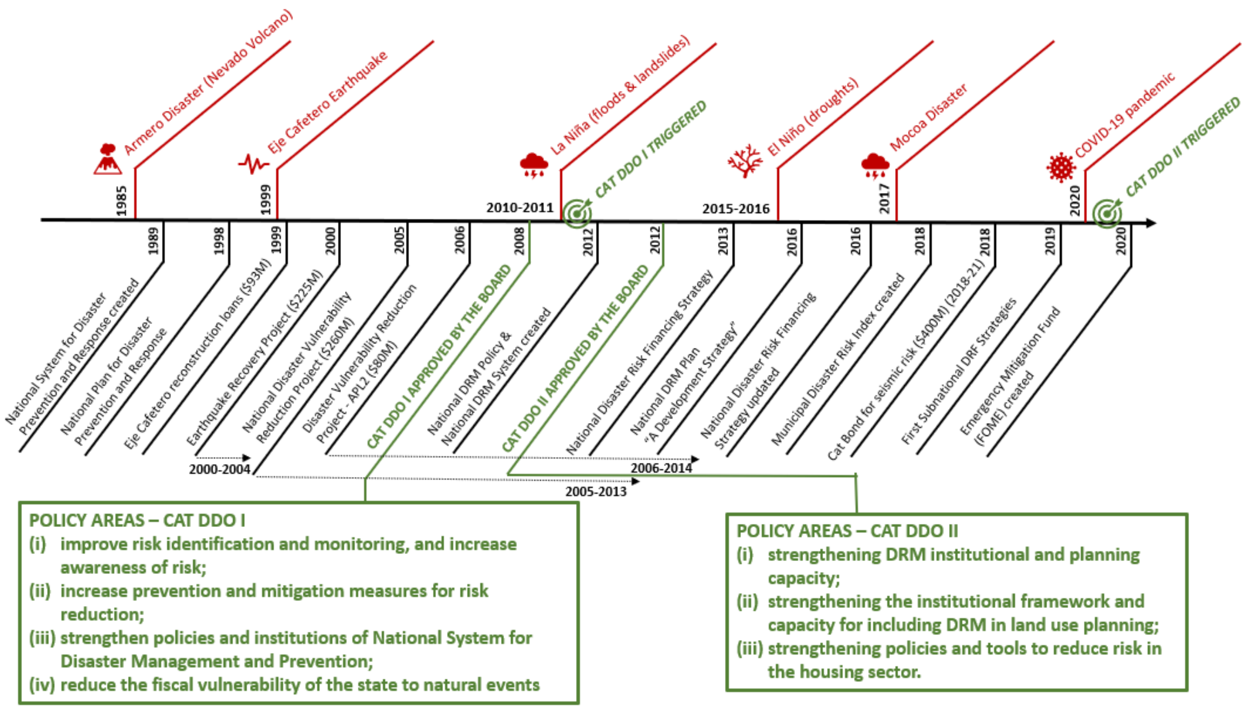
14. **Since 1999, the World Bank has provided critical support to Colombia's DRM program through innovative instruments.** Following the January 1999 earthquake in the *Eje Cafetero* (coffee-growing region), the Bank made four loans totaling US$93 million for reconstruction in the region. In 2000, the Earthquake Recovery Project provided US$225 million to support the reconstruction of essential housing and basic infrastructure, incorporating modern seismic resilience standards. In 2005, two Adaptable Program Loans (APL), the National Disaster Vulnerability Reduction Project and the Disaster Vulnerability Reduction Program, helped strengthen the DRM capacity at national and subnational (Bogotá) levels, respectively. The first DPL with Cat DDO program, for US$150 million, was approved in 2008, and the second, for US$250 million, was approved in 2012. Annex 5 includes a summary of World Bank support in DRM and CCA in Colombia since 1999.

15. **The first and second Cat DDOs incorporated both policy reforms and contingent credit aspects into the national DRM system.** The policy reforms strengthened the national system for reducing disaster risks, including climate-related hazards, and the contingent credit provided contingent bridge financing that could be disbursed within days of a disaster to provide the liquidity needed to meet emergency and recovery needs without diverting budgeted funds from other Government programs, particularly social support programs. The first Cat DDO was fully disbursed in December 2010 to respond to the heavy floods caused by the 2010–2011 La Niña phenomenon. The second Cat DDO was renewed

Colombia. World Bank
[33] OECD. 2019. OECD Multi-Level Governance Studies – Asymmetric decentralization: Policy implications in Colombia.
[34] These investments will benefit the vulnerable population, including migrants.
[35] Law 1523 of 2012; Decree 308 of 2016.

in 2015 and 2018,[36] and was fully disbursed in March 2020 to support the Government's response to the pandemic. It closed in July 2021. Figure 1 shows Colombia's key DRM milestones and the Bank's support of its DRM program in recent decades. Box 1 provides an overview of the policy areas and key results supported by the first and second Cat DDOs and the reforms envisioned under Cat DDO III.

Figure 1. Colombia and the World Bank: Key DRM Milestones



Box 1. Strengthening Colombia's DRM Capacity through Cat DDOs I, II, and III

Colombia has made important strides in recent decades to build a robust and innovative DRM system, in part through the support of Cat DDOs I and II. Cat DDO I supported the establishment of key national policies that became the foundation of the current DRM system. The Cat DDO II strengthened those policies and extended their reach to the sectoral and subnational levels. The proposed Cat DDO III aims to build on this progress by increasing the depth and breadth of these DRM and CCA policy reforms, including disaster risk financing (DRF), at the national, subnational and sectoral levels.

Cat DDO I (2008–2011, US$150 million) supported reforms in four policy areas: (a) improving hazard monitoring and risk identification, as well as increasing awareness of risk; (b) increasing risk prevention and mitigation measures for risk reduction; (c) strengthening policies and institutions of the SNGRD; and (d) reducing the fiscal vulnerability of the state to natural hazards. Following the 2010–2011 floods, Cat DDO I provided immediate liquidity that was critical to timely response and recovery efforts. The program also contributed to risk identification and mitigation, and to a substantial expansion of Colombia's seismic and volcanic monitoring stations and automatic hydrometeorological stations (an eight percent increase to 94 and 69, respectively). By the end of the program, the number of municipalities with local DRM plans had increased from 10 to 388; the Government had a better understanding of its contingent liabilities resulting from

[36] These extensions delayed the program closing date but did not alter the loan amount (US$250 million).

1disasters and the need for contingent financing; and the Ministry of Finance and Public Credit (MHCP) had started to define a national framework for contingent financing.

Cat DDO II (2012-2021, US$250 million) supported reforms in three policy areas. Under policy area (a), namely strengthening institutional and planning capacity for DRM, Cat DDO II included the development of the National DRM Plan, the National Emergency Response Strategy, the National Strategy for Resilient Recovery from Disaster and Climate Change, and the methodology for damage and loss assessment. It also included an analysis of environmental needs for mainland ecosystems. Under policy area (b), namely strengthening the institutional framework and capacity for including DRM in land use planning, Cat DDO II promoted the incorporation of risk assessment into land use planning, and the implementation of CCA in subnational plans. Under (c), namely strengthening policies and tools to reduce risk in the housing sector, the program supported the development of a national inventory of settlements located in high-risk areas.

The proposed Cat DDO III (US$300 million) will support additional reforms in three policy areas: (a) promoting the further development of DRM and climate change policies; (b) strengthening the country's fiscal resilience to disaster, climate and public health risks; and (c) promoting sectoral and subnational coresponsibility in DRM and CCA. The program will deepen policy reforms by: (a) promoting coresponsibility across sectors, territories and government levels and entities; and (b) expanding disaster risk financing at the national, subnational and sectoral levels, as a key component of contingent liability management and consequently of fiscal management. The proposed operation will also define and develop public policy actions to address climate variability; mitigate climate change by controlling deforestation and promoting the sustainable use of forestry resources; and contribute to mainstreaming disaster and climate risk in the development and operation of multimodal transport and housing infrastructure. Critically, in the context of the COVID-19 crisis and other public health threats driven by climate change, the program will also support the formulation of a new Ten-Year Public Health Plan (PDSP), to be incorporated into disaster planning and informed by lessons learned during the pandemic.

16. **Key lessons learned from the previous Cat DDOs and incorporated in the operation's design include the following**: (a) the Cat DDO operation should align actions with Government priorities and underpin the dialogue with technical assistance; (b) DRM policy is most effective when based on adequate identification of both social and fiscal vulnerability to disasters, and fiscal risks; and (c) it is important to position the Cat DDO within a country's broader disaster risk financing strategy. In the context of the ongoing COVID-19 pandemic, the operation will also support key policy actions aimed at reducing existing vulnerabilities and improving the response to disease outbreaks, including those exacerbated by climate change.

Remaining challenges to address disaster, climate and public health risk

17. **Building on its significant progress in recent years, Colombia seeks to further strengthen its DRM policy and institutional framework—with a particular focus at sectoral and subnational levels—while continuing to address disaster, climate and public health risks**. In the context of the ongoing implementation of Colombia's National Disaster Risk Management Policy and associated National Disaster Risk Management Policy and associated National Disaster Risk Management Plan (PNGRD), key challenges remain around implementation at the sectoral level. The housing and transport sectors, which have been disproportionately affected by disasters, are notable candidates for improvement in this area. Regarding the DRM and CCA goals established in Colombia's National Development Plan (PND) 2018–2022 (supporting the PNGRD), outstanding challenges include improving: (a) disaster risk knowledge; (b) sectoral coresponsibility; (c) strategies to take account of climate risk systematically; and (d) the institutional capacity of subnational entities to reduce risk. In the area of climate action, the National Climate Change Policy (2017) and Climate Change Law (2018) established guidelines for climate change planning at the national, sectoral, and subnational levels. The Government is now taking steps to strengthen these public policies to promote better alignment of the DRM and climate action agendas, including controlling deforestation, to help achieve the goal of zero net deforestation by 2030. In addition, the program includes efforts to help public institutions develop a better understanding of climate variability and its consequences, including extreme rainfall, droughts, hurricanes and temperatures.

18. **From the financial protection perspective, progress has been made since 2012 to assess, reduce, and manage the fiscal risk associated with disasters and climate change through the National Disaster Risk Financing Strategy.** However, significant challenges remain, including the development and roll-out of new financial instruments to finance green investments and ensuring the engagement of priority sectors and subnational governments. Regarding public health risks, the COVID-19 pandemic has highlighted the opportunity to: (a) integrate DRF and DRM into health sector planning, and (b) improve risk knowledge, risk reduction, emergency preparedness and response capacity of the health sector, particularly at the subnational level, such as detecting, tracing, and monitoring individuals affected by the pandemic and other health risks. Colombia's public health system is particularly vulnerable to the impact of climate-driven risks; for example, the incidence and prevalence of mosquito-borne diseases such as malaria or dengue fever could increase dramatically in a number of large urban centers as a result of a rise in temperatures due to climate change.

<u>**Continuing progress toward a more resilient Colombia**</u>

19. **The proposed Cat DDO III will extend the joint engagement on DRM by the Government and the World Bank in recent decades**, building on the achievements and lessons learned from the Cat DDO I and Cat DDO II, and supported by other ongoing lending and technical assistance operations aimed at strengthening disaster and climate risk management in the country. The seven policy reforms supported by the operation are structured around three pillars:

- Pillar 1. Promoting the Development of DRM and Climate Change Policies;
- Pillar 2. Strengthening Fiscal Resilience to Disaster, Climate, and Public Health Risks; and
- Pillar 3. Promoting Sectoral and Subnational Coresponsibility in DRM and CCA.

20. **Given the advanced stage of Colombia's DRM Government program and its related policy and regulatory framework, the operation will support key actions to address some remaining critical challenges described above, particularly at the subnational and sectoral levels**. Having established the national DRM framework through legislation over the past decade, continued progress in Colombia will be made through policy documents, strategies, plans and guidelines; these are, in essence, the instruments that the Government uses to operationalize and implement policy reforms. Colombia's national policymaking and implementation frameworks include a number of legally binding instruments beyond nationally approved legislation. Key instruments include policy documents approved by the National Council for Economic and Social Policy (CONPES); sectoral plans and strategies guiding investment and decision making; and codified sectoral guidelines setting the framework within which sectoral ministries and institutions operate at both the national and subnational level. These instruments are particularly effective given the advanced legal and regulatory framework of Colombia's decentralized political system. At the national level, legal instruments include (in addition to the Constitution) laws approved by the Legislative branch, decrees and other administrative acts issued by ministries and other entities in the Executive branch, and legal decisions issued by the Judiciary. The decentralized system of government allows subnational entities (departments, districts, municipalities and indigenous territories) to issue ordinances, decrees, and other legal measures that help establish policies and strategies to promote disaster risk management.

21. **The operation will support Colombia's climate action by further integrating DRM and climate change adaptation and mitigation considerations—which have thus far largely been treated as separate agendas—and promote an understanding of extreme hazards and events related to climate variability beyond the baseline climate scenario.** From the financial perspective, the operation will support Colombia in realizing more sustainable DRM financing to reduce the fiscal impact of disasters at the national, subnational and sectoral levels, improving the efficiency and transparency of post-disaster public spending and reducing the disruption to ongoing development programs. In

view of the lessons learned from the COVID-19 pandemic, public health considerations will be integrated across the operation's three pillars to strengthen Colombia's capacity to reduce risks and mitigate the impact of future disease outbreaks.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

22. **The outbreak of the COVID-19 pandemic caused a large shock to economic activity and led to a deterioration of the fiscal deficit and Government debt**. Strict lockdown and mobility restrictions, the repercussions of the pandemic on global demand and oil prices, and the ensuing uncertainty about the depth and duration of the crisis disrupted both domestic supply and demand, bringing manufacturing, construction, and commerce almost to a halt in March and April 2020.[37] With the gradual easing of these restrictions, beginning in May 2020, economic activity started to pick up, led by manufacturing and commerce. The authorities also promptly put in place a range of monetary and fiscal measures to support firms and households. The Central Bank progressively cut the monetary policy rate from 4.25 percent in March 2020 to a historic low of 1.75 percent in September 2020, lowered reserve requirement ratios, purchased public and private securities, and activated U.S. dollar swap lines. To ensure adequate fiscal support, the suspension clause of the fiscal rule was activated for 2020 and 2021.[38] The Government increased transfers to vulnerable groups through existing and new programs (*Ingreso Solidario* and value-added tax (VAT) reimbursement program for the poor), deferred tax collection for firms, and provided wage subsidy and liquidity support for businesses. These measures helped contain the contraction of GDP and private consumption, but not that of gross fixed capital formation, which declined 20.6 percent as both private and public investment fell. Fiscal emergency measures and the fall in nominal GDP pushed the central Government deficit to a record-breaking 7.8 percent of GDP, while the general Government debt-to-GDP ratio also hit a record high of 66.9 percent. Despite this comprehensive response, the efforts were not enough to prevent an increase in poverty.

23. **Economic activity started to rebound in May 2020 and approached end-2019 levels by June 2021, despite a tightening of mobility restrictions in April 2021 and protests and strikes in April-June 2021.** In the first quarter (Q1) of 2021, GDP grew 2.9 percent (quarter on quarter (q/q), on a seasonally adjusted basis), and the level of activity reached 99.3 percent of its 2019 level in Q4. In mid-April 2021 the Government submitted an ambitious fiscal reform package to Congress to increase revenues, expand social protection, and reduce the deficit.[39] This was ambitious in scope and scale. However, after opposition in Congress and heavy protests around the country, the Government withdrew the proposal and started working on a new draft, but protests and blockades continued well into May and June, depressing economic activity. Although comparatively muted protests continued in the first half of June, activity in most sectors picked up

[37] These three sectors contributed about 36 percent of GDP in 2019. In Q1 of 2020 manufacturing contracted, 21.6 percent q/q, construction 24.6 percent, and commerce 33.6 percent.

[38] Colombia's fiscal rule mandated a reduction of 0.8 percent of GDP in the central government fiscal deficit between 2019 and 2022, which would have brought the structural deficit of the central Government to 1 percent of GDP in 2022. In May, the flexibility built into the fiscal rule allowed resetting the 2020 deficit ceiling to 6.1 percent of GDP (up from 2.2 percent established in the 2019 medium-term fiscal framework). On June 15, 2020, the Consultative Committee on the Fiscal Rule endorsed the Government's request to suspend the fiscal rule. The suspension clause of the fiscal rule does not set a ceiling to the fiscal deficit during the suspension period, nor does it set a duration for the suspension period.

[39] The package proposed revenue measures of about 2 percent of GDP (in particular, expanding the base of the Personal Income Taxes and reducing exemptions on VAT), additional social spending of 0.6 percent of GDP (transforming the *Ingreso Solidario* program into a Guaranteed Minimum Income program, and expanding the coverage and amount of the program to compensate poor households for VAT), and a deficit reduction of 1.4 percent of GDP.

again, reverting either to pre-pandemic levels or the pre-pandemic trend. The exceptions to this recovery were mining and construction, which had been weak even before the COVID-19 crisis. Overall, GDP contracted by 2.3 percent in Q2, less than expected. In July and August, economic activity remained firmly above 2019 levels, and high-frequency energy consumption and mobility indicators (good leading indicators of economic activity) suggested that activity remained on track for a solid rebound in September and October.

24. **Inflation hovered around zero for most of 2020 but started to increase in April and May 2021 owing to an increase in international input prices and transport costs, and the depreciation of the Colombian peso, prompting the Central Bank to increase the monetary policy rate**. Despite the large monetary stimulus, year-end inflation in 2020 reached only 1.6 percent. Monthly consumer price index (CPI) inflation picked up in 2021 and reached 0.4 percent month on month (m/m) in April and May 2021, as road blockades and an increase in international prices raised production costs. Monetary policy remained accommodative, with a policy interest rate of 1.75 percent, until September, when the Central Bank increased the policy rate to 2 percent, followed by a further increase in October, to 2.5 percent. In October, CPI inflation increased to 4.6 percent y/y (above the upper bound of the inflation targeting band), raising expectations that monetary policy may tighten further before the end of 2021 and in 2022. Inflation expectations over the medium term remained anchored.

25. **After declining to 3.4 percent of GDP in 2020, the current account deficit has increased in 2021, as import growth resumed and export receipts, especially from tourism, remained weak**. In 2020, the trade deficit increased to 4.9 percent of GDP, with the increase entirely accounted for by lower nominal GDP in U.S. dollars (the drop in import values was greater than the loss in export values). At the same time, lower profitability of foreign firms operating in Colombia compressed external payments to foreign investors, and remittances remained robust (especially from the U.S. and Spain). As a result, the decline in the primary income deficit and the increase in the secondary income surplus compensated for the deterioration in the trade deficit, leading to a reduction of the current account deficit as a proportion of GDP. In the first half of 2021, current account flows stabilized to pre-crisis levels, except for tourism receipts. Buoyed by the recovery of domestic demand, imports of goods and services climbed to 94 percent of the 2019 half-year average, and exports of goods, supported by the recovery of oil prices and external demand, reached 92 percent of their 2019 value. However, with tourism receipts at only 32 percent of the 2019 level, the trade deficit reached 3.1 percent of projected annual GDP. At the same time, distribution of profits started to pick up.[40] Despite the flow of remittances hitting a record high, the current account deficit reached 2.6 percent of projected 2021 GDP. So far, foreign direct investment (FDI)–in particular to the oil and mining sector–and net portfolio inflows (US$4.6 and US$4.7 billion, respectively) were more than enough to finance the half-yearly current account deficit (US$7.9 billion) and allow reserve accumulation.

26. **The central Government's deficit widened to 7.8 percent of GDP in 2020 and, as of August 2021, reached 5 percent of 2021 projected annual GDP**. The decline in nominal GDP in 2020 pushed the spending-to-GDP ratio up by 1.1 percent. Spending on goods and services related to the COVID-19 response and transfers to households and departmental and local governments increased by 3.2 percent of GDP. The decline in private consumption, lower oil receipts, tax exemption for strategic health imports and selected food industries and services, and a temporary delay in tax payments weighed on taxes. During January-August 2021, tax collection reached 62 percent of the annual target and was in line with 2019 levels as a percentage of GDP, showing the resilience of taxpayer compliance and tax buoyancy.[41] The estimated expenditure-to-GDP ratio returned to 2019 levels, but expenditures remained above pre-pandemic levels

[40] In the first half of 2021, distribution of profits was about 75 percent of the 2019 half-year average.
[41] Owing to the tax payment calendar, revenue collection tends to be stronger in the first than in the second half of the year.

in nominal terms, showing that emergency-related spending remains high.

27. **On September 7, 2021, Congress approved a fiscal reform law (*Ley de Inversión Social*), which contained measures on both revenues and spending, reduced the deficit, and strengthened the fiscal rule**. In particular, the law: (i) increased the corporate income tax rate to 35 percent and introduced a 3 percent surcharge on the CIT of the financial sector until 2025; (ii) maintained 50 percent of the payment of the turnover tax (ICA) as a CIT credit (reversing a previous commitment to allow full crediting of the ICA); (iii) strengthened measures to combat tax evasion; (iv) increased the annual revenue qualification threshold for the "simple" tax regime, from about US$750,000 to about US$ 1 million; (v) extended the *Ingreso Solidario* transfer program until 2022, expanding the transfer to 4.1 million families as of April 2022; (vi) subsidized, for one year, employers hiring women and young adults; (vii) broadened the wage subsidy program (PAEF) until December 2021; (v) mandated free tuition in tertiary education for low-income students (695,000 students) in public institutions; and (vi) required the Government to present annual austerity plans for the next ten years.[42] The law also strengthened the fiscal rule by introducing an anchor for central Government debt, setting net primary structural deficit targets for 2022–25 (moving from a deficit of 4.7 percent of GDP in 2022 to a surplus of 0.5 percent of GDP in 2025), and mandating the institution of a fiscal council. The reform was estimated to have a fiscal cost of about 1.0 percent of GDP in 2021 and 0.4 percent of GDP in 2022, while contributing to reducing the deficit by 1.0 percent of GDP on a permanent basis starting in 2023.

28. **Driven by the central Government deficit, general Government gross debt increased to 66.9 percent of GDP at end-2020**.[43] Central Government debt increased to 64.8 percent of GDP at end-2020, while the additional debt of general Government increased to 2.1 percent of GDP. This is about 14.9 percent of GDP higher than in a counterfactual scenario without COVID-19, of which lower nominal GDP growth contributed about 6.6 percent of GDP, while the depreciation of the peso explains roughly another 1.1 percent of GDP. The central Government successfully tapped financial markets in 2020, raising financing equivalent to 13.7 percent of GDP, which enabled prefinancing of the 2021 budget. In January and April 2021, the Government issued bonds for US$1.3 billion and US$3 billion, respectively, with a 3.4 bid-to-cover ratio in April (Table 3).

29. **Markets reacted to the strikes and the withdrawal of the fiscal reform package, leading credit rating agencies to downgrade Colombia's sovereign debt**. After a strong reaction when the pandemic broke out, market conditions stabilized, and by end-2020, most indicators had returned to close to their levels at the beginning of 2020. Since the beginning of 2021, the Colombian peso has been on a depreciating trend. It fell by another four percent soon after protests began in late April, appreciated temporarily to almost the same level as before the protests, but later returned to the January–March depreciating trend, apparently disengaging from oil price movement. On the Global Emerging Markets Bond Index, Colombia's spreads, stable during January-March around 230 basis points, have been increasing since mid-March, possibly in anticipation of difficulties in passing a reform package, and in the first week of September reached around 270 basis points, one of the largest increases among Latin American and Caribbean countries over this five-month period (see Figure 2). S&P and Fitch downgraded Colombia to below investment grade owing to the expected deterioration in public finances, as well as reduced confidence in Government capacity to reduce the debt trajectory. Nonetheless, net foreign purchases of Government bonds reached their highest point in over a decade in May 2021, and net purchases have continued through August 2021.

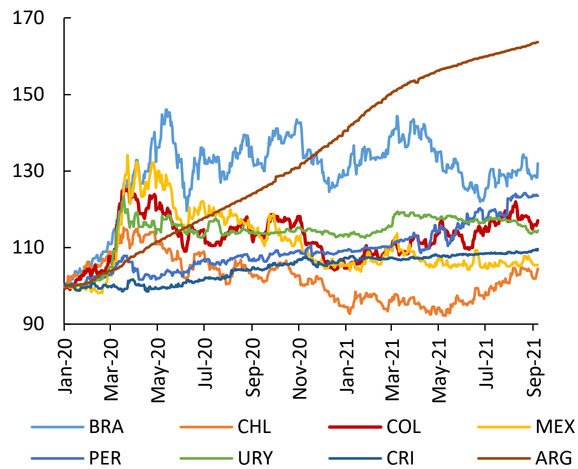
30. **The financial sector remains resilient to the deterioration in lending portfolio quality.** With the expiration of

[42] The law also eases the administration of seized goods, extends the list of VAT-free goods during the VAT holiday, allows cofinancing up to 50 percent of the operational deficit of mass transportation systems, extends subnational government access to liquidity credits and increases their debt ceilings, exempts restaurants and bars classified in the SIMPLE from VAT and consumption taxes.

[43] The consolidated debt of the general Government was 58.4 percent of GDP.

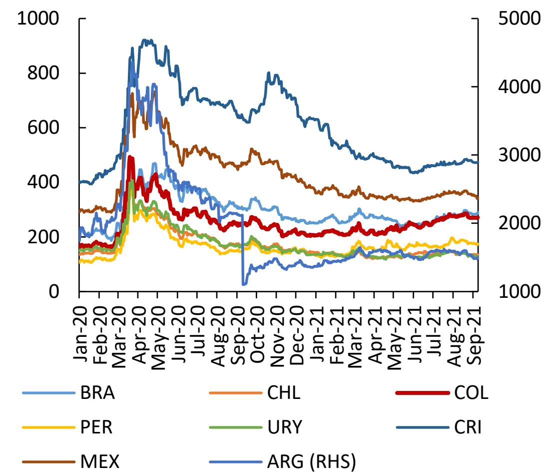
borrower relief measures in January 2021, the non-performing loans (NPL) ratio, including write-offs, steadily increased, reaching the highest value in the indicator's history in May (11.1 percent). However, the NPL ratio, including write-offs, declined slightly to 10.8 percent in June (latest available data), and banks remained well capitalized during the first half of 2021. The capital adequacy ratio of the financial system reached 20.3 percent in June 2021 after dropping to 13.7 percent in April 2020 (the lowest since 2008), with no individual institution in single digits. Immediate financial stability risks are mitigated by the significant build-up of additional provisions, which reached 157 percent of NPLs (excluding write-offs) in June 2021, and by the implementation of additional capital buffers following Basel III standards (to be gradually introduced over a four-year period starting in January 2021). Although corporates' financial conditions have improved since the beginning of the pandemic, 21 percent of firms were experiencing difficulties servicing their debt on time as of July 2021.

Figure 1. Exchange Rates (Index 1/1/2020=100)



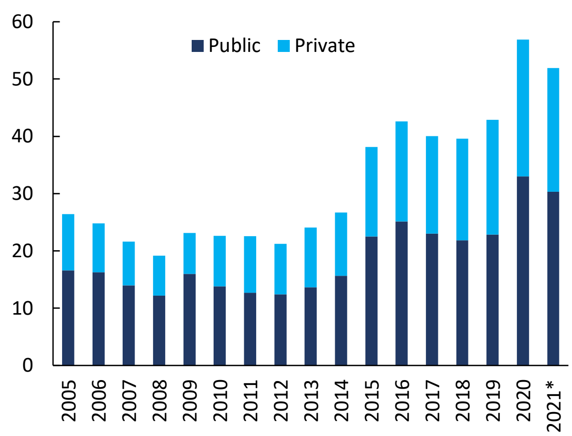
Source: Bloomberg

Figure 2. Emerging Markets Bond Index (EMBI) Sovereign Spread (basis points)



Source: Bloomberg

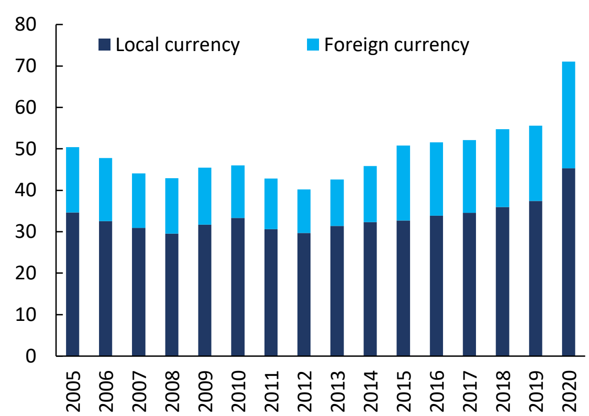
Figure 3. External Debt (percent of GDP)



**External debt as of June 2021*

Source: Central Bank and World Bank staff calculations.

Figure 4. Gross Non-Financial Public Sector Debt (percent of GDP)



Source: Ministry of Finance and World Bank staff calculations.

Table 1. Colombia: Key Macroeconomic Indicators, 2017–2024

	2017	2018	2019	2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024
Real sector	Annual percentage change, unless otherwise indicated							
Real GDP	1.4	2.6	3.3	-6.8	7.7	4.2	3.9	3.4
Contributions:								
Private Consumption	1.4	2.2	2.7	-3.9	6.8	3.0	2.8	2.4
Government Consumption	0.5	1.1	0.8	0.6	0.8	0.1	0.1	0.1
Investment	0.4	0.2	0.7	-4.5	2.7	1.0	0.7	0.7
Exports	0.4	0.1	0.5	-2.8	0.6	1.0	0.6	0.5
Imports	-0.2	-1.2	-1.6	4.0	-3.2	-0.9	-0.3	-0.3
Exports	1.0	5.8	7.3	-17.3	15.7	4.1	1.5	1.3
Imports	2.6	0.6	3.1	-18.3	4.3	8.0	4.8	3.6
Unemployment rate (nat. def.)	8.6	9.7	9.5					
GDP deflator	5.1	4.6	4.0	1.4	5.3	3.7	2.8	2.9
CPI (average)	4.3	3.2	3.5	2.5	3.2	3.1	3.0	3.0
Fiscal accounts (Central Government)	Percent of GDP, unless otherwise indicated							
Revenues*	15.7	15.1	16.2	15.2	15.9	15.6	16.0	16.2
Expenditures	19.3	18.3	18.7	23.0	24.7	22.7	20.9	20.1
Fiscal balance (CG)	-3.6	-3.1	-2.5	-7.8	-8.7	-7.2	-4.9	-3.9
Fiscal accounts (General Government)	Percent of GDP, unless otherwise indicated							
Revenues	24.8	26.5	27.5	25.9	26.7	28.0	28.1	28.2
Expenditures	27.3	29.1	30.1	33.1	35.0	35.1	32.7	31.8
Fiscal balance	-2.5	-2.6	-2.6	-7.2	-8.3	-7.1	-4.6	-3.6
Gross public debt**	48.5	51.3	52.2	66.9	70.9	72.7	72.2	70.7
Selected monetary accounts	Annual percentage change, unless otherwise indicated							
Base money	5.0	10.4	12.3	17.9	...	...	...	...
Credit to private sector	12.1	4.4	7.8	7.6	...	...	...	...
Policy interest rate (end-of-period)	4.8	4.25	4.25	1.75	...	...	...	...
External sector	Percent of GDP, unless otherwise indicated							
Current account balance	-3.2	-4.3	-4.6	-3.7	-4.9	-4.6	-4.6	-4.4
Exports GNFS	15.8	16.1	15.9	14.0	15.5	15.9	16.0	16.2
Imports GNFS	18.7	19.3	20.3	18.9	21.0	20.6	20.4	20.4
Foreign direct investment (net)	-3.2	-1.8	-3.4	-2.2	-2.3	-2.7	-3.1	-3.1
Gross reserves (US$ billion, eop)	47.6	48.4	53.2	59.0	59.8	61.2	62.5	63.9
In months of next year's imports	9.1	9.0	12.4	12.3	10.6	10.5	10.4	10.3
As % of short-term external debt	290	239	237	265	...	...	...	...
External debt	40.0	39.7	42.9	55.4	55.3	55.2	55.2	55.1
Terms of trade (% change)	9.3	5.8	0.1	...	...	...	...	...
Exchange rate (COP/US$, average)	2,951	2,956	3,281	3,693	3,749	3,756	3,850	3,946
Memo items								
Nominal GDP (US$ million, current)	311,685	333,755	322,979	271,828	301,641	327,251	341,265	353,845
Nominal GDP (COP billion, current)	920,471	987,791	1,061,119	1,002,922	1,137,506	1,228,628	1,311,919	1,396,123
Oil production (hundred thousand barrels/day)	854	865	886	781	770	821	850	876
Oil price (Brent spot price, US$/barrel)	53	68	61	41	67	66	61	61

* In 2019 includes extraordinary Ecopetrol dividend. Since 2019 includes profits of Banco de la Republica.
**Gross pulic debt is unconsolidated debt and it includes Ecopetrol.
Source: Colombian autorities and WB staff estimates and projections.

Table 2. Balance of Payments, 2017–2024

	2017	2018	2019	2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024
				U.S. dollars millions				
Current account balance	**-10,110**	**-14,188**	**-14,991**	**-9,927**	**-14,688**	**-15,198**	**-15,745**	**-15,516**
Trade balance	-8,947	-10,703	-14,336	-13,371	-16,592	-15,457	-15,135	-14,722
Exports of goods and services	49,313	53,724	51,324	38,056	46,881	52,085	54,638	57,448
of which, oil	13,308	16,843	15,962	8,755	14,539	15,413	15,967	16,852
of which, tourism	4,921	5,621	5,682	1,595	1,797	4,452	4,667	4,908
Imports of goods and services	58,260	64,427	65,660	51,427	63,473	67,542	69,773	72,170
Primary income balance	-8,046	-11,442	-9,710	-5,343	-7,961	-9,588	-10,387	-10,815
of which: distribution of dividends to foreign direct invest	6,929	10,163	8,917	3,022	4,915	6,556	7,540	7,964
of which: external interest payments	9,211	11,709	11,573	7,862	9,770	11,356	13,022	13,713
Secondary income balance	6,883	7,957	9,055	8,788	9,865	9,847	9,777	10,021
of which: workers' remittances	5,784	6,636	7,087	6,909	7,350	7,767	7,939	8,109
Financial account (net lending/borrowing)	**-9,625**	**-12,954**	**-13,299**	**-8,319**	**-14,691**	**-15,202**	**-15,747**	**-15,524**
Direct investment, net	-10,011	-6,172	-10,836	-5,921	-6,978	-9,080	-10,603	-11,097
of which: foreign direct investment	13,701	11,299	13,990	7,641	9,773	12,588	14,223	14,891
Portfolio investment, net	-1,800	862	24	-1,792	-3,965	-3,827	-6,414	-7,063
Financial derivatives and employees stock options	365	21	84	-513	-84	-37	-110	-129
Other investment	1,276	-8,852	-5,904	-4,421	-4,470	-3,574	48	1,371
Reserve assets	545	1,187	3,333	4,328	806	1,316	1,331	1,394
Net errors and omissions	-485	-1,234	-1,692	-1,608	3	4	2	7
				Percent of GDP				
Current account balance	**-3.2**	**-4.3**	**-4.6**	**-3.7**	**-4.9**	**-4.6**	**-4.6**	**-4.4**
Trade balance	-2.9	-3.2	-4.4	-4.9	-5.5	-4.7	-4.4	-4.2
Exports of goods and services	15.8	16.1	15.9	14.0	15.5	15.9	16.0	16.2
of which, oil	4.3	5.0	4.9	3.2	4.8	4.7	4.7	4.8
of which, tourism	1.6	1.7	1.8	0.6	0.6	1.4	1.4	1.4
Imports of goods and services	18.7	19.3	20.3	18.9	21.0	20.6	20.4	20.4
Primary income balance	-2.6	-3.4	-3.0	-2.0	-2.6	-2.9	-3.0	-3.1
of which: distribution of dividends to foreign direct invest	2.2	3.0	2.8	1.1	1.6	2.0	2.2	2.3
of which: external interest payments	3.0	3.5	3.6	2.9	3.2	3.5	3.8	3.9
Secondary income balance	2.2	2.4	2.8	3.2	3.3	3.0	2.9	2.8
of which: workers' remittances	1.9	2.0	2.2	2.5	2.4	2.4	2.3	2.3
Financial account (net lending/borrowing)	**-3.1**	**-3.9**	**-4.1**	**-3.1**	**-4.9**	**-4.6**	**-4.6**	**-4.4**
Direct investment, net	-3.2	-1.8	-3.4	-2.2	-2.3	-2.8	-3.1	-3.1
of which: foreign direct investment	4.4	3.4	4.3	2.8	3.2	3.8	4.2	4.2
Portfolio investment, net	-0.6	0.3	0.0	-0.7	-1.3	-1.2	-1.9	-2.0
Financial derivatives and employees stock options	0.1	0.0	0.0	-0.2	0.0	0.0	0.0	0.0
Other investment	0.4	-2.7	-1.8	-1.6	-1.5	-1.1	0.0	0.4
Reserve assets	0.2	0.4	1.0	1.6	0.3	0.4	0.4	0.4
Net errors and omissions	-0.2	-0.4	-0.5	-0.6	0.0	0.0	0.0	0.0

Table 3. Balance of Payments Financing Requirements and Sources, 2017–2024 (US$ million)

					Proj.	Proj.	Proj.	Proj.
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Financing requirements	**41,722**	**47,676**	**52,013**	**49,876**	**52,565**	**50,936**	**52,856**	**53,611**
Current account deficit	10,110	14,188	14,991	9,927	14,688	15,198	15,745	15,516
External debt amortization	31,067	32,301	33,689	35,621	37,071	34,422	35,780	36,700
Medium and long term	16,215	15,711	13,230	14,400	13,710	11,133	12,575	13,250
o/w Multilateral and Bilateral institutions				825	974	966	966	966
Short term	14,852	16,590	20,458	22,932	22,054	20,289	21,303	22,369
Gross reserve accumulation	545	1,187	3,333	4,328	806	1,316	1,331	1,394
Financing sources	**41,722**	**47,676**	**52,013**	**49,876**	**52,565**	**50,936**	**52,856**	**53,611**
FDI (net)	10,011	6,172	10,836	5,921	6,978	9,080	10,603	11,097
o/w inward (net)	13,701	11,299	13,990	7,641	9,773	12,588	14,223	14,891
External debt disbursements	33,638	40,551	39,714	51,055	39,131	33,550	36,201	38,062
Medium and long term	17,047	20,093	16,782	29,001	18,842	12,247	13,833	14,575
o/w Multilateral and Bilateral institutions	1,228	3,145	1,781	10,300	4,942	4,522	4,522	4,522
Short term	16,590	20,458	22,932	22,054	20,289	21,303	22,369	23,487
Other capital flows (net)	-1,927	952	1,462	-7,100	6,456	8,306	6,052	4,452
Memo items								
Remittances (net)	5,515	6,345	6,761	6,660	7,084	7,487	7,656	7,821

Source: Central Bank of Colombia and WB staff estimates and projections.

Table 4. Colombia: Key Fiscal Indicators for the Central Government, 2017–2024 (percent of GDP)

					Proj.	Proj.	Proj.	Proj.
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Total revenues *	**15.7**	**15.1**	**16.2**	**15.2**	**15.9**	**15.6**	**16.0**	**16.2**
Tax revenues	13.8	13.7	14.0	13.0	13.5	14.0	14.9	15.0
Net income tax and profits	5.7	6.5	6.4	6.1	5.8	6.04	6.85	7.05
Value-added tax	5.5	5.7	5.8	5.4	5.8	5.9	5.9	5.9
International trade	0.4	0.4	0.4	0.3	0.4	0.5	0.5	0.5
Financial transactions tax	0.7	0.7	0.8	0.7	0.8	0.8	0.9	0.9
Stamp and other taxes	1.4	0.5	0.7	0.5	0.7	0.74	0.80	0.75
Non-tax revenues	0.6	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Capital revenues *	1.1	1.2	1.9	1.9	2.1	1.3	0.9	0.8
o/w Ecopetrol dividends	0.1	0.3	1.1	0.7	0.1	0.4	0.5	0.5
Other	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditures	**19.3**	**18.2**	**18.7**	**23.0**	**24.7**	**22.7**	**20.9**	**20.1**
Current expenditures	16.0	15.6	15.6	19.4	20.5	19.0	17.9	17.5
Wages and salaries	2.2	2.3	2.1	2.4	2.3	2.1	2.1	2.1
Goods and services	0.6	0.7	0.7	1.2	1.4	0.9	0.8	0.7
Interest	2.9	2.8	2.9	2.8	3.4	3.5	3.4	3.4
Current transfers	10.2	10.2	10.1	13.6	13.3	12.5	11.6	11.3
Other	0.1	-0.3	-0.1	-0.5	0.0	0.0	0.0	0.0
Capital expenditures	3.3	2.6	3.0	3.5	4.2	3.7	3.0	2.6
Fixed capital formation	2.1	1.5	1.8	2.2	2.7	2.4	2.1	1.7
Capital transfers	1.2	1.1	1.2	1.3	1.4	1.2	0.9	0.9
Primary balance	-1.1	-0.3	0.4	-4.9	-5.3	-3.6	-1.4	-0.5
Overall fiscal balance *	**-3.7**	**-3.1**	**-2.5**	**-7.8**	**-8.7**	**-7.2**	**-4.9**	**-3.9**
Financing needs and end-year deposits	**8.3**	**8.0**	**8.4**	**13.7**	**12.2**	**10.8**	**8.1**	**7.5**
Overall fiscal balance	3.7	3.1	2.5	7.8	8.7	7.2	4.9	3.9
Amortizations	2.5	1.0	2.8	1.1	1.7	2.3	2.4	2.6
Arrears, judicial claims and other	0.2	0.6	1.2	1.5	0.8	0.5	0.0	0.0
Stock of deposits at the end of the year	2.0	3.4	1.9	3.3	1.0	0.8	0.8	1.0
Financing sources and previous year deposits	**8.3**	**8.0**	**8.4**	**13.7**	**12.2**	**10.8**	**8.1**	**7.5**
Domestic	5.1	5.0	4.1	3.4	4.9	6.5	5.0	4.5
Use of saving to capitalize FOME				1.3	1.1			
"Titulos de Solidaridad"				1.0				
External	1.7	1.2	1.2	5.9	3.3	3.4	2.3	2.3
Stock of deposits at the end of the previous year	1.6	1.8	3.2	2.1	3.0	0.9	0.8	0.7
Memo items								
Nominal GDP (COP billion, current)	920,471	985,931	1,061,730	1,002,922	1,137,506	1,228,628	1,311,919	1,396,123

*In 2021, this includes privatization receipts from the sale of participation in ISA.

Source: Ministry of Finance and WB staff estimates and projections.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

31. **Real GDP is projected to grow 7.7 percent in 2021 and reach its end-2019 level by the end of the year**. The vaccination program has accelerated since June 2021 (as of November 12th, 2021, 45 percent of the population was fully vaccinated). This has put Colombia on track to reach the Government's target of vaccinating 70 percent of the entire population by the end of the year. In October 2021, for two months in a row, new cases remained at their lowest level since the beginning of the pandemic, and the economy was operating with no restrictions. Based on high-frequency indicators for September, Q3 GDP was projected to increase 4.9 percent q/q, and economic activity was projected to remain at 2019 levels in manufacturing and commerce for the rest of the year, and, on aggregate, to reach its end-2019 level before the end of 2021, despite the slow recovery of mining and construction. The increase in domestic demand is projected to amount to 7.8 percent of 2020 GDP. As monetary policy is expected to remain accommodative until at least the end of Q3, and the fiscal stance expansive for the whole year,[44] private consumption is projected to grow by 9.6 percent and gross capital formation by 14.2 percent. At these growth rates, consumption would climb 4.4 percent above its 2019 level, but gross capital formation would remain 9.2 percent below, with consequences for medium-term growth. With stable oil prices, oil export volumes are projected to increase only 2.1 percent, offsetting the growth of manufacturing exports (6.1 percent, in line with trading partners' growth). As a result, total exports of goods and services are projected to increase by only 4.3 percent, while import volumes are projected to grow 15.7 percent, buoyed by strong domestic demand.

32. **Over the medium term, growth is projected to slow gradually to 3.4 percent in 2025, as GDP moves closer to (but remains below) its pre-COVID-19 trend**. A recovery of external demand, private consumption growth, the 4G (Fourth Generation) road infrastructure projects,[45] and the Bogota metro project[46] are all expected to support economic recovery over the medium term. However, our baseline projection assumes that COVID-19 will have a long-lasting effect on the *level* of activity and a mild effect on *long-run growth* (3.3 percent instead of 3.5 before the pandemic), as the losses in educational achievements suffered in 2020 and 2021 (especially in tertiary education) will dent human capital, and gross fixed capital formation returns to pre-COVID levels only in 2023.

33. **The current account deficit is projected to increase to 4.9 percent of GDP in 2021 and then stabilize at 4.4 percent of GDP by 2024**. The trade deficit is projected to increase to 5.5 percent of GDP in 2021, as exports and imports of goods return to 2019 values, while receipts from tourism increase to only 31 percent of the 2019 level (Table 2). Over the medium term, the trade deficit is projected to decline to 4.2 percent of GDP, as external demand and tourism pick up and growth of domestic demand slows. Following the recovery of firms' profitability, redistribution of dividends to foreign direct investors is projected to grow in 2021 and 2022 (compensating for the low distribution in 2020) and stabilize in 2023 below pre-COVID-19 levels. Supported by a vibrant economic recovery in the U.S. and Spain, remittances are projected to increase slightly in 2021, and then decline to 2.8 percent of GDP by 2024. As a result, the current account deficit is expected to narrow to 4.7 percent of GDP in 2022 and to 4.4 percent of GDP in 2024. Net FDI inflows are projected to finance most of the current account deficit over the medium term. With rollover rates slightly above 100 percent, external borrowing is projected to provide the bulk of external financing (Table 2 and 3).

34. **With year-end inflation projected to rise slightly above the upper bound of the inflation targeting band, the**

[44] The government is counting on the investment plan contained in the *Nuevo Compromiso por el Futuro de Colombia* for the reactivation of the economy. The plan foresees investments worth COP 140 trillion in 10 years, with the major concentration in 2021 and 2022. The plan aims to increase employment through support to micro, small and medium enterprises, the acceleration of large infrastructure projects, and incentives for creative and cultural industries.

[45] Supported by the World Bank Capital Markets Strengthening Facility – ASA (P167816).

[46] World Bank Project P165300.

output gap projected to narrow and spare capacity in the economy utilized, the space to maintain an accommodative monetary policy will likely reduce. Assuming that producers have almost fully recovered the higher cost of complying with biosafety protocols and that the exchange rate stabilizes, inflation is projected to decline somewhat for the rest of 2021 to 0.15 percent month on month, putting year-end inflation at 4.3 percent and annual average inflation at 3.3 percent. Relative to the trend prior to the COVID-19 crisis, the output gap is projected to remain as large as 6.5 percent in 2021 and about 4.2 percent in 2022. Interest rates are projected to start increasing moderately in Q4 of 2021, with the amount and timing dependent on how and when the world's major central banks start to normalize rates.

35. **The central Government deficit is projected to increase to 8.7 percent of GDP in 2021 and decline to 7.2 percent of GDP in 2022.**[47] The economic recovery is projected to prompt a mild cyclical pickup of revenues (in percent of GDP) in 2021, which would strengthen in 2022 (because corporate and personal income taxes are based on the previous year's income; see Table 4). The authorities are also expected to raise about 1.1 percent of GDP in 2021 from the sale of the Government's shares in public companies (which the Government records as revenues).[48] Spending on goods and services is projected to increase slightly in 2021 (partly due to spending on the vaccine and because health spending appropriated but not executed in 2020 is projected to be spent in 2021) and decline afterwards, assuming zero growth in real terms. Similarly, the extension of the *Ingreso Solidario* transfer program to 2022 is projected to slow the decline in the transfers-to-GDP ratio (the nominal increase in GDP would cause a decline of 1.3 percent, relative to 2020), which will resume in 2023 as *Ingreso Solidario* expires. Investment spending (primarily on infrastructure) is expected to increase by about 0.5 percent of GDP as part of the reactivation plan. In sum, the fiscal stance is projected to be expansionary in 2021. Over the medium term, deficit reduction is expected to be driven by strengthening tax collection and tight control of spending.

36. **Government financing needs for 2021 amount to 11.2 percent of GDP and are fully covered. In addition to the deficit, these include amortization (1.7 percent of GDP) and payment for judicial rulings (0.8 percent of GDP)**. Sources of financing include domestic private sector borrowing (4.9 percent of GDP, 2.7 percent of which had been raised by the end of June), utilization of savings accumulated in the Emergency Mitigation Fund (FOME, for 1.1 percent of GDP), private sector external borrowing for 1.6 percent of GDP (of which 1.5 percent of GDP—US$4.6 billion—was raised between January and April), borrowing from multilateral organizations (1.7 percent of GDP—US$4.9 billion—of which the World Bank is expected to provide US$2.3 billion, the IADB US$1.9 billion, the CAF US$500 million, and others US$180 million), and drawdown of deposits (2.0 percent of GDP).

37. **Debt sustainability analysis indicates that, in the baseline scenario, general Government debt remains sustainable, although at a high level**. In the baseline scenario, the general Government's debt to GDP ratio is projected to increase to 70.9 percent in 2021, peak in 2023, start declining in 2024 and fall to 66.6 percent of GDP by 2026 on the back of a favorable growth-interest rate differential (Figure 5) as the primary balance is projected to remain in deficit over the medium term. Standard sensitivity analyses on the baseline scenario show that slower than expected economic growth by one standard deviation in the short run, or a one standard deviation shock to the exchange or the interest rate would increase public debt levels to a peak of 76.8 percent of GDP in 2023. A combined macro-financial shock would cause public debt to peak at 87.5 percent of GDP in 2023 and decline from 2024 onwards.[49]

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[47] According to the 2021 Medium-Term Fiscal Framework and consistent with the fiscal reform law approved in September, the Government expects the central Government deficit to increase to 8.6 percent of GDP in 2021 and decrease to 7 percent of GDP in 2022.

[48] The Government has a more optimistic projection in the 2021 Medium-Term Fiscal Framework, and it expects to raise 1.3 percent of GDP from privatization. The largest source of these resources arises from the sale of the Government's participation in ISA (an electric company) to Ecopetrol.

[49] Standard shocks applied to interest rate, exchange rate and GDP growth rate simultaneously.

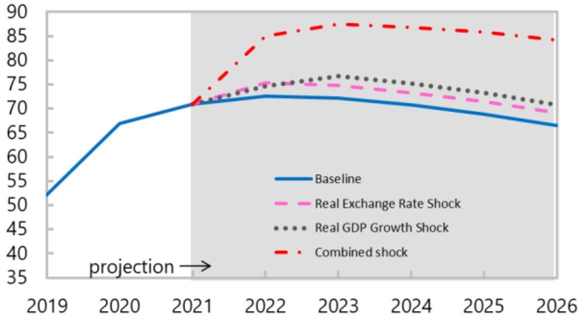
38. **External debt sustainability analysis suggests that after increasing in 2020, Colombia's external debt is projected to fall gradually in the medium term**. Colombia's external debt rose to 56.9 percent of GDP in 2020, due to adverse exchange rate effects and fiscal pressures. As these shocks fade, external debt is projected to be 55 percent of GDP in 2021 and to start declining in 2022, reaching 52 percent of GDP by 2025 (Figure 6). Debt service is projected to increase in the medium term but remains manageable. Colombia has an excellent track record of meeting its financial obligations, and a diversified foreign investor base mitigates its refinancing risks. Stress tests indicate that under an exchange rate shock[50] or a combined macro-financial shock,[51] the trajectory of external debt would shift upward but still decline after reaching its peak in 2022.

39. **The risk profile is tilted to the upside in 2021 and to the downside over the medium term.** A further increase in oil prices and confidence could push 2021 GDP above baseline projections. Over the medium term, there are risks that new Sars-Cov-19 variants emerge, prolonging health alerts, that labor market and households only very slowly recover the losses caused by the pandemic (including in human capital), that the yield from the *Social Investment Law* (in particular, from measures to strengthen tax collection) is less than expected, that spending pressures materialize, or that the cyclical recovery of tax revenue is not as strong as expected. If any of these risks materialize, or if financing conditions tighten abroad (such as from renewed geopolitical tensions), or if the Government is not able to reduce the deficit and debt, confidence could weaken. The Government could then be forced into either an aggressive contraction of spending to comply with the fiscal rule and safeguard fiscal sustainability, reducing growth, or into formulating a new tax package. Finally, if export receipts, especially from tourism, do not revive as projected, a correction of the current account deficit might occur through a peso depreciation, which would increase the burden of external public sector debt and require further fiscal tightening. The strengthening of the fiscal rule and the institution of a fiscal council provide a solid anchor for fiscal policy and therefore constitute a mitigating factor to this risk.

40. **The macroeconomic policy framework is adequate for the purpose of the operation.** Colombia has solid fundamentals and macroeconomic policy institutions. Before the crisis, Colombia's strong macroeconomic policy framework (a fully-fledged inflation targeting regime, a flexible exchange rate, and a rule-based fiscal policy) ensured gradual external and fiscal adjustments from the 2014-16 oil price shock. This allowed the building of the fiscal buffers that have helped to respond to the COVID-19 crisis and partially mitigate the exogenous downside risks described above. On the external front, Colombia has ample reserves. The precautionary credit line provided by the International Monetary Fund (IMF) and the recent increase of holdings of special drawing rights provide ample liquidity buffers to respond to external shocks. Finally, institutions have held firm, with a robust commitment to prudence. Specifically, the changes to the fiscal rule and the institution of a fiscal council approved in September greatly strengthen the fiscal framework.

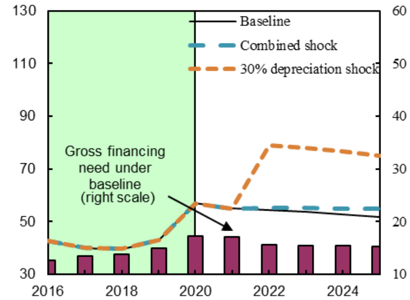
[50] One-time real depreciation of 30 percent occurs in 2022.
[51] Permanent ¼ standard deviation applied to real interest rate, growth rate, and current account balance.

Figure 5. Debt Sustainability Analysis (General Government debt, percent of GDP)



Source: World Bank Staff projections.

Figure 6. External Debt Sustainability Analysis (External debt, percent of GDP)



Source: World Bank Staff projections.

2.3. IMF RELATIONS

41. **The IMF Board approved a US$17.2 billion Flexible Credit Line (FCL) for Colombia, concluded the 2021 Article IV consultation with Colombia on March 19, 2021, and the review of Colombia's performance under the FCL on April 28, 2021**. Colombia has had access to FCL arrangements since 2009, and it last renewed its FCL on May 1, 2020 for about US$10.8 billion, augmented to US$7.2 billion in September 2020. The authorities made a drawing of US$5.1 billion in December and intend to treat the rest of the credit line as a precautionary one. In the 2021 World Economic Outlook, IMF staff project that GDP will grow 7.6 percent in 2021, and another 3.8 percent in 2022, reaching pre-pandemic levels at the end of 2021. They also project that the current account deficit will increase to 4.4 percent of GDP in 2021 and stabilize at 3.9 percent of GDP thereafter. Finally, they project that the general Government's fiscal net borrowing will reach 8.4 percent of GDP in 2021 and decline to 6.4 in 2022, on the back of strong revenues (29 percent of GDP). At the conclusion of the Review under the FCL, the IMF Board recognized that Colombia's very strong policy frameworks, anchored by a flexible exchange rate, credible inflation-targeting regime, effective financial sector supervision and regulation, and medium-term fiscal framework, continue to serve the country well and have allowed the authorities to deliver a coordinated and timely response to the COVID-19 pandemic. They also recognized that Colombia remains exposed to elevated external risks given the uncertainty about the path of the pandemic, and that the authorities continue to show their firm commitment to maintaining sound and prudent policies going forward. At the conclusion of Article IV consultation, the IMF Board emphasized the need to sustain policy support in the near term both to protect the most vulnerable segments of the population, and to support economic activity, while safeguarding financial stability and fiscal sustainability. It stressed that, as the pandemic subsides, emergency measures should be gradually phased out. Finally, it agreed that return to fiscal rule would help anchor the fiscal framework and provide confidence over the medium term. In this respect, it indicated that striking the right balance between flexibility and credibility will be important and encouraged considering measures to strengthen the fiscal framework and the fiscal rule. Finally, the IMF Board encouraged efforts to support employment—thereby reducing informality and raising productivity—and welcomed recent measures to formalize Venezuelan migrants. The IMF and World Bank maintain close collaboration.

3. GOVERNMENT PROGRAM

42. **Colombia is widely regarded as a regional leader in DRM and is recognized globally for its progress and good practices in developing a comprehensive DRM approach**. The Government has taken bold steps to incorporate DRM and CCA into its development policies and programs, implementing subnational risk management and risk financing plans, subnational strategies for emergency response, and comprehensive national and subnational management plans to address climate change. The regulatory and policy instruments developed by Colombia in recent years are closely aligned with international frameworks aimed at increasing resilience and reducing disaster and climate risk, such as the Sustainable Development Goals (SDGs), the Convention on Biological Diversity, the New Urban Agenda for Sustainable Development, the Sendai Framework for Disaster Risk Reduction 2015–2030 and the Paris Climate Agreement. Despite the significant progress realized in recent years, Colombia still faces challenges in its efforts to confront the threat posed by disaster risk and climate change, as well as further strengthening DRM and CCA at sectoral and subnational levels.

43. **The Government is currently implementing its PNGRD 2015–2025, which is aligned with key national and international instruments**. The PNGRD calls for programs and projects along several strategic lines: (a) synergies between CCA and DRM risk mitigation; (b) climate adaptation based on socioeconomic ecosystems; (c) design and implementation of an early warning system for both DRM and CCA; (d) adaptation of basic infrastructure and economic sectors to disaster risk and climate change; (e) incorporation of adaptation and resilience considerations into sectoral and territorial development planning; and (f) education on climate change to promote behavior change. Although the programs are being implemented, challenges remain in terms of their execution at the sectoral level. Housing and transport, two sectors that have been most affected by disasters, are a good indication of sectors where additional policy action can address institutional and legal gaps.

44. **Colombia's PND 2018–2022 supports the DRM and CCA actions proposed in the PNGRD**.[52] The PND has four objectives: (a) advancing the knowledge of current and future risk scenarios to guide development planning; (b) ensuring subnational and sectoral coresponsibility for DRR and CCA; (c) mobilizing financing for risk management and adaptation, and strengthening financial protection against disasters; and (d) ensuring effective disaster management and adaptive and resilient reconstruction. Substantial progress has been achieved through the formulation and adoption of the PNGRD (which achieved 74 percent implementation over the period 2015–2018),[53] the adoption of DRM instruments at the subnational level,[54] and the development of Comprehensive Climate Change Management Plans by eight ministries and 20 departments. Building on this progress, the PND 2018–2022 highlights the need to advance toward a strategic vision for the country that promotes complementarity and standardization across instruments, project design, and implementation, while providing support to subnational entities. However, a number of challenges remain to be addressed, including improving disaster risk knowledge, refining the framework for sectoral coresponsibility, developing strategies to take account of climate risk systematically, and improving the capacity of subnational entities to reduce risk.

45. **The PND is supported by Colombia's Climate Change Policy (2017) and Climate Change Law (2018) which established guidelines for climate change planning at the national, sectoral, and subnational levels.** Under these guidelines, eight ministries have developed Comprehensive Sectoral Climate Change Management Plans aimed at

[52] The current and previous iterations of the PND recognize DRM as a national development priority, defining the main strategies in the Pact for Sustainability ("*producir conservando y conservar produciendo*") in alignment with "*Colombia Resiliente*"– awareness and prevention for DRM and CCA.

[53] Over the same period, risk management projects achieved 89 percent progress, reduction projects 48 percent, and adaptation projects 52 percent.

[54] In the period 2015–2018, 100 percent and 85 percent progress were reported at the departmental and municipal levels, respectively.

reducing GHG emissions in each of their sectors by 2030,[55] and 20 departments have developed Subnational Climate Change Management Plans. The Government also adopted the National Strategy for Climate Financing in 2017, which promoted the development of instruments to increase financing, and followed a total investment of US$462 million (COP1.75 trillion) in climate-related projects during the 2011–2016 period.[56] In addition, the Government has established more ambitious goals for its Nationally Determined Contribution (NDC), which was approved in December 2020 as Colombia's contribution to the UN Framework Convention on Climate Change.[57] One area in which the country has made efforts to further develop its policies is deforestation to help achieve the goal of zero net deforestation by 2030.

46. **Colombia has also put in place a National Disaster Risk Financing Strategy and policy, aiming to assess, reduce, and manage the fiscal risk associated with disasters.** The world's first national-level DRF strategy was developed in partnership with the World Bank Disaster Risk Financing and Insurance Program (DRFI) and the Swiss State Secretariat for Economic Affairs (SECO) in 2013 and updated in 2016 and 2021. It includes recommendations for: (a) the timely availability of resources; (b) a diverse set of instruments to cover different risks; and (c) the production of robust information needed to guide decision-making. The DRF Strategy has led to the adoption of a combination of risk retention instruments (e.g., budget reallocations, disaster funds, and contingent credit) and risk transfer instruments (e.g., catastrophe bonds and indemnity insurance for public assets). Under the Strategy, the financial protection instruments that have been developed include a US$400m Earthquake Catastrophe Bond,[58] public asset insurance, the National Fund for Disaster Risk Management, mechanisms for budget reallocations, and insurance for highways built through public-private partnerships (PPP) under the fourth generation of concessions (US$40billion). Cat DDOs have been a key component of Colombia's multilayered DRF strategy, and the Government has indicated that these operations will continue to be part of its future strategy. Currently, the financial instruments in place are the reallocation of budget resources, the DRM National Fund, the insurance of public assets and the insurance of the road infrastructure (under the 4G road program). Because the US$400m cat bond has expired and US$250m Cat DDO II has closed, Colombia's disaster risk financing coverage has been effectively reduced by US$650 million. The Government updated the DRF strategy in 2021 to specifically include priority sectors and themes—including epidemics, pandemics and climate change—and to define the roles and responsibilities of subnational governments. At the same time, the challenge of finding new financial instruments that will help promote green finance investments remains.

47. **One key lesson is the critical opportunity to integrate DRF and DRM into health sector planning.** The PNGRD incorporates elements of the PDSP 2012–2021 and the National Health Plan for Comprehensive Disaster Risk Management 2016, and includes specific projects to mitigate and respond to biomedical events. In addition, when the Government declared a State of Economic, Social, and Ecological Emergency in March 2020, it also created an FOME aimed at addressing public health needs and adverse effects on productive activities during disease outbreaks, and set up a dedicated emergency account for the procurement of goods, services and works aimed at containing and mitigating the effects of the pandemic. The Ministry of Health and Social Protection (MSPS) also introduced regulatory reforms aimed at improving the liquidity, financing and sustainability of the health sector. However, the pandemic has shown

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[55] The sectors that have committed to a 20 percent reduction in GHG emissions are agriculture, environment, transport, energy and mining, housing, trade, industry and tourism.

[56] DNP. 2018. *Incorporando la gestión del riesgo de desastres y la adaptación al cambio climático en proyectos de inversión pública: Guía para analizar los riesgos.* https://colaboracion.dnp.gov.co/CDT/Ambiente/Finanzas%20del%20Clima/Estrategia%20nacional%20de%20financiamiento%20clim%C3%A1tico.pdf https://colaboracion.dnp.gov.co/CDT/Prensa/3_Gu%C3%ADa%20para%20analizar%20los%20riesgos_ajustado_VFcc.pdf

[57] The updated NDC focuses on areas such as water resources, protection of coastal, land and marine ecosystems, restoration of protected areas, infrastructure and agriculture, which are related to the risk dimensions presented in the Third National Communication on Climate Change.

[58] The Cat-bond (issued in 2018 and in force until February 2021) was issued within the framework of the Pacific Alliance (Chile, Colombia, Mexico and Peru), becoming the largest sovereign risk transfer to date.

that there are still some issues to be addressed to improve the response capacities of the health sector, such as detecting, tracing, and monitoring individuals affected by the pandemic and other health risks, especially those triggered by climate change at national and subnational levels.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

48. **The proposed operation, based on the Government's current priorities, seeks to integrate disaster, climate and public health risk management as central elements of public policies, and promote sectoral and subnational coresponsibility.** The operation will support Colombia's continued progress on DRM in a number of critical sectors, focusing on strengthening governance, reducing vulnerability (including fiscal vulnerability at the national, subnational and sectoral levels) and increasing resilience and adaptive capacity to disasters and climate change impacts in the context of continued socioeconomic development. Despite its progress on risk management in recent decades, the Government faces the challenge of further developing sectoral risk management capacity and deepening risk reduction actions at the subnational level, and this operation is designed to support the Government in its efforts to do so.

49. **The proposed Development Objective of this operation is to strengthen the Government of Colombia's program to manage risk resulting from adverse natural and climate-related events, including disease outbreaks.** The Cat DDO III proposes to support reforms across three pillars, corresponding to the following thematic policy areas: (a) Promoting the Development of DRM and Climate Change Policies; (b) Strengthening Fiscal Resilience to Disaster, Climate and Public Health Risks; and (c) Promoting Sectoral and Subnational Coresponsibility in DRM and CCA. The operation will build on the progress achieved under Cat DDOs I and II to reduce risk conditions related to disasters and increased climate vulnerability.

50. **The operation is closely aligned with Colombia's commitments on climate change**. In the latest update of the NDC (December 2020), Colombia foresees a 51 percent reduction of CO_2 emissions across all sectors by 2030 compared to the projected baseline,[59] and expects to reach carbon neutrality by around 2050, establish carbon budgets for the period 2020–2030 by 2023, and reduce black carbon emissions by 40 percent by 2030, compared to the 2014 baseline.[60] Each of the Cat DDO III's three pillars aims to address changing climate conditions, with the goal of reducing vulnerabilities at the subnational and sectoral levels, including through adaptation of the public health system to respond effectively to risks related to disease outbreaks. The Project is an example of Green, Resilient and Inclusive Development (GRID) since it includes prior actions and indicators related to the goals of greener, resilient and inclusive development.

51. **Cat DDO drawdown trigger.** The proposed operation will follow the World Bank's disbursement procedures for a DPL with Cat DDO. The Cat DDO feature gives the Borrower the option of drawing down the loan proceeds during a three-year period, which can be extended up to four times for a maximum project duration of 15 years, during which the DPL with Cat DDO can be disbursed.[61] Upon approval of the operation, effectiveness of the Financing Agreement, and the submission of a signed withdrawal application, the loan proceeds may be drawn down at any time, provided, however, that a pre-specified trigger—linked to a declaration of a state of emergency resulting from a natural catastrophe or health emergency—has been activated.

[59] Equivalent to maximum annual CO_2 emissions of 169.44 million tons.

[60] Ministry of Environment and Sustainable Development. 2020. *Actualización de la Contribución Determinada a Nivel Nacional de Colombia (NDC)*. www.minambiente.gov.co/images/cambioclimatico/pdf/NDC_Colombia/informe_NDC_de_Colombia_2020_Versi%C3%B3n_Final.pdf

[61] The Cat DDO can be renewed upon request of the Borrower if the program is being implemented in a manner satisfactory to the Bank and the macroeconomic framework remains appropriate.

52. **The Cat DDO may be disbursed in whole or in part when an emergency—resulting from a disaster caused by natural or public health events—is imminent, is occurring or has occurred in the client's territory.** Disbursement of the Cat DDO may only be requested after a Presidential Declaration has been issued in response to a disaster in all or part of the territory. For the purposes of this operation, a Presidential Declaration means an official declaration issued through a Presidential Decree duly published in the Official Gazette, pursuant to Article 215 of the Borrower's Political Constitution of July 4, 1991, or Article 56 of the Borrower's Disaster Risk Management Law No. 1523 of April 24, 2012, and/or any other legal instrument compatible with the existing regulation of a state of national disaster that the Borrower may introduce from time to time with the prior agreement of the Bank.

53. **"Disaster" means an imminent or occurring shock caused by one or more adverse natural or public-health-related events,** including but not limited to: (a) disasters of natural origin caused by geological phenomena (such as earthquakes, volcanic eruptions, tsunamis, and landslides) or hydrometeorological phenomena (such as floods, droughts, forest fires, tropical cyclones, landslides, and other events related to the El Niño or La Niña phenomena); and (b) public health emergencies, such as those caused by epidemics or pandemics. Any disaster that is predominantly political, technological, security-related, military or fiscal in nature is excluded from this definition.

54. **Once the trigger has been activated, the proceeds of the loan will be disbursed—at the request of the Borrower—into an account denominated in U.S. dollars in a commercial bank controlled by the National Treasury and part of the Government's foreign exchange reserves, acceptable to the World Bank**, for subsequent credit of the equivalent amount in Colombian Pesos into the Treasury Single Account of the MHCP, thus becoming available to finance budgeted expenditures. The Borrower shall, within thirty (30) days after the withdrawal of the Loan report to IBRD: (a) the exact sum received into the foreign exchange account in the Citibank N.Y.; (b) the details of the account to which the Colombian Pesos equivalent of the Loan proceeds have been credited; and (c) the record that an equivalent amount has been accounted for in the Borrower's budget management systems. This confirmation will include the applied rate of exchange and the date of transfer. The financial support provided under this operation is not intended to finance goods or services on the list of "Excluded Expenditures."[62] If any portion of the credit is used to finance ineligible expenditures as so defined in the current General Conditions applicable to Development Policy Financing (DPF) operations, the Bank shall require the borrower to refund the amount, and such payments made for excluded expenditures would be canceled.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

55. **The seven prior actions (PAs) under the proposed DPL with Cat DDO III set the stage for broader reforms that will enable the Government to strengthen its program for reducing disaster risk related to natural, climate, and public health hazards.** The DPL's pillars support the Government's commitment to further develop the country's institutional, technical and financial capacities to manage disaster, climate change and public health risks. In addition, the approval of strategies, policies and plans related to financial instruments at the national, sectoral and subnational levels of government will guide implementation to allow for the immediate funding of disaster response and recovery efforts, as well as provide resources for the reconstruction phase.

Pillar 1: Promoting the development of DRM and climate change policies

56. Through the reforms included in Pillar 1, the Government will strengthen its policy framework by incorporating disaster risk considerations and climate adaptation and mitigation measures.

[62] See the General Conditions for DPF.

***Prior Action 1**: The Republic of Colombia, through its National Planning Department (DNP), has approved the Public Policy to Reduce the Conditions for Disaster Risk and Adapt to Climate Variability Phenomena, as evidenced by CONPES Document No. 4058, dated October 27, 2021, published on the following website: https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/4058.pdf.*

57. **Rationale:** About 6.7 million people in Colombia are socially vulnerable and exposed to floods and landslides. Hydrometeorological phenomena are the most recurrent hazards, causing 85 percent of disasters recorded between 1998 and 2018. Phenomena such as La Niña 2010–2011 (usually associated with above-average rainfall producing floods, flash floods, and landslides) and El Niño 2014–2016 (generally linked to droughts and forest fires) caused damage and economic losses of around 2.0 and 0.6 percent of GDP, respectively. Climate variability cycles and their extremes make DRM and CCA increasingly urgent across sectors and at the subnational level. If no action is taken to invest greater resources in DRR and CCA, about 0.5 percent of GDP could be lost each year in Colombia by 2050, and this could increase over time due as a result of climate change.[63] Likewise, according to the IPCC,[64] natural and human systems are already experiencing the consequences of the 1°C rise in global average temperature, including extreme weather events and increased sea level rise, whose impacts are projected to become more severe with time. By 2060, the sea level on both the Pacific and Caribbean coastlines could rise by up to 40–60 centimeters above 1961–90 levels, increasing the exposure of more than a million coastal inhabitants and economic assets to greater risk from flooding and storm surge.[65]

58. To improve its capacity to manage risk resulting from adverse natural events, Colombia has made progress in designing public policies to manage climate variability and strategies to address environmental challenges with a direct impact on disaster risk and climate risk conditions. Over the past three decades, DRM has been included as a specific and prominent element in its PNDs, with an increasing focus on measures to address adverse climate-related events for the past ten years. The current PND 2018–2022 is aligned with the Paris Climate Agreement, the SDGs and the Sendai Framework for Disaster Risk Reduction 2015–2030. In fact, the PND adopted the Sendai Framework's pillars to further promote the incorporation of DRM into Colombia's development policies. The PND sharpens the focus on strategies that increase Colombia's resilience to disasters and climate change.

59. Despite this progress, Colombia needs a transformative approach to address these climate-linked challenges, which tend to undermine efforts to build a more competitive, equitable and sustainable society and economy. The PND 2018–2022 identifies the opportunity to better understand climate variability phenomena such as droughts, coastal erosion, and flash floods, to examine flood and landslide hazards more closely, and to conduct vulnerability analyses related to these events. Additionally, the evaluation of the National DRM Policy carried out for the PND showed that, although sectors recognize the interdependence of their DRM responsibilities, implementation of these mandates is inconsistent.

60. **Substance of Prior Action:** The Public Policy to Reduce the Conditions for Disaster Risk and Adapt to Climate Variability Phenomena is fundamentally important because it codifies the Government's commitment to confronting climate change across sectors and down to the subnational level. The Government significantly increased this commitment in December 2020 when it increased its NDC to reduce GHG emissions by 51 percent by 2030 compared with the business-as-usual scenario (up from the previous commitment of 20 percent).[66] The Government recognizes the

[63] DNP, CEPAL y BID. 2014. *Impactos económicos del cambio climático en Colombia. Síntesis.*
[64] IPCC. 2018. Special report: Global warming of 1.5. https://www.ipcc.ch/sr15/
[65] World Bank. 2011. Climate Risk and Adaptation Country Profile. Vulnerability, Risk Reduction and Adaptation to Climate Change: Colombia
[66] The updated NDC targets under climate adaptation include protection of Colombia's Andean moorlands and coastal environmental areas, a significant increase in the restoration and ecological recovery of protected areas inside natural parks, key actions in disease prevention and health promotion to contribute to reducing the incidence of climate-linked diseases, structural and non-structural risk management actions for

need to implement proactive reforms to address the challenges posed by the country's increasing levels of risk and impacts from climate-induced disasters and climate-linked diseases. Such reforms should promote complementarity and alignment between DRM and CCA instruments, promote safety, sustainability and resilience in the design and implementation of infrastructure projects, refocus climate action in the short term, and promote a uniform conceptual framework from which to address climate variability in Colombia.

61. This reform represents the anchor policy for the country's future climate policies and aims to address the challenges of an incomplete understanding of climate risks, inadequate sectoral coresponsibility for the management of climate risk, and inadequate subnational capacity to reduce disaster and climate risks through the following actions: (a) generating more detailed knowledge on climate change and its potential effects to better inform the development planning process, including through technical analysis of evolving climate conditions and extreme events such as extreme rains, droughts and changes in temperature, (b) developing more effective coresponsibility mechanisms and strategies for the integrated management of climatic events, and (c) implementing actions to build capacities at the subnational level to manage climatic events.

62. In particular, the policy envisages the development of mechanisms for knowledge ownership and transfer regarding climate variability management across subnational and sectoral entities, such as a digital strategy for disseminating technical products, the publication of periodic technical reports on evolving climatic conditions and an online archive of subnational experiences in dealing with climate adaptation, as well as the development and implementation of a communication strategy to promote ownership and knowledge generation on climate variability.[67] The Policy will also explore the relationship between climate variability and climate-linked diseases and promote the development of health alerts, campaigns and other initiatives at subnational level to enhance public health risk knowledge and risk reduction efforts.

63. **Expected Results:** This policy reform will support the Government's efforts to define and develop public policy actions at the subnational and sectoral levels aimed at generating risk information, reducing risk to climate change impacts (including those related to public health) and increasing climate resilience and adaptation to help maintain the country on the path of sustainable development. The management strategies and key actions that will be carried out by the 28 entities responsible for implementing the policy's action plan will serve to strengthen their capacity to understand and reduce disaster risk conditions related to climate variability, promoting adaptation measures for a more resilient, competitive, and sustainable development.

64. This policy has an estimated indicative budget of more than US$20 million (COP76.6 billion) for the 2021–2025 period[68] to enable the responsible agencies to build institutional capacity and implement the activities outlined in the action plan accompanying the public policy, and results will be measured in terms of the percentage increase in the budget dedicated to implementing these policy reforms. In addition, the reform will promote the generation and incorporation of geographic and cadastral information for disaster risk analysis and adaptation to climate variability through subnational profiles, which will include analysis of hydrometeorological hazards, climate change scenarios, La Niña and El Niño phenomena, GHG emissions, and climate change plans; these profiles will be made available on an online platform to enhance information sharing and support decision-making by subnational actors.

adaptation to climate change in prioritized municipalities, and an increase in the percentage of the hazard monitoring network with real-time transmission connected to early warning systems.

[67] These actions will be led by IDEAM, General Maritime Directorate (DIMAR) and SINA, respectively. The dialogue around climate variability will be led by the National Technical Advisory Commission on Climate Variability (CTNAVC) and its technical groups.

[68] The total budget through 2030 is US$35.4 million (COP133,147 million).

Prior Action 2: *The Republic of Colombia, through DNP, has approved the Public Policy to Control Deforestation and to Sustainably Manage Forests, as evidenced by CONPES Document No. 4021 dated December 21, 2020, published on the following website: https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/4021.pdf.*

65. **Rationale**: By outlining a path to net zero deforestation by 2030, the National Policy for Deforestation Control and Sustainable Forest Management is a key element in Colombia's effort to combat climate change, in particular the push to reduce GHG emissions by 51 percent by 2030. From 2001 to 2020, Colombia lost 4.66 million hectares (ha) of tree cover—most prominently in the *Amazonía* region—a 5.7 percent decrease in total tree cover and roughly 2.59Gt of CO_2 equivalent emissions.[69] A continued increase in deforestation could generate around US$387 million (COP1.5 trillion) in GDP losses by 2030.[70]

66. Colombia is classified as one of 17 megadiverse countries;[71] Roughly 52 percent of its land area is covered by forests, which host invaluable natural ecosystems and perform critical climate mitigation and adaptation functions such as carbon capture and storage, microclimate regulation, hydrological balance, water purification, water regulation, and mitigation of natural hazards such as floods. When degraded or entirely deforested, forests become sources of GHG emissions and lose their value to support climate resilience and adaptation, while negatively affecting livelihoods and generating displacement of local communities, including indigenous peoples. These impacts, including GHG emissions, increase when fire is the cause of deforestation and degradation.[72] Forests also serve as habitats for many species and contain about 80 percent of terrestrial biodiversity.

67. For local communities, forests play a key role in resilience, reducing rural poverty, supporting livelihoods through food, fuel and building materials. Colombia has been losing forests at a rate of between 159,000 and 220,000 ha per year since 2015. The main drivers of deforestation include agricultural and pastureland expansion. Frequently, farmers set fires to clear land, which can easily burn out of control, contributing to deforestation and forest degradation. In 2019, 168,400 ha of vegetation burned in the country. The destruction of forests creates a wide range of impacts from feedbacks to the climate system, increasing vulnerability and further exacerbated by climate change, to loss of biodiversity and soil erosion, a heightened risk of zoonotic disease outbreaks,[73] and negative impacts for local economies and the well-being of communities.

68. Furthermore, deforestation and soil degradation generate erosion, thus increasing drought, flood and landslide risks and expanding the share of land exposed to them. Inadequate institutional capacity to manage environmental resources also serves to heighten risk factors. For instance, environmental authorities in certain regions may contribute to deforestation along river basins by allowing unsustainable productive and extractive activities.

69. Over the past 20 years, Colombia has adopted key policy instruments to control deforestation and promote the sustainable management of forests to support climate mitigation and adaptation, including the National Forest Policy (1998), the National Strategy to Implement the National Forestry Development Plan (2002), the National Strategy for Forest Fire Prevention, Control and Monitoring (2010), and the national REDD+ (Reducing Emissions from Deforestation and Forest Degradation + Platform) strategy (Integrated Deforestation Control and Forest Management Strategy, 2018).

69 Global Forest Watch. 2021. Colombia deforestation rates & statistics. https://www.globalforestwatch.org/dashboards/country/COL/
70 DDNP. 2021. *CONPES No. 4021 - Política Nacional para el Control de la Deforestación y la Gestión Sostenible de los Bosques*
71 Countries hosting the majority of earth species and a large number of endemic species.
72 Wildfires and Climate Change. Center for Climate and Energy Solutions. https://www.c2es.org/content/wildfires-and-climate-change/ Accessed August 2021.
73 WWF. 2020. Forests: overview. https://www.worldwildlife.org/habitats/forest-habitat#:~:text=Forests%20are%20so%20much%20more,soil%2C%20rainfall%20and%20prevailing%20temperatures

These instruments have been supported by other deforestation control instruments related to environmental protection and sustainable development.

70. The PND 2018–2022, through the Pact for Sustainability,[74] defines key actions to support the conservation of biodiversity and control deforestation to promote climate mitigation and adaptation. These include: (a) enhancing control at the subnational level, within the framework of the Pact for Legality, (b) developing cross-sectoral management tools to promote active prevention and control within productive sectors and civil society, and (c) conserving ecosystems to promote their recovery and sustainable use.

71. **Substance of Prior Action**: Through the Deforestation Policy, Colombia has adopted a cross-sectoral and cross-thematic instrument to achieve net zero deforestation by 2030 to support climate mitigation and adaptation efforts. This policy is aligned with the country's commitments to reduce GHG emissions from deforestation and forest degradation—in particular in the Amazon rainforest and the *Páramo* grassland ecosystems—under the framework of the SDGs, the NDC, and the Joint Declaration of Intent.[75] The policy recognizes the contribution of forest fires to deforestation in Colombia and lays out a strategy to build the capacity of subnational institutions and communities to prevent and mitigate forest fires; the policy includes resources for institutional capacity building through: a dissemination strategy for forest information and workshops to strengthen the capacity of rural entities, guidelines for the use and exchange of information with community actors, training programs for judicial officials on environmental preservation and deforestation, and the development of a digital transformation strategy for the National Environmental System (SINA).

72. The actions proposed in the reform aim to strengthen cross-sectoral management to control deforestation and promote the sustainable management of forests, thus enabling conditions for sustainable use of natural capital, forestry and community development, mainly focused on the 11 identified deforestation hotspots located in 150 municipalities. For this purpose, the reform defines four strategic areas for action, including: (a) integrating strategies for sustainable use of forests to improve the quality of life and local economic development, (b) coordinating cross-sectoral actions to strengthen forest management and address subnational conflicts, (c) promoting prevention and land control strategies to reduce illegal activities, and (d) strengthening information management for decision-making.

73. **Expected Results:** The policy—and its associated ten-year action plan—is expected to reduce the rate of deforestation by nearly 70 percent by 2030. From the 2019 baseline of 158,894 hectares, annual loss is expected to drop to 150,000 hectares by 2022, 100,000 by 2025 and 50,000 by 2030.[76] Through the development of management strategies and key actions carried out by the 40 entities involved in implementing the policy, this reform is expected to promote the necessary conditions to slow deforestation, promote the recovery and restoration of degraded areas, and increase respect for forests. In particular, this reform will enable national and subnational authorities to better manage the risks associated with loss of green cover caused by forest fires, improve cross-sector coordination to protect ecosystems from the impacts of forest fires, and strengthen the capacity of authorities involved in forest management through the dissemination of tools for effective decision-making at the subnational level, and capacity building to promote

[74] The Pact for Sustainability (*Pacto por la Sostenibilidad*) seeks a balance between economic development and environmental conservation to safeguard natural resources for future generations. The Pact for Legality (*Pacto por la Legalidad*) has several key objectives: reducing the percentage of hectares of illicit crops in Colombia and carrying out comprehensive interventions in strategic areas (including those relevant to national security, and the protection of water, biodiversity and the environment, among others) to formalize activities that are currently conducted illegally.

[75] Initiated in the Paris Climate Summit in 2015, the Joint Declaration of Intent extends the climate and forest cooperation between Norway, Germany, Colombia and the United Kingdom until 2025.

[76] The evaluation of the annual national deforestation rate reported by IDEAM will be used to determine the effectiveness of the management strategies and actions aimed at generating conditions to slow down deforestation, promote the recovery and restoration of degraded areas, and increase the value of forests.

implementation of best practices and prevention measures among subnational environmental authorities, governments and communities.

Pillar 2. Strengthening fiscal resilience to disaster, climate and public health risks

74. Through the reforms included in Pillar 2, Colombia will build on recent progress to strengthen its overall fiscal resilience to disaster risk and climate change.

Prior Action 3*. The Republic of Colombia, through its Ministry of Finance and Public Credit (MHCP), has adopted measures to strengthen its fiscal resilience to disaster risk and climate change by: (a) updating and approving the National Disaster, Epidemic and Pandemic Risk Financing Strategy, as evidenced by External Circular No. 030 dated October 29, 2021, issued by MHCP and published on its website; and (b) issuing the Medium-Term Fiscal Framework, in accordance with Law No. 819 of 2003, as evidenced by the publication of said framework on June 15, 2021 on the MHCP website.*

75. **Rationale**: Disasters caused by natural phenomena are the biggest contingent liability faced by the country.[77] According to the 2021 Medium-Term Fiscal Framework (MTFF), 4.36 percent of Colombia's GDP could be lost due to the impact of events related to climate change, such as floods and droughts, as well as other natural phenomena such as earthquakes.[78] These impacts could be further amplified in the context of the COVID-19 pandemic, during which the livelihoods of vulnerable populations have been compromised, while households living just above the poverty line and outside safety net programs are also facing substantial drops in welfare.

76. Colombia was the first country in the world to develop a strategy and public policy for the financial management of disaster risk. The last four PNDs included the objective to reduce the country's fiscal vulnerability through strategies to promote the development of financial protection mechanisms. In 2013, the MHCP developed the National Disaster Risk Financing Strategy, which proposed evaluating and establishing different financial instruments to create a risk layering strategy to strengthen Colombia's response capacity in the event of a disaster. This approach was both a key component of its fiscal management strategy to support the sustainability of public debt and an essential element of DRM. The strategy defined three policy objectives: (a) identification and understanding of fiscal risk due to natural disasters; (b) financial management of disaster risk, including through innovative financial instruments; and (c) catastrophe risk insurance for public assets. In 2016, the strategy was updated to refer to new regulatory frameworks while maintaining the same policy objectives. At the same time, the Government developed an operational plan to guide the implementation of the strategy.

77. As a result of the previous DRF strategy, the MHCP has put in place a number of financial protection instruments and has promoted national, sectoral and subnational efforts to evaluate, reduce and manage fiscal risk from disasters due to natural hazards, including those resulting from climate variability. These instruments include public asset insurance, the National DRM Fund, budget reallocations, a catastrophe bond (for US$400 million against seismic risk from 2018 until February 2021, issued within the framework of the Pacific Alliance), and the insurance of highways built through the fourth generation of PPPs (US$40 billion). In addition, since 2008, the two Cat DDOs have enabled the Government to access immediate liquidity in the event of a disaster.

78. The World Bank's DRFI program has supported capacity-building efforts targeting subnational entities since 2016. These efforts have allowed the Metropolitan Area of the Aburrá Valley and the Department of Cundinamarca to

[77] For example, this was evidenced during the latest El Niño event, in 2015, resulting in economic impacts of about 0.6 percent of GDP. DNP, MADS and UNGRD. 2018. *CONPES No. 39947. Estrategias de actuación y coordinación para reducir las afectaciones ante la eventual ocurrencia de un fenómeno de variabilidad climática: El Niño 2018-2019.*

[78] MHCP, Medium-Term Fiscal Framework, 2021.

develop their DRF strategies and public policies, the first subnational DRF strategies worldwide. Subsequently, the departments of Archipelago of San Andrés, Providencia and Santa Catalina, Putumayo and Huila developed DRF strategies. In addition to the five subnational entities that already have DRF subnational strategies, a number of subnational entities (Bogotá, Medellín, Antioquia and Tolima) have formally requested technical support to develop their DRF strategy and the corresponding implementation plan.

79. These strategies are aligned with the national strategy but tailored to the risks and economic characteristics of each territory, including climate change vulnerabilities. Owing to the decentralized political scheme enshrined in the constitution, the national Government cannot make commitments on behalf of subnational entities; however, the national Government has fully supported subnational efforts on DRF. Only subnational entities with adequate capacity and demand will design and implement DRF strategies. The PND 2018–2022 also strengthens MHCP's responsibility for managing and mitigating the financial risk from natural, climate-related, and unintentional anthropomorphic disasters and providing technical assistance in risk management to key economic sectors. The national Government already initiated a capacity-building process with prioritized sectors interested in developing a DRF strategy and the associated implementation plan.

80. The Government recognizes the importance of relying on public financial management strategies for disaster risk, which establish an optimal combination of different financial instruments for financing post-disaster activities and promote mechanisms to transfer resources to vulnerable populations affected by a disaster. Beyond developing new instruments to support the disaster-affected population, it is important to strengthen and adapt existing ones to disaster contexts, as is the case with the *Familias en Acción* program,[79] which delivers cash transfers to registered families who comply with the program's conditions.[80] The program has designed gender rules that prioritize women as the main recipients of the benefits and promote female inclusion and empowerment.[81] The program is being adapted to respond more efficiently to the complex problems faced by women, through the development of a strategy for the promotion and awareness of gender rights, dissemination of access routes to justice, and prevention of gender-based violence.

81. Currently, in the aftermath of a significant disaster requiring national intervention, the President of the Republic must issue an environmental, social and economic emergency decree,[82] which authorizes the Department of Social Prosperity (DPS) to deliver additional and extraordinary cash transfers to the beneficiaries of the *Familias en Acción* program, regardless of whether they have or have not complied with the program's conditions as established in its Operations Manual.[83] To ensure a more agile response to emergencies, the DPS is modifying the Operational Manual to include measures for management, adaptation and mitigation of disasters, and thus allow for more flexible procedures to deliver unconditional extraordinary or ordinary cash transfers to poor and vulnerable populations significantly affected by a disaster. As a result of this change, unconditional cash transfers would reach every household

[79] The *Familias en Acción* program consists of "[...] the conditional and periodic delivery of a direct monetary transfer to families living in poverty and extreme poverty. The Program is a complement to the monetary income for the formation of human capital, the generation of social mobility, access to secondary and higher education programs, the contribution to overcoming poverty and extreme poverty and the prevention of teenage pregnancy." The conditionality rules can be revised in the operating manual.

[80] In 2020, 85.21 percent of registered families under this program were eligible to receive a transfer. As of June 2021, 83.3 percent of these transfers had been received.

[81] In 2020, 87.8 percent of families with female holders were eligible to receive a transfer.

[82] States of disaster or emergency are declared by the President of the Republic only if considered necessary, often when the response capacity of regional and local governments is overwhelmed by the impacts of a large disaster, or when national Government support for response and recovery is required.

[83] Currently, the program does not include migrant families, mainly due to legal information gaps and administrative challenges. However, Colombia's Selection System for Beneficiaries of Social Programs (SISBEN) is currently working to enable their inclusion through document verification mechanism, recognizing unplanned encroachment into high-risk areas will increase their vulnerability and generate additional risks.

with a female recipient registered in the program and affected by a disaster, with no requirement for a Presidential Decree.[84] This is particularly relevant given the gender gaps that exist in Colombia, where women make up a majority of the extreme poor (52.5 percent). According to the DPS, 36 percent of Colombian households are headed by females, while 43 percent of extremely poor households are headed by females, and the incidence of extreme poverty in female-headed households is 2.1 percent higher than in male-headed households.[85]

82. Financial support to women through cash transfer programs such as *Familias en Acción* increases their ability to recover safely from disasters, promotes their financial inclusion and participation in the labor force, and creates positive knock-on effects in the long run.[86] During critical post-disaster situations, cash transfers smooth consumption and discourage the adoption of negative coping mechanisms. Labor force participation among low- and middle-income women beneficiaries of cash transfer programs tends to increase, directly contributing to poverty reduction, and the closing of wage and income gaps in the short and long run. Furthermore, impact assessments of this program show a substantial decrease in domestic violence against women,[87] improved health and nutrition, as well as long-term benefits, including reduced crime and teenage pregnancy rates, and improved educational attainment.[88]

83. **Substance of Prior Action:** The National Disaster, Epidemic and Pandemic Risk Financing Strategy, updated in 2021, includes key lessons learned since it was first adopted in 2013. As a result, the updated strategy includes two additional policy objectives: (a) promoting DRF at the subnational level; and (b) promoting DRF at the sectoral level, prioritizing the sectors most affected by disasters. In addition, the updated DRF strategy for the first time includes considerations related to climate change and climate variability, as well as epidemics and pandemics. In this sense, the updated strategy considers epidemics and pandemics as an implicit contingent liability to be estimated and taken into consideration when developing new financial instruments. If market conditions permit, MHCP plans to update the Operational Plan to include the design of financial instruments to respond to epidemics and pandemics. The updated DRF strategy reflects the Government's growing technical capacity as well as its commitment to build physical, financial and social resilience as key components of fiscal management.

84. The DRF strategy also recognizes the importance of creating transparent and efficient mechanisms to transfer resources to vulnerable populations. This DRF principle is linked with lessons learned by the *Familias en Acción* program for the allocation of resources to vulnerable populations affected by disasters, in addition to protecting the poor and vulnerable against the immediate impacts of COVID-19. In this context, the implementation of financial instruments to guarantee resources in the wake of disasters should be accompanied by the strengthening of information systems and cash transfer programs that will allow the transparent and timely transfer of resources to the most vulnerable populations.

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[84] DPS estimated that inequality (as measured by the GINI coefficient) was reduced roughly 0.006 points in 2018 and, had these transfers not occurred, poverty would have increased 1.1 percent, leaving 530,000 more people in extreme poverty. Source: DPS. 2019. *Pobreza monetaria extrema en Colombia: análisis de la población en pobreza extrema en el 2018.*

[85] DPS. 2019.

[86] Attanasio et al. (2021) estimate the long-term impacts of the urban version of *Familias en Acción* on crime, teenage pregnancy, high school dropout and college enrollment: arrest rates decreased by 2.7 percent for men, teenage pregnancy decreased by 2.3 percent for women, high school dropouts dropped 5.8 percent, and college enrollment increased 1.7 percent for men. Source: Attanasio, O. et al. 2021. Long Term Effects of Cash Transfer Programs in Colombia. National Bureau of Economic Research. https://www.nber.org/papers/w29056

[87] The rate of domestic violence decreased by 6 percent during the months in which women received monetary transfers. Source: Rodriguez, C. 2015. *Violencia Intrafamiliar y Transferencias Monetarias Condicionadas. El Impacto de Familias en Acción en Colombia. Banco Inter-Americano de Desarrollo. Documento de Trabajo No. 621.*

[88] Arteaga, N. X. et al. 2019. *Evaluación de impacto Familias en Acción. Documentos Dirección de Seguimiento y Evaluación de Políticas Públicas. Departamento Nacional de Planeación.* https://colaboracion.dnp.gov.co/CDT/Sinergia/Documentos/Evaluacion_Impacto_FEA_Informe_Resultado.pdf

85. The MTFF, which presents ten-year fiscal projections to Congress, represents an important tool to measure and mitigate the potential impact of climate change and other disasters on Colombia's fiscal stability. The MTFF does this by assessing the likely impact of contingent liabilities on the national economy and establishing goals to manage them through financial risk mitigation instruments, which are updated each year according to progress, lessons learned and new objectives. The 2021 MTFF incorporates risk modeling from three potential disasters—earthquake, flooding and drought—to conclude that disasters and climate change represent Colombia's largest contingent liability, with a potential impact of 4.36 percent of GDP.

86. **Expected Results:** The update of the national DRF strategy and the design of fiscal protection strategies for priority sectors and subnational governments will protect the country's fiscal balance over the long term.[89] These strategies and their associated implementation plans will lay the groundwork for immediate access to funds for response, recovery and reconstruction phases following disasters caused by natural hazards, including climate change. The national, subnational and sectoral DRF strategies will (i) build the capacity of Government institutions to assess and address the financial impacts of disaster and climate risks, and (ii) strengthen the fiscal resilience of public entities, allowing them to better cope with financing the response to COVID-19 or other public health emergencies and providing immediate support to vulnerable populations. This will help save lives, increase people's ability to cope with disaster-related shocks, and protect the country's assets. Finally, the DRF strategies at national, subnational and sectoral levels will provide the guiding framework to develop and implement financial instruments adapted to each level of government.

87. The DRF strategy will also prompt updates to the country's cash transfer programs (such as the *Familias en Acción* program), increasing the resilience of households, including female recipients affected by disasters, an important step given the disproportionate impact of disasters and climate change on women and the poor. At the same time, the MTFF, through its updated assessment of the country's contingent liabilities, will guide the development of financial protection instruments against disasters and climate change that seek an optimal combination of pre-arranged risk financing instruments that will help to manage the fiscal balance in the event of a shock. Measuring contingent liabilities related to disaster impacts will also allow sectors to prioritize resources for risk mitigation measures focused on building resilience and strengthening climate adaptation and mitigation efforts.

Prior Action 4. *The Republic of Colombia, through MHCP, has taken measures to improve its ability to mobilize resources to reduce climate vulnerability through the development of the Sovereign Green Bond Framework, as evidenced by Resolution No. 1687 dated July 19, 2021, published in the Official Gazette No. 51.742 dated July 21, 2021.*

88. **Rationale:** Despite Colombia's progress incorporating DRM and climate action in its key planning instruments, inadequate consideration of disaster and climate risks in sectoral plans and policies can exacerbate existing vulnerabilities and compromise the sustainability of investments. To mitigate these risks, both the public and private sectors need detailed disaster and climate information about "safe development," an approach that aims to ensure disaster and climate resilience and the safety and sustainability of investments while aligning with the Government's climate change adaptation and mitigation goals and creating social, economic and environmental co-benefits.

[89] Only subnational entities with both demand and capabilities will design and implement DRF strategies, which so far, are the ones requesting technical support: Antioquia, Bogota, Medellín and Tolima. At the same time, the updated national DRF strategy established as priority sectors Ministry of Transport, Ministry of Agriculture and Rural Development, and Ministry of Housing, Cities and Land. Currently, MHCP with support from the World Bank is supporting Ministry of Transport to develop its DRF strategy through capacity building and technical assistance. Ministry of Mining and Energy has signaled its interest in developing a DRF strategy after receiving capacity building in DRF (with World Bank TA).

89. To support the safe development approach and promote climate change adaptation and mitigation, the Government has established the Sovereign Green Bond Framework as a vehicle for financing projects that promote a sustainable and low-carbon economy. The framework is aligned with Colombia's PND 2018–2020, the SDGs and international commitments on GHG emissions reductions. International experience has shown that using green bonds[90] to reduce GHG emissions while reallocating resources to finance climate adaptation can help emerging economies to finance infrastructure projects with clear climate mitigation and adaptation priorities and environmental and social benefits. As of May 2020, 22 sovereign nations, including Chile, Ecuador, Egypt, Fiji, Indonesia, Malaysia, Mexico and Thailand, have issued green bonds (called social or sustainable bonds in some countries).

90. International Capital Market Association (ICMA) guidelines and international good practice on green bonds recommend disclosing the process for project selection and evaluation as well as management of proceeds and issuing yearly reports on the expected environmental impacts of the projects financed. The third-party review of Colombia's green bond framework will be used by investors, banks, underwriters, placement agents and others to understand the characteristics of the bond.

91. **Substance of Prior Action**: Ahead of the ratification of the Paris Agreement in September 2015, Colombia presented its plan to reduce GHG emissions by 20 percent by 2030 (or 30 percent with international support) compared with the business-as-usual scenario.[91] In December 2020, the Government raised its target to 51 percent reduction of GHG emissions by 2030 and developed a plan to issue sovereign green bonds to support its climate mitigation and adaptation goals stated in the NDC through eligible green expenditures, projects and activities. The plan was embedded in Article 4 of Law 2073 (approved on December 31, 2020) and the Green Bond Framework was published on July 19, 2021.

92. Developed by MHCP, the Sovereign Green Bond Framework will support Colombia's ambitious climate action agenda through eligible green expenditures, projects and activities. This new capital market instrument will: (a) generate resources for DRM/CCA/GHG reduction activities, (b) attract a wider investor base, (c) help to align Colombia's financial sector with the Government's sustainable development and environmental objectives, and (d) encourage other domestic issuers to issue similar bonds. Under the Sovereign Green Bond Framework, all proceeds from green bonds must be used for eligible green projects in the defined categories, all of which are intended to support climate mitigation and adaptation by reducing emissions and increasing resilience to climate-related disasters and degraded ecosystem services.[92] The management of disaster risks associated with climate change is explicitly included as one of the eligible uses of the green bond proceeds and could help to finance the implementation of relevant sectoral plans and policies. The Framework also permits financing green forestry as a key climate change mitigation measure.[93]

93. **Expected Results:** The Green Bond Framework will help mobilize finance for green projects included in the national budget, with positive environmental, social and fiscal management impacts. The framework has already shown

[90] Green bonds can help emerging market economies integrate climate considerations into their infrastructure plans by financing projects with clear climate mitigation and adaptation priorities and environmental benefits. International Capital Market Association (ICMA) guidelines are at https://www.icmagroup.org/assets/documents/ Regulatory/Green-Bonds/Green-Bonds-Principles-June-2018-270520.pdf.

[91] Colombian Government. 2015. *Contribución Prevista Determinada a Nivel Nacional.* https://www4.unfccc.int/sites/submissions/INDC/Published%20Documents/Colombia/1/INDC%20Colombia.pdf

[92] The Sovereign Green Bond Framework includes categories of projects to be financed through green bonds, such as Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Ecoefficient and/or Circular Economy Adapted Products, Production Technologies and Processes, Clean and Mass Transportation, Environmentally Sustainable Management of Living Natural Resources and Land Use, and Climate Change Adaptation.

[93] The categories include indicators related to forestry, such as reforested hectares, forest hectares with management plans in place, hectares of forest, vegetation cover and ecosystems with biodiversity monitoring plans in place.

its value by establishing the baseline conditions for the first two green bond issues (approximately US$196 million in the local market on September 29, 2021, and $170 million on October 27, 2021), and it will provide incentives for Government, the private sector and financial institutions to invest in green infrastructure. It signals to the capital market Colombia's commitment to pursue a sustainable and low-carbon economy while contributing to the development of the green bond market globally.

Pillar 3. Promoting sectoral and subnational coresponsibility in DRM and CCA

94. This pillar supports the development of instruments that promote coresponsibility in DRM and CCA at the sectoral and subnational levels by incorporating risk analysis and CCA measures.

Prior Action 5. *The Republic of Colombia has enacted measures to strengthen the development of disaster- and climate-resilient housing and land use planning, as evidenced by the Borrower's Law No. 2079, dated January 14, 2021, and published in the Official Gazette No. 51.557 on the same date.*

95. **Rationale:** Despite having a strong legal framework for territorial and urban development and DRM, Colombia has seen its housing sector suffer the highest proportion of damage from several major climate-induced disasters, particularly floods, and remains particularly vulnerable to the effects of climate change.[94] An average of 4,650 homes are lost per year from natural hazards and another 25,911 are affected by the loss of water and basic sanitation services. With 87 percent of the housing units in Colombia exposed to seismic risk, 46 percent to high or medium landslide risk [95] and 28 percent to high flood risk,[96] improving construction standards and land use planning would ensure the housing sector is more resilient to disasters and climate change.

96. In response, Colombia has developed a strong legal and institutional framework for sustainable urban and territorial development, including guidelines for risk analysis to orient the urban growth model for cities. Law 388 (1997) and Decree 1077 (2015) define the legal and institutional framework for sustainable land use development through Municipal Land Use Plans (*Planes de Ordenamiento Territorial* or POTs) that set guidelines to support efficient and sustainable housing market development, including consideration of disaster risk and climate change.

97. The National DRM Law and the Guidelines for Climate Change Management (2018) mandate the incorporation of DRM and CCA in instruments for territorial planning, development planning and environmental management. The DRM Policy also requires subnational entities to incorporate safe and sustainable development considerations, based on risk assessment, in their priority programs and projects, including the upgrading of housing. This is a critical means of reducing climate and disaster risk and physical vulnerability to floods, landslides, and other natural hazards. The Ministry of Housing, Cities and Territories (MVCT) has put in place rigorous housing upgrading standards, as well as detailed regulations and processes to guarantee safe construction, with designs adapted to land requirements.

98. Urban development must comply with land use regulations, urbanization and construction permits and licenses, and requirements determined by POTs. These instruments determine: (i) areas in which hazard and risk conditions prevent the use of the land for urban development; (b) environmentally protected areas; (c) areas without access to public services; and (d) areas without roads and other basic infrastructure. Moreover, POTs require specific hazard and risk studies, including: (a) flood, flashflood and landslide hazard maps and risk information; (b) delimitation of

[94] In the period 1970–2010, annual losses in the housing sector generated by disasters averaged US$172 million. Source: World Bank. 2012. *Análisis de la Gestión del Riesgo de Desastre en Colombia.* Floods caused the highest percentage of destroyed and damaged homes in the 1914–2018 period. Source: UNDRR *DesInventar* database.
[95] IDIGER scenario - National map of landslide hazard developed in 2015.
[96] Corporación OSSO, 2011.

areas where risk can or cannot be mitigated; and (c) measures to set restrictions and determine urban regulations (urban growth, density, and city boundaries, among others). However, the process to update POTs is costly, demanding and requires a technical and financial capacity that is not achievable for the entirety of Colombia's more than 1,100 municipalities.

99. Municipalities are responsible for updating their POTs, including the development of technical support studies, cartographic information systems, and risk management studies. This updating process is carried out by each municipality according to its own timelines as well as technical and financial capacities. The siloed nature of the process makes it difficult to harmonize POTs, create common information and cartographic databases, and coordinate municipal urban growth guidelines. According to DNP, 84.5 percent of POTs were out of date as of August 2021. Although Colombia has developed regulatory and policy instruments to support the design and implementation of initiatives to manage risk information across sectors,[97] the PND 2018–2022 found that the development of risk knowledge in the country lacked consistency and did not align with the capacities of subnational entities,[98] and highlighted gaps in adequate access to standard information from different sources. A single information system serving as a repository for municipal land use plans would allow the Government of Colombia to have at its fingertips a database that supports strategic decision-making on investments and strategic programs. The 2018–2022 PND established a comprehensive strategy for updating land use plans, which includes: (a) strengthening relevant entities through the creation of a land use planning certification system, (b) supporting land use planning with a differential approach tailored to the necessities of each municipality, (c) generating strategic information for decision-making, (d) implementing a transactional platform for municipal land use planning, and (e) creating incentives for the implementation of high-quality land use plans through management and financing instruments.

100. **Substance of Prior Action:** This prior action allows Colombia to take an important step toward mainstreaming DRM and resilience in the housing sector and territorial planning as a whole. The Housing and Habitat Act of 2021 establishes a public policy for the sector, including mechanisms to strengthen the resilience of housing and reduce the qualitative and quantitative housing deficit by increasing subsidies, financing demand, and promoting the supply of high-quality housing. According to the Housing and Habitat Act, subnational entities must certify that the properties eligible for interventions are not located in high-risk areas in which risk cannot be mitigated, natural reserves or environmentally protected areas, areas reserved for municipal, regional or national public works or basic infrastructure, or otherwise incompatible with residential use as governed by land use plans.[99] From a broader resilience perspective, housing upgrading interventions can strengthen the social fabric of neighborhoods, generate monetary savings for families and reduce GHG emissions through investments in energy-efficient technology.

101. The Housing and Habitat Act allows households that have benefited from a housing acquisition subsidy to be eligible to access a housing improvement subsidy after ten years, provided that they lack adequate resources, and their home has been affected by a disaster caused by natural or climate-induced hazards. This strengthens the housing resilience of poor households to disasters and improves their quality of life. At the same time, it follows through on a key commitment of the Social Housing Policy, which according to the PND 2018–2022 seeks to reduce the qualitative housing

[97] Including the creation of *Sistema Estadístico Nacional* (SEN, created through Law 1753 2015 and Decree 1743 2016) *Infraestructura Colombiana de Datos Espaciales* (ICDE, created through CONPES 3585 2009) and *Ley de Transparencia y Acceso a la Información* (Law 1712 2014).

[98] A total of 400 municipalities stated that they lacked basic risk studies to comply with the requirements of Decree 1077 of 2015 of MVCT.

[99] The indigenous population living in reserve areas could benefit from housing programs through home improvements or new housing projects. The Housing and Habitat Act recognizes and seeks to ensure respect for cultural diversity by establishing that technical standards must incorporate the conditions of cultural heritage housing while guaranteeing the safety of their inhabitants. Moreover, the policy establishes specific housing application conditions for the indigenous population and community councils of black, Afro-Colombian, Raizal and Palenquero communities, in accordance with the autonomy framework.

deficit.[100] Housing subsidies have been found to be more effective at reducing expenditures, improving housing resilience to disaster caused by natural hazards and climate change, saving lives, protecting assets, and strengthening the economy in the long term. Moreover, home improvement generates lower GHG emissions than building new units. If energy-efficient technologies are introduced as a result, these interventions can also generate monetary savings for families.

102. The Housing and Habitat Act also strengthens risk knowledge for land use planning across Colombia's more than 1,100 municipalities. The Act calls for the submission of documents and administrative acts related to the POTs to the entity responsible for developing Colombia's official maps, basic cartography, and the national cadastre of properties (land registry), the Agustin Codazzi Geographical Institute (IGAC),[101] within three months of POT issuance. This includes supporting studies for the definition of POTs in such areas as population, network capacity, occupational model, environmental studies, and risk management. The IGAC is responsible for publishing the information in SIGOT platform. The generation and consolidation of POTs supported through the reform will allow sectoral and subnational entities and communities to identify the key opportunities and restrictions around land use—including those related to disaster and climate-linked hazards and risks—and to improve decision-making for the safe location of settlements, infrastructure, equipment, services and industries. The adoption of land use plans by subnational entities follows time-intensive studies as well as consultation and approval processes, thus ensuring safe and resilient planning based on information validated by sectoral and subnational entities, including communities.

103. **Expected Results:** The Housing and Habitat Act is expected to contribute to the development of technical, administrative, legal and financial instruments required for the implementation of disaster- and climate-resilient housing programs through the formulation and implementation of projects and measures that contribute to healthier, more resilient and sustainable territories, cities, communities and homes. The housing upgrading subsidy will benefit households affected by disasters associated with natural and climate-induced hazards within each priority municipality. In addition, the Act will promote the development of an information system that will include updated municipal land use information and the dissemination of public information (including disaster and climate risk maps) through a technology platform following the adoption of municipal land use plans. This will promote risk-informed decision-making by institutions, businesses and communities, contributing to safe location and construction of infrastructure and thus promoting housing that is more resilient to disasters and climate change.

Prior Action 6. *The Republic of Colombia, through its Ministry of Transport (MoT), has adopted measures to reduce risk conditions and increase climate resilience in the transport sector through the approval of: (a) the Green Road Infrastructure Guidelines, as evidenced by Circular No. 202160000167431 issued by MoT on February 23, 2021; and (b) the INVÍAS Disaster Risk Management Plan, as evidenced by Resolution No. 1978 dated September 2, 2020, issued by the General Director of the Borrower's National Roads Institute (INVÍAS), and published in the Official Gazette No. 51.430 dated September 9, 2020.*

104. **Rationale**: Historically, the transport sector in Colombia, especially the road network, has been one of the most severely affected by climate and natural hazards, with physical damage to roads resulting in economic impacts on the productive sectors and supply chains of an estimated US$7.1 billion between 1970 and 2020, and additional impacts

[100] The policy recognizes that in 9.75 percent of urban households and 48.5 percent of rural households, housing does not meet minimum quality standards; the variables associated with the component of public housing services contribute 11 percent to the incidence of multidimensional poverty, helping to reduce the Multidimensional Poverty Index.

[101] IGAC, created by Decree Law No. 0290 of 1957, is an institution associated with the National Administrative Department of Statistics (DANE).

from loss of services. During La Niña 2010–2011, closures and diversions caused losses of approximately US$222 million, including in critical areas where landslides frequently affected the transportation of cargo.[102, 103]

105. Colombia has improved the monitoring of hydrometeorological and geological phenomena that can affect the transport sector, as well as its monitoring and early warning systems, with the acquisition and operation of stations covering 96 percent of its territory.[104] In addition, the country has updated its national and regional maps of flood, landslide, and seismic hazards. Despite this progress, a number of priorities remain, including (i) a more detailed understanding of flood and landslides hazards, particularly for the non-concessioned road system, which accounts for nearly 48 percent of the primary road network, (ii) improving the incorporation of the sustainability component of the transport project life cycle, and (iii) reducing the use of environmentally harmful methods, technologies and machinery in these processes.

106. One of the cross-cutting pacts defined in the PND 2018–2022 is the Pact for Sustainability: Producing by Conserving and Conserving by Producing (Pact IV), a key objective of which is to achieve resilience by understanding and preventing risk related to natural and climate disasters. This pact aims to correct the imbalance in DRM spending over the past several years. Of the total US$3 billion (COP11.3 trillion) invested in DRM between 2014–2017 and the total invested US$2.8 billion (COP10.5 trillion) in climate change between 2011 and 2016, only two percent was allocated to climate and disaster risk analysis, while 4 percent went to governance, 20 percent to risk reduction, and 74 percent to disaster management.[105] With more resources dedicated to risk analysis, there may be less need to spend such a large share of DRM funds on disaster management.

107. **Substance of Prior Action:** PND 2018–2022 establishes that the MoT, with the support of MADS and the National DRM Unit (UNGRD), will generate technical guidelines to include climate risk analysis and adaptation criteria in the design and construction of transport infrastructure. Furthermore, the MoT will implement a program to increase the resilience of infrastructure vulnerable to climate-related phenomena. This program will contribute to managing climate risk to the 19,206 km primary road network (which includes concessioned and non-concessioned roads), of which 39 percent (7,490 km) is highly vulnerable to hydrometeorological hazards.[106]

108. The INVÍAS has developed key instruments to support the incorporation of DRM into planning. In alignment with Law 1523 (2012) and Decree No. 2157 (2017) establishing guidelines for DRM for public and private entities, INVÍAS in 2020 adopted its DRM Plan,[107] which identifies, prioritizes, develops, plans and monitors the necessary actions to understand and reduce current and future risk conditions of road infrastructure and establishes a disaster response framework. The DRM Plan is included as part of INVÍAS's roadmap of key actions to consider disaster risk and climate change, comprising actions related to risk knowledge, risk reduction and response (including INVÍAS's Emergency and Contingency Plan). The consolidation of DRM policies in the transport sector will result in safer and more resilient infrastructure that promotes economic development and competitiveness in a sustainable manner.

109. The Green Road Infrastructure Guidelines (LIVV: *Lineamientos de Infraestructura Verde Vial*), introduced in February 2021, compile a series of engineering road design best practices, and social and environmental project

[102] The risk study prepared by MoT in 2014 for the national primary network showed that 39 percent of the roads analyzed (5,800 km) are exposed to a high and very high level of risk, while 32 percent (5,200 km) are exposed to medium level of risk.
[103] *Ministerio de Transporte* et al. 2020.
[104] DNP, MADS y UNGRD. 2018. Documento CONPES No. 39947. *Estrategias de actuación y coordinación para reducir las afectaciones ante la eventual ocurrencia de un fenómeno de variabilidad climática: El Niño 2018-2019.*
[105] DNP, National Development Plan 2018-2022, 2018.
[106] *Ministerio de Transporte* et al. 2015. *La red vial primaria de Colombia frente al cambio climático: resumen ejecutivo.*
[107] In accordance with Decree 2157 of 2017, adopting the National Disaster Risk Management Policy and System.

management guidance.[108, 109] With this reform, the MoT has defined a new framework by which approved and funded projects must incorporate the guidelines prior to the bidding stage. The guidelines aim to prevent, mitigate and correct the indirect and direct negative impacts of road infrastructure projects on people and ecosystems, especially in greenfield projects. The guidelines ensure that engineering, environmental and sustainability considerations are standardized and incorporated throughout the project cycle, from conceptual design and feasibility to detailed design and implementation. The guidelines raise the standards for natural ecosystems management in the roads sector and incorporate detailed guidance on the methodology to estimate environmental and climate costs as part of cost-benefit socioeconomic analysis. Moreover, the National Policy for Deforestation Control and Sustainable Forest Management (CONPES 4021) establishes that green infrastructure guidelines will be implemented, disseminated, and adjusted to sectoral instruments to ensure incorporation of environmental and climate criteria.

110. **Expected Results:** By developing further knowledge of natural, climatic and anthropogenic hazards facing the transport sector through its DRM plan and ensuring that road infrastructure projects are planned and executed incorporating the Green Road Infrastructure Guidelines, INVÍAS will be able to make informed investment decisions to address disaster and climate change risk. To allow other entities to successfully replicate its progress regarding DRM and CCA, INVÍAS will develop a technical assistance and dissemination strategy to strengthen the DRM capacity of subnational entities. This will contribute to more resilient, low-carbon, sustainable and adapted road infrastructure, generating a positive net environmental benefit, enhancing asset management and road maintenance strategies, and minimizing disruption to the country's road system caused by natural and climate-related hazards. As the key instrument to introduce tangible climate risk mitigation actions on approved and funded road infrastructure projects, the guidelines will directly contribute to improved institutional capacity, as the MoT now has the mandate to disseminate them and provide training to sectoral entities at the national and subnational level. Moreover, the requirement to include the guidelines into project designs before bidding is authorized will strengthen the institutional capacity of INVÍAS and the National Infrastructure Agency (ANI).

***Prior Action 7**. The Republic of Colombia has approved measures to strengthen preparedness and response to public health emergencies caused by epidemics and increased climate variability, through the adoption of: (a) the Program for Sustainable Testing, Tracing and Selective Isolation (PRASS) for monitoring of COVID-19 cases and contacts, as evidenced by Legislative Decree No. 1374 dated October 19, 2020 and published in the Official Gazette No. 51.472 on the same date; and (b) the Guidelines for Sectoral Preparedness and Response to Potential Health Effects, Including COVID-19, During the Second Rainy Season in 2020 and Possible Occurrence of the Climate Variability Phenomenon "La Niña 2020–2021", as evidenced by the External Joint Circular No. 045, dated November 20, 2020, issued jointly by the Borrower's Minister of Health and Social Protection and the Director of the Borrower's National Institute of Health, and published in the Official Gazette No. 51.508 on November 24, 2020.*

111. **Rationale**: An essential part of improving the DRM system is strengthening the health sector's participation in and responsibility for disaster-related health needs, including pre-hospital and hospital care, mental health care, epidemiological surveillance, environmental health and the involvement of subnational health authorities in subnational DRM councils.[110] This is especially important when cascading events occur, as when health emergencies produced by

108 The implementation of these guidelines is required as sectoral entities are mandated to comply with Ministerial Circulars.
109 In alignment with Law 1742 (2014), the guidelines establish environmental sustainability as a principle for the planning and development of transportation infrastructure projects and in alignment with Decree 736 (2014), related to planning for sustainability.
110 Comprising departmental, district and municipal councils overseeing DRM action in their territories.

hurricanes or earthquakes take place in regions where public health is already compromised due to health emergencies such as pandemics, during which there is a need to interrupt the chain of transmission and control contagion.

112. Climate change is expected to bring more frequent and more intense flooding, drought and landslides,[111] which can result in vector-borne, water-borne, and other disease outbreaks, and damage or destroy health care facilities when their services are most required. Furthermore, rising temperatures and changes in precipitation patterns can increase the transmission of communicable diseases such as dengue, chikungunya and malaria. Older populations also face higher health risks related to extreme heatwaves, which are exacerbated by climate change. This presents an opportunity to strengthen the health sector's capacities and responsibility for institutional and intra-sectoral coordination, risk communication, public health management, and provision of the full range of health services before, during and following climate-induced disasters.

113. **Substance of Prior Action:** To interrupt the transmission of COVID-19 and better prepare for health impacts related to future climate, natural, and health emergencies, the MSPS designed the Program for Sustainable Testing, Tracing and Selective Isolation (PRASS), which was adopted through Decree 1374 of October 2020. The program involved the tracing of contacts, suspected cases, clusters, and family groups. For its implementation, manuals, guidelines, surveillance instruments, informatics support, and testing tools were provided, and institutional responsibilities were defined for different national and subnational entities and stakeholders of the social security system, such as health service providers, insurers and occupational risk managers, among others.

114. Under the PRASS, subnational entities must implement public health surveillance strategies, such as cluster research, and must also undertake active searches for community members with respiratory symptoms, and take samples from implicated individuals according to the epidemiological risk-assessment algorithms defined for this purpose. A new web application allows for the registration of information on the health status of people with confirmed or potential cases of COVID-19. In addition, a data management tool integrates, consolidates and manages large volumes of data on COVID-19 from different information sources. These are visualized through the health data warehouse SISPRO, allowing the various actors to carry out adequate follow-up of cases. These new digital applications will have multiple benefits for climate mitigation and adaptation, including reducing the use of materials by digitizing information, reducing travel to health centers to collect data, and identifying those who are particularly vulnerable to respiratory and other health impacts that can be exacerbated by climate change, including during La Niña, heatwaves and other events.

115. In addition, the MSPS and the National Health Institute issued guidelines to subnational health entities, public and private health care providers, health insurers and others to prepare for the potential health effects of the second rainy season of 2020, the potential occurrence of La Niña 2020–2021 and future climate-related events. The guidelines[112] include instructions on communication between the departmental and municipal health directorates, actions on risk communication, public health management, and guidelines for the provision of health services. These guidelines will contribute to appropriate management, prevention, control and elimination of vector-borne and water-borne diseases that result in health, social and economic burdens for local communities. Moreover, the National Government provides an annual transfer of approximately US$8 million (COP30 billion) to subnational governments to co-finance the vector control program, which includes the development of guidelines for implementation.

116. **Expected Results:** Through these reforms, the Government will embed public health into DRM systems at subnational level, addressing an urgent need given the diversity of capacities and resources at this level of implementation. This will be achieved by enhancing the institutional and technical capacity at the national and

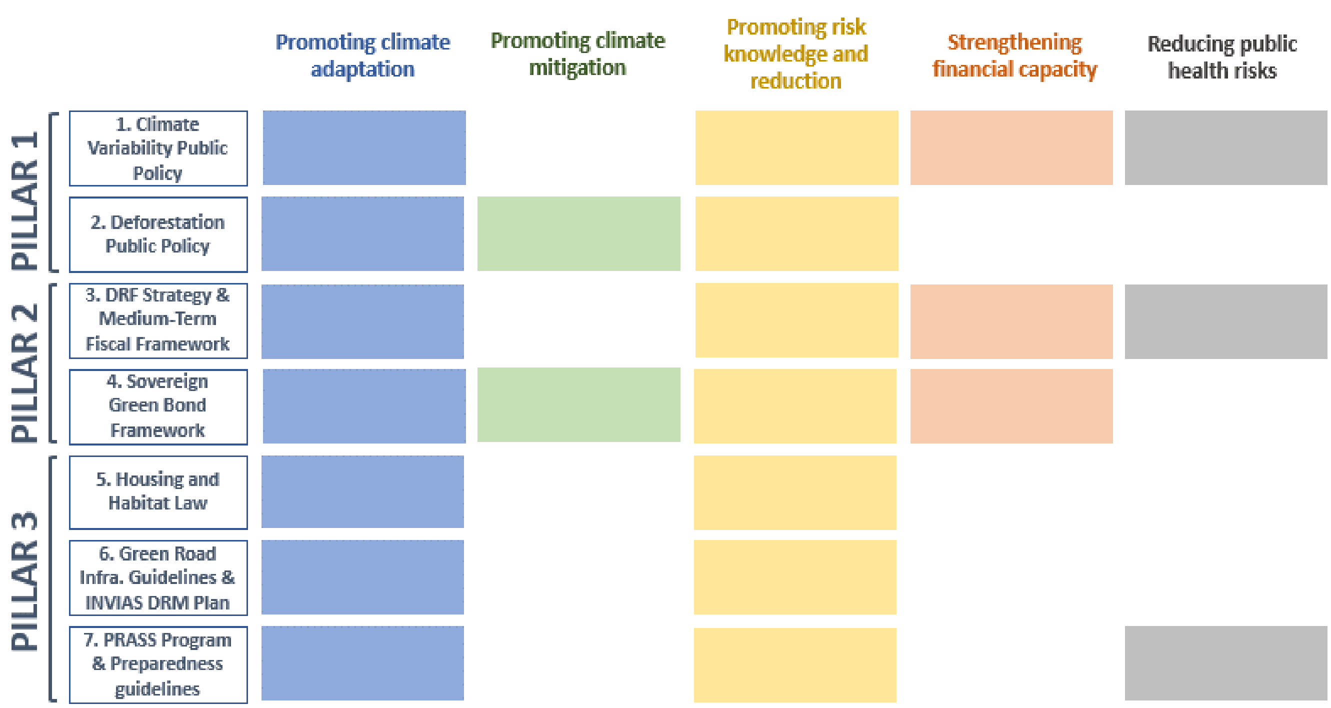
[111] World Bank Climate Change Knowledge Portal.
[112] The implementation of these guidelines is required as sectoral entities are mandated to comply with Ministerial Circulars.

subnational levels to detect, trace and monitor individuals affected by pandemics and to manage the health effects of climate events on vulnerable populations. To ensure adequate institutional capacity to implement the PRASS, municipalities that are not keeping up with the program receive technical support from national and subnational health entities based on a periodic evaluation by the MSPS.

117. The new Ten-Year Public Health Plan (2021–31) will define the strategic direction of the health system with the goal of improving public health outcomes. The Plan will incorporate strategies, guidelines, actions and goals to address health risks during emergencies and disasters, thus promoting a more comprehensive DRM approach to reduce negative impacts on the health of the population during events such as pandemics and climate-related disease outbreaks. The Plan will, at the same time, prompt subnational entities to develop plans and strategies to achieve their own results contributing to the goals of the Plan, provide a performance management framework for action, and enable the preparation of sector contingency plans for events caused by climate change (such as increased rainfall and extreme temperatures) to confront and mitigate the effects on human health and the health system. Through the development and dissemination of guidelines for the implementation of this reform, the MSPS will strengthen the decision-making and institutional capacity of subnational health entities to be more effective in deploying comprehensive measures to control, prevent and respond to vector-borne diseases, as well as strengthen their understanding of the relationship between climate change and vector-borne diseases through analytical tools, such as the development of public health risk maps for dengue or malaria. For this purpose, MSPS is responsible for developing guidelines for implementation.

118. Key synergies exist across the operation's three pillars and seven prior actions. The following figure shows the interrelation between and among key elements of the policy and results matrix.

Figure 7: Thematic Synergies across Prior Actions



Analytical Underpinnings

119. The proposed reform program, outlined in the Policy and Results Matrix (Annex 1), has been supported by extensive analytical work conducted by the Government, the Global Facility for Disaster Reduction and Recovery (GFDRR), the World Bank, specialized agencies of the United Nations System, and other institutions, as described in Table 4.

Table 4: Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1. Promoting the development of DRM and climate change policies	
1. Public Policy to Reduce the Conditions for Disaster Risk and Adapt to Climate Variability Phenomena	• **Hallegatte, S. et al. 2020. Adaptation Principles: A Guide for Designing Strategies for Climate Change Adaptation and Resilience. World Bank.** This report offers a guide to effective climate change adaptation, containing hands-on guidance to the design, implementation and monitoring of national adaptation strategies around six guiding principles corresponding to common policy domains. To guide this process, the report presents screening questions to identify the most urgent and effective actions, toolboxes illustrating common datasets and methodologies to support decisions, indicators to monitor and evaluate progress, and case studies on how the COVID-19 pandemic influences priorities in taking effective adaptation action. • ***Instituto de Hidrología, Meteorología y Estudios Ambientales* (IDEAM)**. 2018. Climate Variability and Climate Change in Colombia. This report includes a profile of Colombia’s climate in terms of average values and fluctuations to explain the climatic patterns and their impact on its territory. • **Hallegatte, S. et al. 2016. Shock Waves: Managing the Impacts of Climate Change on Poverty. World Bank**. This report examines the potential impact of climate change and climate policies on poverty reduction, providing guidance on how to create a “win-win” situation so that climate change policies contribute to poverty reduction and vice-versa. It proposes the advancement of pro-poor, emissions-reduction public policies as the key to drastically limiting climate change's long-term impacts. • **Intergovernmental Panel on Climate Change. 2018. Summary for Policymakers.** This report presents the key findings of the Special Report in 2018 on the impacts of global warming of 1.5°C above pre-industrial levels and related global GHG emission pathways contained in the Decision of the 21st Conference of Parties of the United Nations Framework Convention on Climate Change to adopt the Paris Climate Agreement
2. Public Policy to Control Deforestation and to Sustainably Manage Forests	• **World Bank. 2018. Colombia: Programmatic Forest Country Note:** This note presents how the World Bank's Forest and Landscape Action Plan goals contribute to Colombia’s PND policy objectives to achieve economic development with low deforestation, describes the status of the forest sector in Colombia, and highlights its contributions to the economy and rural communities and the challenges and opportunities facing the sector. • **World Bank. 2016. Forest Action Plan FY16–20.** This publication guides the WBG strategy to integrate the sustainable management of forests more fully into development, aiming to boost the potential of forests to lift people out of poverty and generate lasting social, economic, and environmental returns in client countries. It aims to support countries to define development pathways that take the importance of their forest capital into account around three cross-cutting topics: climate change and resilience, rights and participation, and institutions and governance. • **M. Chomitz, K. et al. 2007. At Loggerheads? Agricultural Expansion, Poverty Reduction, and Environment in the Tropical Forests. World Bank**. This report specifically addresses the potential

	dilemma of trade-offs between poverty reduction and environmental protection, seeking to improve the diagnosis of forest problems and facilitate the prescription and application of solutions by focusing on both the causes and consequences of forest conversion to agriculture and on the nature and location of forest poverty. The report offers a systematic framework for thinking about how to integrate forest management with rural development in a sustainable way.
Pillar 2. Strengthening fiscal resilience to disaster, climate and public health risks	
3. (a) National Disaster, Epidemic and Pandemic Risk Financing Strategy and (b) Medium-Term Fiscal Framework 2021 to strengthen fiscal resilience to disaster risk and climate change.	• ***Departamento Nacional de Planeación. 2019. Bases del Plan Nacional de Desarrollo 2018-2022: Pacto por Colombia, pacto por la equidad***. This document calls for the mobilization of resources for risk management and adaptation and to develop criteria to allocate resources to cover climate and knowledge objectives and risk reduction and close the existing gaps in the design, leverage and investment prioritization under clear and objective criteria. • **Martinez, U. 2018. Cash Transfers in Response to Disasters (*Transferencias Monetarias como Respuesta a Desastres*). World Bank**: This study provides an overview of socioeconomic impacts of disasters and highlights cash transfer programs as an instrument for post-disaster financing. • **World Bank. 2016. Disaster Risk Finance as a Tool for Development: A Summary of Findings from the Disaster Risk Finance Impact Analytics Project**. This report summarizes the findings of the Disaster Risk Finance Impact Analytics Project, which has made significant contributions to understanding how to monitor and evaluate existing or potential investments in disaster risk finance from a development perspective and where such investments have development impact. • **Organisation for Economic Cooperation and Development. 2017. Recommendation on Disaster Risk Financing Strategies**. This note provides a set of high-level recommendations for designing a strategy for addressing the financial impacts of disasters on individuals, businesses, and sub-national levels of governments, as well as the implication for public finances. It specifically targets issues related to the financial management of disaster risks, while recognizing the importance of an integrated approach to disaster risk management and the contribution of risk assessment, risk awareness and risk prevention to the financial management of disaster risks, drawing on the lessons that have been learned through the OECD's work for the G20 and APEC Finance Ministers. • ***Ministerio de Hacienda y Crédito Público* and World Bank. 2013 (Updated 2016). *Colombia: Estrategia de política de gestión financiera pública ante el riesgo de desastres por fenómenos de la naturaleza***. This strategy presents the priority policy objectives that have been established to assess, reduce, and manage fiscal risk due to natural disasters. It describes the MHCP's efforts to advance its long-term policy objectives and represents the MHCP's ex-ante policy framework regarding management of financial and fiscal disaster risk. • ***Ministerio de Hacienda y Crédito Público. 2020. Nota Técnica, Estrategias de Protección Financiera de Riesgo de Desastres (EFPRD), a nivel nacional y territorial***. This note provides guidance to design and implement DRF strategies as a framework to manage contingent liabilities related to disasters. It highlights the need to allocate financial resources to cover the costs that national and local governments bear following a disaster, which can increase poverty and affect Colombia's fiscal and economic situation.
4. Sovereign Green Bond Framework	• **International Capital Market Association. 2021. Green Bond Principles: Voluntary Process Guidelines for Issuing Green Bonds**. This document outlines best practices, global guidelines and recommendations that promote transparency and disclosure, thereby underpinning the integrity of the market when issuing bonds to finance environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment. • **World Bank. 2021. Sustainable Development Bond Framework**. This document presents information on how all World Bank bonds support sustainable development, including examples of the types of projects and programs that World Bank bond proceeds support through the financing

	of loans to member countries. It specifically outlines how World Bank bonds and processes align to the four pillars of the Sustainability Bond Guidelines. • **International Capital Market Association. 2020. Climate Transition Finance Handbook Guidance for Issuers**. This document seeks to provide clear guidance and common expectations to capital markets participants on the practices, actions and disclosures to be made available when raising funds in debt markets for climate transition-related purposes.
Pillar 3. Promoting sectoral and subnational coresponsibility in DRM and CCA	
5. Housing and Habitat Law	• **World Bank. 2020. Technical Assistance on Resilient Housing in Colombia (P171734)**. This activity supported the Government of Colombia in the design and implementation of the Home Improvement Subsidy Program's *Casa Digna, Vida Digna* project by supporting the identification of low-income households in urban areas which had been excluded from traditional housing programs, and the development of housing more resilient to severe weather, geological disasters and climate change. • **World Bank. 2019. *Vivienda digna para todos. Documento de síntesis***. This document includes a summary prepared based on a diagnostic with international experiences and recommendations made by the World Bank on housing policy in Colombia.
6. (a) Green Road Infrastructure Guidelines, and (b) National Roads Institute (INVÍAS) DRM Plan	• **Word Bank. 2021. Supporting Recovery from COVID-19 and Strengthening Resilience in Colombian Cities ASA (P175858): Technical Note on Resilient Infrastructure:** This report provides technical inputs on integrating resilience in the formulation and design of infrastructure projects and best practices in the development of resilient infrastructure across key sectors, including road transport. • **Hallegatte, S. et al. 2019. Lifelines: The Resilient Infrastructure Opportunity. Sustainable Infrastructure. World Bank**. This report lays out a framework for understanding infrastructure resilience and makes an economic case for building more resilient infrastructure. It identifies five obstacles to resilient infrastructure and offers clear recommendations and actions that can be taken by governments, stakeholders, and the international community to improve the quality and resilience of these essential services and thereby contribute to more resilient and prosperous societies. • **World Bank. 2015. Moving Toward Climate-Resilient Transport: The World Bank's Experience from Building Adaptation into Programs**. This report presents policies to encourage investment in low-carbon transport modes, programs to curb energy and emissions growth, and actions to transform the way countries manage transport services. • ***Ministerio de Transporte, Ministerio de Ambiente y Desarrollo Sostenible, INVÍAS y ANI 2015. La red vial primaria de Colombia frente al cambio climático.*** This document presents the model of multidimensional climate risk that was developed within the framework of the Climate Risk Study of the Primary Road Network of Colombia at the national level to analyze the levels of risk, exposure, vulnerability and adaptability of the sector. It includes the main results produced by this model, which will allow for the identification of the main risk areas associated with climate change until 2040, as well as some ideas regarding the contribution of this study to the sectoral policy that is being promoted.
7. (a) Program for Sustainable Testing, Tracing and Selective Isolation (PRASS) for monitoring of COVID-19 cases and contacts, as evidenced by	• **World Health Organization. 2017. A strategic framework for emergency preparedness**. This document presents a unifying framework identifying the principles and elements of effective health emergency preparedness for a given country. It adopts the major lessons of previous initiatives and lays out the planning and implementation process by which countries can determine their priorities and develop or strengthen their operational capacities, and advocates for prioritizing financial and

Legislative Decree (Ministry of Health and Social Protection); and (b) Guidelines for Sectoral Preparedness and Response to Potential Health Effects, Including COVID-19, During the Second Rainy Season in 2020 and Possible Occurrence of the Climate Variability Phenomenon "La Niña 2020-2021"	other resources for community and country emergency preparedness, and for mobilizing and sustaining increased domestic and international investment. • **World Bank. 2017. From panic and neglect to investing in health security: financing pandemic preparedness at a national level**. This report proposes ways in which national governments and development partners can finance investments in the country and regional preparedness and response capacities for pandemics and other health emergencies. Examples include health and non-health interventions and capacities at community, country, regional, and global levels to prevent, detect, contain and respond to the spread of disease and other hazards, mitigating social disruption and limiting risks to international travel and trade. • **Crosier, A. et al. 2015. By failing to prepare you are preparing to fail: lessons from the 2009 H1N1 'swine flu' pandemic. European Journal of Public Health, Volume 25, Issue 1, February 2015, Pages 135–139**. Based on the findings of a case study assessing public communications for health preparedness, this study calls on policymakers to prioritize investment in the skills and expertise required to achieve desired behavior change. • **Chadee, David D. and Martínez, Raymond. Aedes aegypti** [yellow fever mosquito] **in Latin American and Caribbean region: With growing evidence for vector adaptation to climate change? Acta Tropica, Volume 156, April 2016, Pages 137–143**. This study highlights that a business-as-usual approach will exacerbate the problem and lead to more frequent outbreaks of dengue and chikungunya in countries in Latin America and the Caribbean unless both area-wide and targeted vector control approaches are adopted. It presents evidence from transdisciplinary research on dengue within different ecosystems that will help guide the development of new vector control strategies and foster a better understanding of climate change impacts on vector-borne disease transmission. • **Tam Tran, Salua Osorio Mrad, and Gilma C. Mantilla. 2015. Adaptation, Climate Change and Health in Colombia. Handbook of Climate Change Adaptation, Pages 196–213**. This study explores the role and responsibilities of the Government when it comes to climate change in Colombia, especially in the health sector. The study concludes that there is a continuing need to improve the capacities and involvement of the public health research community by improving evidence and knowledge about climate change impacts, vulnerability, and risk.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

120. **The proposed operation will contribute to the Colombia Country Partnership Framework (CPF) goal of promoting green and resilient growth for more balanced territorial development and supporting Colombia's fiscal sustainability**. The Colombia CPF for the period FY16–21 recognizes an inadequate DRM framework in the face of worsening disasters and climate change, as well as inadequate adaptation to climate change, particularly in the agriculture sector. By supporting national efforts to scale up the adoption of sustainable and climate-resilient systems and the implementation of associated sectoral policy frameworks, the proposed policy actions under this operation would contribute to enhanced capacity for natural resource management in target regions (Objective 2). Additionally, the proposed policy actions would support the development of climate-informed infrastructure and urban development and thereby contribute to improving infrastructure services and enhanced urban planning to develop competitive cities (Objective 8). Critically, the policy actions under the proposed operation will support Colombia in achieving the ambitious targets established in its NDC around integrating climate adaptation and mitigation into its development policies and significantly reducing its GHG emissions.

121. **By supporting Colombia's efforts to strengthen its institutional and financial capacity to build climate resilience, the Cat DDO III will be a key operation in the Bank's regional portfolio to support the implementation of the World Bank Group's Climate Change Action Plan (2021–2025) and the Twin Goals**. The operation will support the

mainstreaming of climate change considerations into planning to reduce vulnerabilities to disaster and climate shocks. It will also enable the health system to adapt to climate-induced impacts while effectively responding to COVID-19 and other public health risks and strengthen capacities for preparedness, risk reduction, reconstruction and recovery. Due to its focus on climate adaptation and mitigation across policy actions and the promotion of innovative climate financing instruments, as exemplified by the Sovereign Green Bond Framework, the operation is closely aligned with Pillar 4 of the World Bank Group's Climate Change Action Plan (2021–2025), which mandates that at least 50 percent of all World Bank climate financing support adaptation and resilience to reduce vulnerabilities in key sectors (such as transport, energy, manufacturing), thus making a critical contribution to advancing global commitments on climate action. A prime example of the World Bank Group's greater focus on the GRID approach, the operation will promote economic growth that goes hand in hand with environmental goals and social inclusion, seeking to simultaneously address the risks to people, the planet, and the economy in an integrated manner, making possible a robust recovery and restoring momentum on the SDGs. Furthermore, by providing timely disbursement of funds for emergency response and recovery and supporting Colombia's DRM program, the proposed operation will contribute to reducing the country's vulnerability to disaster and climate change impacts while safeguarding longer-term development objectives, including poverty reduction.

122. **In the context of the COVID-19 pandemic, the program is closely aligned with the WBG COVID-19 Crisis Response Approach Paper, "Saving Lives, Scaling-Up Impact and Getting Back on Track," and seeks to replicate the critical support for COVID-19 response provided through the Cat DDO II.** As demonstrated during the initial months of the pandemic in Colombia, the Cat DDO instrument can provide rapidly disbursed financial and technical support for the immediate response stage of a crisis, including a public health emergency, while also helping to mitigate its socioeconomic and financial impacts. As the economy recovers, the Cat DDO III would support interventions geared toward strengthening the health system for pandemic readiness (Pillar I of the Approach Paper), enacting policy reforms to protect the poor and vulnerable people (Pillar I), and strengthening policy and institutional reforms to build a more sustainable, inclusive and resilient Colombia (Pillar IV).

123. **In 2020 and 2021, the World Bank has approved a number of relevant projects to support the Government in responding to and recovering from the COVID-19 crisis, strengthening the resilience of key infrastructure against disaster and climate change risks, and promoting the integration of migrants from Venezuela**. The COVID-19 Crisis Response DPL (P174118, approved in July 2020 for US$700 million) supports the Government's efforts to strengthen the capacity of the health system, provide income and nutrition support to poor and vulnerable households, and maintain liquidity and access to finance for firms impacted by the pandemic. The Resilient and Sustainable Infrastructure for Recovery DPL (P173424, approved in September 2020 for US$500 million) supports continuous access to critical energy, water and transport infrastructure services for firms and households in the short term, establishes the policy foundations for sustainable and resilient infrastructure and sound financial management in the medium and longer-term, and supports Colombia in meeting its disaster reduction and climate adaptation objectives by strengthening resilience against the effects of El Niño and La Niña and other extreme weather phenomena. The Resilient and Sustainable Infrastructure for Recovery DPL 2 (P175126, approved in May 2021 for US$750 million) aims to provide the most vulnerable households and companies in the country continued access to basic infrastructure services, while promoting resilient and sustainable infrastructure development in response to the COVID-19 crisis. The Resilient and Inclusive Housing Project (P172535, approved in May 2021 for US$136 million) provides support to improve the quality of housing and public spaces for vulnerable households, including migrants from Venezuela, in selected municipalities, by supporting subsidy schemes for housing upgrading, improving living conditions in neighborhoods, and investing in institutional strengthening. In addition, the Social and Economic Integration of Migrants DPL (P176505, approved in November 2021 for US$526 million) supports the social and economic integration of migrants from Venezuela in host areas by supporting legal and institutional reforms for the protection and inclusion of migrants, improving access to quality services for migrants, and supporting measures to enhance the socioeconomic and climate resilience of

municipalities hosting migrants. The Cat DDO III would join these projects in providing complementary support in achieving key CPF outcomes.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

124. **The objectives, pillars, policy actions and expected results of the proposed operation have been defined in close collaboration with the Government's key sectoral entities through a consultation process led by the National Planning Department (DNP) and MHCP, which is the implementing agency for the Cat DDO III.** In addition, the project task team has maintained a close dialogue with representatives from key line ministries, agencies and sectoral entities, including UNGRD, MADS, MVCT, MoT, MSPS and DPS. Through a series of virtual missions and an iterative process of sectoral consultations, a multidisciplinary World Bank team has worked with an array of counterparts in the above-mentioned ministries, departments and agencies to define policy reform priorities, identify prior actions that would promote these reforms, and determine the most impactful results indicators and targets.

125. **Public consultation of the proposed reforms**. Colombia's legal framework requires that all laws, decrees and resolutions be subject to formal public consultation. For instance, CONPES documents are prepared in collaboration with other government institutions and subject to public consultation through the DNP's website, as was the case with the CONPES documents on Climate Variability and Deforestation underpinning Prior Actions 1 and 2, respectively.[113] Additionally, technical guidelines are developed through a coordinated, interinstitutional and interdisciplinary process, and adopted through a circular or resolution, while strategies and frameworks are developed among subnational and sectoral actors and adopted through a resolution or circular.[114, 115] For instance, under this program, the CONPES documents of the Public Policy to Reduce the Conditions for Disaster Risk and Adapt to Climate Variability Phenomena (Prior Action 1) and the Public Policy to Control Deforestation and to Sustainably Manage Forests (Prior Action 2) were developed through a process of public consultations that led to the strengthening of environmental aspects around ecosystem-based disaster risk reduction and nature-based solutions, and the inclusion of additional relevant entities. Furthermore, as regards the Housing and Habitat Law (Prior Action 5), the adoption of land use plans by subnational entities must follow systematic public consultation and approval processes to ensure that information is validated by sectoral and subnational entities and local communities. In the case of the Green Road Infrastructure Guidelines (Prior Action 7), training sessions for community groups–including indigenous peoples–were held to assess the implementation of a pilot in the *Amazonía* region.[116]

126. **Financial protection.** Since 2012, SECO has supported two consecutive phases (each of five years) of the DRFI Program in Colombia. The DRFI Program has supported the design of DRF public policy at national, subnational and sectoral levels, its implementation, and DRF capacity building, including disaster risk analytics and risk transfer solutions.

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[113] According to DNP data, the CONPES consultation to approve the Public Policy to Reduce the Conditions for Disaster Risk and Adapt to Climate Variability Phenomena (Prior Action 1) received 245 comments from citizens.

[114] The Housing and Habitat Act was first published in the official Gazette of Congress No. 618 (July 31, 2020), and underwent various rounds of plenary review in the Congress and the Senate before final approval on November 25, 2020.

[115] As a complement, since 2019, Colombia has made progress toward updating the programmatic component of PNGRD 2015–2025, incorporating a process of consultation and discussion in which needs and priorities for new projects have been identified, including the incorporation of LIVV guidelines and the design of methodologies for the implementation of an ecosystem-based disaster risk reduction approach in Colombia.

[116] San José del Guaviare - Calamar region, Vaupés connection.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

127. **The proposed Cat DDO III supports actions that are expected to have positive direct and indirect effects on poverty in the short, medium, and long term, considering that natural risks and disasters have differentiated impacts at the subnational and population level in Colombia.** It is estimated that at least one in five people is exposed to floods, and this number rises to almost one in three among the population in a situation of multidimensional poverty, which by 2019 amounted to 17.5 percent in Colombia.[117] These individuals would suffer the effects of climate change disproportionately because their housing, basic infrastructure, income, coping mechanisms and available options frequently prove insufficient in the face of extreme weather events.

128. **It is expected that the measures under Pillar 1 will have positive impacts in the medium and long term because they aim to develop policies and guidelines not only to respond to emergencies and the victims of disaster but also to prevent disasters due to adverse natural events.** These efforts aim to reduce the impact on the most vulnerable population groups and gear public investments toward social welfare.

129. **The measures proposed under Pillar 2 will directly impact public finances, as they emphasize reducing fiscal vulnerability through the development of a comprehensive financing strategy for risk management and adaptation to climate change, and a Sovereign Green Bond Framework.** Through the development of DRF strategies at national and subnational levels, Colombia will increase available funding for response, recovery and reconstruction in the event of a disaster, and protect its assets by managing contingent liabilities through risk mitigation instruments. Similarly, green bonds provide a source of financing that ensures more significant resources to contribute to sustainable development goals, thus helping to reduce the social and economic gaps that persist in the country. In addition, the Sovereign Green Bond Framework demonstrates the Government's commitment to support sustainable development and a low carbon economy. These fiscal reforms are particularly important to address the post-COVID-19 economic recovery, which requires a package of measures for job creation, financial subsidies and differentiated economic incentives.

130. **In Pillar 3, the actions recognize that the impact of climate change is differentiated according to geographical, socioeconomic, and institutional conditions.** Historically, gaps and inequities have been identified between regions, increasing the population's vulnerability to disasters. Prior Actions 5 and 6 seek to increase the resilience of urban and rural environments. These actions can also contribute to inclusion, bearing in mind that some of the country's strategic ecosystems include indigenous peoples and Afro-Colombian communities and will be key actors in planning and achieving culturally relevant climate resilience goals and targets. Implementation of the Housing and Habitat Law (PA5) offers a good opportunity to improve performance on multidimensional poverty indices given that the housing deficit is a powerful driver of poverty.

131. **Prior Action 7 contributes to more effective and coordinated mechanisms for monitoring, surveillance, and care in the health system,** with positive effects exemplified by the COVID-19 crisis, which has shown that the social gaps and inequities between regions increase the vulnerability of the population to disasters and diseases transmitted by vectors and viruses. Strengthening the instruments that promote coresponsibility for environmental and health risk management will lead to actions better suited to local conditions.

[117] DANE. 2019. *Boletín técnico Pobreza y Desigualdad*. https://www.dane.gov.co/index.php/estadisticas-por-tema/pobreza-y-condiciones-de-vida/pobreza-y-desigualdad/pobreza-monetaria-y-multidimensional-en-colombia-2019#pobreza-multidimensional-nacional-y-departamentos

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

132. **Consistent with the Bank Policy for Development Policy Financing, a general environmental analysis was carried out to assess if the proposed DPL is likely to cause significant adverse or positive effects on the environment, forests and natural resources.** The assessment was based on a secondary data review of the program, including the description of each prior action, evidence from the literature, and legal evidence. The environmental analysis found that all prior actions supported by the proposed Cat DDO have potential positive effects on Colombia's environment, forests, or natural resources. In Colombia, environmental repercussions are also considered in addition to the economic and social repercussions caused by natural hazards, including climate-related hazards such as floods and landslides. This translates to the potential for disasters to increase the stress on forests, water resources, soils, biodiversity, and other natural resources. Floods, fires, landslides, and pollution, for example, significantly increase the pressure exerted on water resources (in quality and availability), ecosystem services, and natural habitats.

133. **Through the actions planned in the proposed operation, Colombia is taking steps to strengthen the policy framework by incorporating disaster risk considerations and climate adaptation measures into its public policies (Pillar 1)**. Prior Action 1 may reduce the country's degree of susceptibility to the adverse effects of climate variability and its capacity to cope with them. Prior Action 2 will promote conservation of biodiversity, ecosystem services, emissions reductions, and sustainable use of natural capital by preventing fires and controlling deforestation.

134. **The proposed operation will strengthen overall fiscal resilience to disaster, climate and public health risks (Pillar 2)**. Prior Action 3 would allow subnational entities to ensure that they are fiscally prepared to respond to disasters such as fires, hurricanes, floods, spills of pollutants on soil, air, and water, all of them with the potential to destroy vegetation, forests and fauna, and displace natural habitats. Prior Action 4 develops the Sovereign Green Bond Framework promoting the growth of financial instruments for environmentally sustainable projects.

135. **The Government will also promote the improvement of sectoral infrastructure that incorporates risk analysis and adaptation to climate change and guarantee a resilient and adapted reconstruction (Pillar 3).** Prior Action 5 promotes sustainable and low carbon growth in the housing sector through climate-resilient housing programs, increasing the sector's resilience to natural events by reducing the vulnerability of livelihoods to landslides, erosion, and flooding. Prior Action 6, the Green Road Infrastructure Guidelines, promotes connectivity while protecting the integrity of forests and ecosystems. It also increases the sector's resilience to natural events by reducing the vulnerability of roads to natural hazards. Prior Action 7, which focuses on reducing the impact of COVID-19 and vector-borne diseases, and interrupting their transmission chains and guidelines for sectoral preparedness and response to potential health effects, is expected to impact the environment positively.

136. **The assessment included a review of Colombia's policy framework and institutional capacity for environmental management**. In DRM, Colombia has different national and subnational regulatory and planning instruments, framed in coordination systems such as the National Environment System, the National Planning System, the National Disaster Risk Management System, the National Land Use Planning System, and the National Climate Change System.

137. **Law 1523 of 2012 guides DRM toward risk reduction, and therefore to prevention and planning, and determines that contingency plans must have a specific risk analysis framed in a Risk Management Plan**. Decree 2157 of 2017 establishes the general guidelines for a DRM Plan considering risk identification, risk reduction, and disaster management.

138. **Additionally, Colombian regulations establish additional instruments, such as the municipal land use plans that tackle disaster and climate risk mitigation from both an intersectoral perspective (ministries) and a subnational**

perspective (departments, districts, and municipalities). The planning, execution, control, and evaluation of commitments and actions on risk identification, reduction, and management require planning and coordination between subnational and national levels beyond the risk management instruments of the national DRM system and the national environmental system.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

139. **Colombia's public financial management (PFM).** A Public Expenditure and Financial Accountability Assessment for Colombia finalized in 2016[118] concluded that Colombia's PFM system exhibits reasonable alignment with international good practice at the national government level. The more recent Fiscal Transparency Evaluation completed in 2018 reaches a similar conclusion.[119] The budget is comprehensive, well documented, and implemented as planned, with actual expenditures deviating an average of 7.5 percent from initially planned levels in 2020 and 2019. The DNP applies a multiyear perspective, through a Medium-Term Fiscal Framework and a Medium-Term Expenditure Framework, in place since 2003, though these instruments have yet to be integrated with the budget process.[120] Nonetheless, the budget reflects a mostly well-functioning policy-based system.[121] Execution of budgeted expenditures suggests an overall credible budget that is published and accessible on the MHCP website. The Borrower has published its annual budget in a timely fashion.[122]

140. **Fiscal transparency is generally aligned with good practices except for inconsistent budget classification systems, the incomplete transition to public sector international accounting standards,[123] and lack of disclosure of internally available information on macroeconomic scenarios, long-term projections, and public corporations**. The Government has committed to addressing these weaknesses through a comprehensive reform plan. Revenue and expenditure controls are comprehensive. Records and controls on cash flows, balances, and public debt support sound fiscal management and provide public institutions with the tools for predicting funding to execute their budgets in an orderly manner.

141. **Consolidated public accounts are prepared within six months after the end of the fiscal year (December 31). They include full information on revenues, expenditures, financial assets, and liabilities**. Year-end accrual-based financial statements are issued by the Accountant General and presented by May 15 of the following year to the Controller General for audit purposes. Controller General auditing policies and procedures provide for the application of financial, compliance, and perform procedures consistent with national government auditing standards. Audit reports are submitted before July 1 of the following fiscal year to Congress and the President.

[118] Public Expenditure and Financial Accountability Assessment (PEFA) 2015 of Colombia's Public Financial Management Systems, October 14, 2016
[119] Colombia Fiscal Transparency Evaluation report. https://www.imf.org/en/publications/cr/issues/2018/08/02/colombia-fiscal-transparency-evaluation-46148
[120] CONPES 4008 of October 26,2020 "National Information Policy for the PFM" the National Development Plan (PND) 2018-2022 Pact for Colombia, Pact for equity, included the proposal to reengineer the PFM. The conditions provided by the PND are materialized through the two strategic axes of this policy, oriented to the production of information from PFM in quality conditions and harmonized with international references to cover the information needs of the entities (governing or executing agencies) and to improve the quality, transparency and efficiency of PFM information in the country. The planned actions have an estimated cost of 135,141 million pesos, which will run from 2020 to 2029.
[121] Colombia: Fiscal Transparency Evaluation report; (2018) PEFA 2015, IMF 2012.
[122] National Decree 1805 of December 31, 2020.
[123] SECO Trust Fund Program for the Strengthening of Public Finance Management will be supporting transitional activities in process of agreement with CGN. The Adoption Status of IPSAS in Colombia, July 2017, annex E, calculation of the overall level of accrual alignment according to IPSAS reached 84%. (Colombia_Estudio+BID+EY_status+de+adopción+NICSP.pdf).

142. **Public Procurement**. Colombia has made significant progress over the past years in strengthening the performance of its procurement systems. Procurement is based on the legal framework provided in Law 1150 of 2007 and ruling decrees, the most recent being Decree 1510 of 2013. The Public Procurement Agency (*Colombia Compra Eficiente, CCE*) oversees and leads reforms to procurement regulations. CCE has consolidated its role, and its principal programmatic priorities include the adoption of a more strategic approach to procurement as an essential component of public sector expenditure management, the universalization of the use of the transactional electronic procurement system SECOP II (*Sistema Colombia Compra Eficiente* II),[124] and professionalizing the procurement staff.

143. On June 15, 2021, CCE launched the Open Contracting Board Portal, which includes descriptive information on public procurement. This is an important milestone as it will allow comparative analysis in the future. For example, currently available information reveals that, on average, between 2017 and 2020, 55.69 percent of the procurement activities were awarded following non-competitive methods (direct contracting, limited contracting, and selective contracting), representing 48 percent of public procurement. The current principal priority of CCE is promoting the use of Standard Procurement Documents (SPD). In April 2019, the first SPD kit was launched for roads; its use is mandatory, and results to date have been very positive. The Congress of Colombia has recently approved the Procurement Documents Law, Law 2022 of 2020, which mandates that CCE will adopt Standard Bidding Documents that will be mandatory in the contractual activity of all entities subject to the General Contracting Statute of the Public Administration.

144. **Foreign Exchange Control Environment**. Fiduciary due diligence was conducted to cover the Government bank account at Citibank N.Y. used for depositing the proceeds of the DPL operations from the last two years. The external audit of the Consolidated Financial Statements of Citigroup Inc. and Subsidiaries for 2019–2020 had an unmodified opinion; the effectiveness of the Company’s internal control over financial reporting as of December 31, 2020, was confirmed; and this financial institution (Citibank N.Y.) is acceptable to the Bank. The fiduciary due diligence did not therefore reveal any fiduciary risks to the program development objective of this operation.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

145. **As implementing entities, MHCP and DNP are responsible for collecting and monitoring information related to program implementation and progress toward the achievement of results for this DPL operation**. Program implementation is led by DNP, the lead technical entity, MHCP, which oversees budget allocation and is responsible for the implementation of the DRF Strategy, and UNGRD, the coordinator of the SNGRD. MHCP and DNP are further responsible for coordinating necessary actions among the agencies involved in the reform program supported by this DPL operation, particularly MADS, MoT, MSPS, MVCT, and DPS. The World Bank has worked closely with MHCP, DNP, and relevant sectoral entities to define results indicators that are clear and measurable and have ambitious yet realistic targets even in the context of the COVID-19 crisis. The Bank will focus on monitoring progress toward the expected results of the program development objective.

146. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank’s Grievance Redress Service (GRS)GRS. The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of World

[124] According to the *Informe de Gestión Institucional 2020* (CCE), the target for 2020 was to have transactions for COP 40 billion, whereas in 2019 transactions for COP 24.15 billion were processed, followed by COP57.74 billion for 2020.

Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

6. SUMMARY OF RISKS AND MITIGATION

147. **The overall risk rating for the proposed operation is Moderate**. The main risk to achieving the program development objective (PDO) are related to Colombia's political and governance context, considering the social unrest following the tax reform proposal presented in April 2021 and the upcoming Congressional and Presidential elections scheduled for 2022.

148. **Political and governance risk is considered substantial**. In mid-April 2021, a new tax reform proposal announced by the current administration sparked widespread social unrest and demonstrations in Colombia's major cities, leading to the resignation of key Government officials, including the Minister of Finance and Public Credit. Following opposition in Congress and nationwide protests, the proposal was withdrawn in early May, but protests continued into June. The Government has since submitted a new fiscal reform package, which was approved in September 2021. Furthermore, congressional and presidential elections scheduled for March and May 2022, respectively, create the possibility of a shift in development priorities. These factors could impact the political commitment to the operation and the political decisions required to successfully implement the policy reforms defined in the project's results framework. To mitigate this risk, the task team will ensure continued close coordination with the Government to ensure the reform program outlined under the Cat DDO III receives the necessary attention and prioritization.

149. **Risks related to: (a) macroeconomic factors; (b) sector strategies and policies; (c) technical design of the project; (d) institutional capacity for implementation and sustainability, (e) environmental and social considerations; (f) stakeholders; and (g) other factors, are considered moderate, while fiduciary risks are considered to be low**.

150. The prior actions and proposed reforms supported through this operation are expected to have positive effects on Colombia's population—by promoting an improvement of the living conditions of vulnerable groups—and environment—by reducing pressure from disasters and climate change on forests, water resources, soil, biodiversity, and other natural resources, and promoting actions for sustainable project development in energy efficiency, reduction of GHG emissions, and pollution prevention. In both social and environmental areas, Colombia has demonstrated adequate institutional capacity to address potential risks. With regards to fiduciary risk, the analysis of Colombia's PFM system, including public procurement, reveals strengths to support the transparent management of budget resources in a reliable manner, while the identified PFM weaknesses are being addressed through a reform plan and do not pose risks to the achievement of the PDO. In terms of risks related to stakeholders, the task team believes that the DRM and CCA agenda supported by this operation has wide support at all levels in Colombia, including public institutions, the private sector and the community.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Low
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Moderate
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Action	Results Indicator (RI)	Baseline (2022)	Target (2025)
Pillar 1. Promoting the development of disaster risk management (DRM) and climate change policies			
Prior Action 1. The Republic of Colombia, through its National Planning Department (DNP), has approved the Public Policy to Reduce the Conditions for Disaster Risk and Adapt to Climate Variability Phenomena, as evidenced by: • CONPES Document No. 4058, dated October 27, 2021, published on the following website: https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/4058.pdf. *Responsible entity:* *RI1.1: National Planning Department (DNP).* *RI1.2: Agustin Codazzi Geographical Institute (IGAC).*	**Results Indicator 1.1**: Percentage increase in budget appropriation for the implementation of the Public Policy on Climate Variability.	0%	70%
	Results Indicator 1.2: Percentage of national territory covered by subnational profiles strengthened through the incorporation of climate variability analytics.	0%	33%
Prior Action 2. The Republic of Colombia, through DNP, has approved the Public Policy to Control Deforestation and to Sustainably Manage Forests, as evidenced by: • CONPES Document No. 4021 dated December 21, 2020, published on the following website: https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/4021.pdf.	**Results Indicator 2:** Number of hectares affected by deforestation (compared to 2019 baseline).	158,894	100,000[125]

[125] As agreed with Government, the target will be measured at the end of 2025 and reported by the end of June 2026.

<table>
<tr><th>Prior Action</th><th>Results Indicator (RI)</th><th>Baseline (2022)</th><th>Target (2025)</th></tr>
<tr><td><u>Responsible entity:</u>
RI2: Ministry of Environment and Sustainable Development (MADS).</td><td></td><td></td><td></td></tr>
<tr><td colspan="4">Pillar 2. Strengthening fiscal resilience to disaster, climate and public health risks</td></tr>
<tr><td rowspan="3">Prior Action 3. The Republic of Colombia, through its Ministry of Finance and Public Credit (MHCP), has adopted measures to strengthen its fiscal resilience to disaster risk and climate change by:
• Updating and approving the National Disaster, Epidemic and Pandemic Risk Financing Strategy, as evidenced by External Circular No. 030 dated October 29, 2021, issued by MHCP and published on its website.
• Issuing the Medium-Term Fiscal Framework, in accordance with Law No. 819 of 2003, as evidenced by the publication of said framework on June 15, 2021 on the MHCP website.

<u>Responsible entities</u>:
RI3.1: Ministry of Finance and Public Credit (MHCP).
RI3.2: MHCP, supported by Ministry of Transport, Ministry of Agriculture and Rural Development (MADR), and Ministry of Housing, City and Territory (MVCT).
RI3.3: Administrative Department for Social Prosperity (DPS).</td><td>Results Indicator 3.1: Number of disaster risk financing strategies approved by subnational entities, and their respective implementation plans formulated.</td><td>5</td><td>9</td></tr>
<tr><td>Results Indicator 3.2: Number of disaster risk financing strategies approved by prioritized sectors, and their respective implementation plans formulated.</td><td>0</td><td>2</td></tr>
<tr><td>Results Indicator 3.3: Percentage of households with female recipients participating in the Families in Action program that are eligible to receive an unconditional extraordinary or ordinary cash transfer following a disaster.</td><td>87%</td><td>100%</td></tr>
<tr><td>Prior Action 4. The Republic of Colombia, through MHCP, has taken measures to improve its ability to mobilize resources to reduce climate vulnerability through the development of the Sovereign Green Bond Framework, as evidenced by:
• Resolution No. 1687 dated July 19, 2021, and published in the Official Gazette No. 51.742 dated July 21, 2021.</td><td>Results Indicator 4: Sovereign green bond issued, subject to market conditions, and results and impact report published.</td><td>No</td><td>Yes</td></tr>
</table>

Prior Action	Results Indicator (RI)	Baseline (2022)	Target (2025)
Responsible entity: *RI4: Ministry of Finance and Public Credit (MHCP).*			
Pillar 3. Promoting sectoral and subnational coresponsibility in DRM and CCA			
Prior Action 5. The Republic of Colombia has enacted measures to strengthen the development of disaster- and climate- resilient housing and land use planning, as evidenced by: • Borrower's Law No. 2079, dated January 14, 2021, and published in the Official Gazette No. 51.557 on the same date. *Responsible entity:* *RI5: Agustin Codazzi Geographical Institute (IGAC).*	**Results Indicator 5**: Percentage of approved territorial development plans incorporating disaster risk management that are published through technology platforms developed by IGAC.[126]	0%	40%
Prior Action 6. The Republic of Colombia, through its Ministry of Transport (MoT), has adopted measures to reduce risk conditions and increase climate resilience in the transport sector through the approval of : • The Green Road Infrastructure Guidelines, as evidenced by Circular No. 202160000167431 issued by MOT on February 23, 2021. • The INVÍAS Disaster Risk Management Plan, as evidence by Resolution No. 1978 dated September 2, 2020, issued by the General Director of the Borrower's National Roads Institute (INVÍAS), and published in the	**Results Indicator 6.1:** Number of kilometers of non-concessioned national roads incorporating risk analysis and risk reduction actions in new construction, renovation and/or upgrading projects.	0	1,160

[126] The Agustín Codazzi Geographic Institute (*Instituto Geográfico Agustín Codazzi*; IGAC) is responsible for developing Colombia's official maps, basic cartography, and the national cadastre of properties (land registry).

Prior Action	Results Indicator (RI)	Baseline (2022)	Target (2025)
Official Gazette No. 51.430 dated September 9, 2020. *Responsible entity:* *RI 6.1: INVÍAS-Ministry of Transport.* *RI 6.2: INVÍAS- Ministry of Transport.*	**Results Indicator 6.2:** Number of contracted pilot projects for non-concessioned primary roads (sections) incorporating green road infrastructure guidelines.	5	25
Prior Action 7. The Republic of Colombia has approved measures to strengthen preparedness and response to public health emergencies caused by epidemics and increased climate variability, through the adoption of: • The Program for Sustainable Testing, Tracing and Selective Isolation (“PRASS”) for monitoring of COVID-19 cases and contacts, as evidenced by Legislative Decree No. 1374 dated October 19, 2020 and published in the Official Gazette No. 51.472 on the same date. • The Guidelines for Sectoral Preparedness and Response to Potential Health Effects, Including COVID-19, During the Second Rainy Season in 2020 and Possible Occurrence of the Climate Variability Phenomenon “La Niña 2020–2021”, as evidenced by the External Joint Circular No. 045, dated November 20, 2020, issued jointly by the Borrower’s Minister of Health and Social Protection and the Director of the Borrower’s National Institute of Health, and published in the Official Gazette No. 51.508 on November 24, 2020. *Responsible entity:* *RI7.1: Ministry of Health and Social Protection (MSPS).* *RI7.2: MSPS*	**Results Indicator 7.1:** New Ten-Year Public Health Plan (PDSP) incorporating health risks in emergencies and disasters, informed by lessons learned from COVID-19, developed and approved.	0	1
	Results Indicator 7.2: Number of subnational health entities that report public health risk maps for dengue and/or malaria, and other climate change adaptation and mitigation actions, as part of the program for prevention and control of vector-borne diseases, in line with annual MSPS guidelines.	0	32

ANNEX 2: FUND RELATIONS ANNEX

PRESS RELEASE

PR21/115

IMF Executive Board Concludes Review of Colombia's Performance Under the Flexible Credit Line Arrangement

FOR IMMEDIATE RELEASE

Washington, DC – April 30, 2021: The Executive Board of the International Monetary Fund (IMF) concluded on April 28, 2021 its review of Colombia's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Colombia's continued qualification to access FCL resources.

The current two-year FCL arrangement for Colombia was approved by the IMF's Executive Board on May 1, 2020 (see Press Release No. 20/201). Access under the FCL was subsequently raised on September 25, 2020 to an amount equivalent to SDR 12.267 billion or about US$17.6 billion (see Press Release No. No. 20/300) and Colombia made a drawing of SDR 3.75 billion or about US$5.4 billion in December (see Press Release No. 20/363). The Colombian authorities stated their intention to treat remaining access under the FCL arrangement as precautionary—an amount equivalent to SDR 8.517 billion (or US$ 12.2 billion).

Colombia's FCL arrangement was first approved on May 11, 2009 (see Press Release No. 09/161) and successor arrangements were approved on May 7, 2010 (see Press Release No. 10/186), May 6, 2011 (see Press Release No. 11/165), June 24, 2013 (see Press Release No. 13/229), June 17, 2015 (see Press Release 15/281), June 15, 2016 (see Press Release No. 16/279), and May 25, 2018 (see Press Release No. 18/196).

Following the Executive Board's discussion on Colombia, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chairman of the Board, made the following statement:

"Colombia's very strong policy frameworks, anchored by a flexible exchange rate, credible inflation targeting-regime, effective financial sector supervision and regulation, and medium-term fiscal framework, continue to serve the country well and have allowed the authorities to deliver a coordinated and timely response to the COVID-19 pandemic. As a result, following the largest recession on record, Colombia's economy is returning to growth with policies well-positioned to support the nascent recovery.

"Colombia remains exposed to elevated external risks given the uncertainty about the path of the pandemic. Delays in the rollout of vaccines worldwide could hamper the domestic recovery through its impact on global demand and oil prices. Tighter global financial conditions could increase borrowing costs and increase rollover risks. In that context, the authorities continue to show their firm commitment to maintaining sound and prudent policies going forward. As such, the authorities have submitted to Congress a comprehensive fiscal reform seeking to raise revenues in a durable and equitable way to safeguard key social spending and public investment, while strengthening the fiscal framework to anchor sound public finances over the medium term. This reform will help to stabilize public debt and place it on a downward trajectory over time, allowing the authorities to rebuild fiscal buffers to secure the resilience of the economy.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

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Bogotá D.C., 12 noviembre del 2021

Señor:
DAVID MALPASS
Presidente
Grupo Banco Mundial
Washington, D.C.

Asunto: Carta de Política. Third Disaster Risk Management Development Policy Loan with a Cat DDO

Estimado Presidente Malpass:

Es nuestro interés manifestar y reiterar el compromiso del Gobierno de Colombia en avanzar con firmeza en el desarrollo de políticas públicas que nos permitan seguir fortaleciendo la gestión del riesgo de desastres del país y la adaptación al cambio climático con altos estándares de sostenibilidad y resiliencia, así como continuar afianzando la visión de hacer de estos esfuerzos un motor de crecimiento económico y mejoramiento de la competitividad de nuestra economía en el corto, mediano y largo plazo.

Colombia por sus condiciones topográficas, climáticas y geológicas es un país altamente vulnerable no solo a fenómenos geológicos (como sismos y volcanes) sino a los fenómenos hidrometeorológicos y de variabilidad climática que son más frecuentes que los primeros y acumulan mayores pérdidas como, por ejemplo, el Fenómeno de La Niña. Estos fenómenos asociados con el comportamiento dinámico del clima contribuyen en la generación de nuevas condiciones de riesgo de desastres y exacerban las actuales; lo anterior sumado a factores como la exposición y vulnerabilidad de la población y medios de vida configuran diversos escenarios de riesgo en el territorio.

En Colombia, los desastres ocurridos desde 1998 hasta el año 2020 revelan que en su gran mayoría vienen derivados de eventos de origen hidrometeorológico con un 87% sobre el total de desastres ocurridos en el país durante este lapso. El 31% de estos están relacionados con sequias e incendios, 27% con inundaciones, 14% movimientos en masa, 12% vendavales, 2% con avenidas torrenciales y el 1% a otros eventos. De acuerdo con la valoración de Daños y Pérdidas de la Ola Invernal en Colombia 2010-2011 elaborada por el BID-CEPAL, los eventos asociados a la variabilidad climática han

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ocasionado importantes impactos en el desarrollo. En el año 2010, el país tuvo que afrontar pérdidas de cerca del 2,2 % del PIB debido al Fenómeno La Niña (CEPAL, 2012).

Así mismo, el Departamento Nacional de Planeación en el documento de los efectos económicos de futuras sequías en Colombia: Estimación a partir del Fenómeno El Niño 2015, estimó que el Fenómeno El Niño 2014-2016 causó pérdidas en el sector agrícola por la proliferación de plagas en los cultivos y una reducción del 5% en la productividad y pérdidas del 0,6% del PIB. El Gobierno nacional tuvo que invertir alrededor de $1,6 billones de pesos en acciones de prevención, atención y recuperación de las zonas afectadas por el evento. De manera particular en el país, se evidencia que el 13% de la población reside en áreas que presentan condiciones de riesgo ante fenómenos hidrometeorológico y no adaptarse a los retos del clima podría generar pérdidas del 0,5% del PIB cada año para el país.

Sumado a lo anterior, consideramos ahora de gran importancia integrar las amenazas de origen biosanitario para el País, en el marco de las afectaciones significativas en la salud pública que el COVID-19 generó en todos los colombianos, exigiendo nuevas formas de trabajar y continuar con la economía y prestación de servicios esenciales que hasta la fecha se empiezan a normalizar. De acuerdo con la información del Ministerio de Salud, con corte a 5 de noviembre se tiene 5.010.982 casos confirmados, 11.907 casos activos, 4.854.718 recuperados y 127.456 fallecidos. Con relación a la economía, el Banco Mundial, en su reporte de octubre del 2021, menciona que se espera un repunte del crecimiento para 2021-2022, en la medida que no haya más brotes de COVID-19 que requieran restricciones de movilidad, que el consumo privado doméstico y la demanda externa sigan recuperándose, y que el gobierno mantenga la confianza de los agentes económicos con un plan para normalizar el déficit y la deuda en el mediano plazo.

Bajo este panorama de alta exposición y vulnerabilidad a la manifestación de los eventos mencionados anteriormente que pueden generar desastres, el país cuenta con una Estrategia Nacional de Protección Financiera desde el año 2013, que incluye intervenciones tempranas en materia de protección financiera para dar una respuesta oportuna y adecuada al financiamiento de las fases post-desastre. De acuerdo con lo dispuesto en el CONPES 4030 del 2021, estas acciones de protección financiera buscan asegurar la reducción de la vulnerabilidad fiscal del Estado, mediante la estructuración de un portafolio que permita la optimización de diferentes instrumentos y herramientas financieras tanto para financiar la retención consciente del riesgo como para su transferencia.

Así, para eventos recurrentes y menos severos, se emplea la retención del riesgo y se financia a través de reservas propias, asignación presupuestaria y créditos contingentes, mientras que el riesgo que excede la capacidad de retención del Gobierno nacional, eventos menos frecuentes y más severos, se transfiere a través de instrumentos financieros del mercado como seguros tradicionales para infraestructura incluyendo las

APP así como seguros paramétricos, siendo finalmente el crédito post-desastre el mecanismo más usado para la reconstrucción en el largo plazo.

Asimismo, el Marco Fiscal de Mediano Plazo 2021, evidencia que el riesgo de desastres es una potencial amenaza para las finanzas públicas significando el 4,36%[1] del Producto Interno Bruto (PIB). En términos económicos, obedece al pasivo contingente más representativo frente a otras fuentes de riesgo como los procesos judiciales que se adelantan en contra de las entidades estatales (1,19%), los derivados de los proyectos de asociación público-privada (1,02%) o las operaciones garantizadas por la Nación (0.20%)

El Gobierno de Colombia suscribió dos créditos contingentes con el Banco Mundial; el primer DPL con Cat DDO fue formulado en 2008 por valor de US$150 millones, y otorgó liquidez inmediata tras la declaratoria de la situación de desastre por los impactos del Fenómeno La Niña 2010-2011, y el segundo, realizado en 2012 por valor de US$250 millones (renovado en 2015 y 2018), el cual fue desembolsado en marzo de 2020 para atender la emergencia Económica, Social y Ecológica por la Pandemia del COVID-19 el cuál cerró el pasado 10 de julio del 2021.

Reconociendo la importancia de contar con esta herramienta de protección financiera, el Gobierno quiere avanzar en la negociación de un tercer DPL con Cat DDO, para que, con el acompañamiento técnico del Banco, podamos darle impulso, fuerza y sostenibilidad a nuestra agenda de políticas y reformas en materia de gestión del riesgo de desastres.

Contexto macroeconómico

Durante décadas y hasta inicios del 2020, Colombia había logrado construir una senda de crecimiento económico, acompañada de una reducción de la pobreza, del desempleo y la informalidad, con criterios responsables de sostenibilidad fiscal. La crisis global originada por la pandemia del COVID-19 impactó fuertemente la economía del país, con efectos importantes en la actividad pública y privada, en respuesta a la cual se implementaron diversas medidas multisectoriales que tuvieron un impacto fiscal importante a nivel de ingresos, gastos y deuda pública en el Gobierno Nacional Central. En consecuencia, en el 2020 Colombia registró un déficit fiscal del 7,8 % del PIB (evidenciando un deterioro de 5,3 puntos porcentuales del PIB respecto de la vigencia fiscal anterior) y unos niveles de pobreza monetaria del 42,5 % y pobreza monetaria extrema del 15,1 %.

No obstante, lo anterior, en el año 2021 se han empezado a ver signos de recuperación y reactivación. El Indicador de Seguimiento de la Economía (ISE) registró una tasa de

[1] Estimación del Marco Fiscal de Mediano Plazo 2021, para tres amenazas: terremoto, inundaciones y sequía

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crecimiento anual del 13,2 % a agosto de 2021, evidenciando un desempeño positivo de la actividad económica. Adicionalmente, mientras en mayo de 2020 la tasa de desempleo alcanzó niveles del 21,4%, a septiembre de 2021 se encontraba en el 12,1 %. Por su parte, el Producto Interno Bruto del segundo trimestre del 2021 creció 17,6 % respecto del mismo periodo de 2020, jalonado principalmente por la rama de comercio, transporte y restaurantes (creciendo 40,3% y contribuyendo 6,8 puntos porcentuales al crecimiento del PIB), industrias manufactureras (creciendo 32,5% y contribuyendo 3,8 puntos porcentuales), las actividades artísticas y de entretenimiento (creciendo 83,8% y contribuyendo 2,2 puntos porcentuales) y la administración pública, educación y salud (creciendo 9,0% y contribuyendo 1,4 puntos porcentuales). Por otro lado, el recaudo tributario neto acumulado en el periodo enero-agosto 2021 creció el 20,2 % frente al mismo periodo del 2020, y 5,2% frente al mismo periodo del 2019.

Se espera que la expansión real de la economía alcance un promedio de 3,7 % durante el periodo 2021-2032. La contracción económica observada en 2020 será sucedida por años de alto crecimiento que permitirán cerrar la brecha del producto, llevando a que el PIB converja a su potencial. Este último estará impulsado por el plan de reactivación, Nuevo Compromiso por el Futuro de Colombia, que complementará las acciones en crecimiento sostenible e incluyente.

Es evidente cómo Colombia a lo largo de los últimos años ha trabajado constante y responsablemente por mantener un sólido marco macroeconómico a través de políticas como la adopción de un régimen de metas de inflación, un tipo de cambio flexible, y el cumplimiento de una regla fiscal, y aunque la emergencia por la pandemia ha tenido un efecto importante en el crecimiento, esperamos que la solidez macroeconómica e institucional del país siga redundando en la estabilidad de nuestra economía.

Plan Nacional de Desarrollo 2018 – 2022 "Pacto por Colombia, Pacto por la Equidad"

El Plan Nacional de Desarrollo 2018-2022 "Pacto por Colombia, Pacto por la Equidad" expedido mediante la Ley 1955 de 2019, tiene como meta construir un país basado en la equidad, la legalidad y el emprendimiento. Dentro de los pactos incorporados en el documento se encuentra el "Pacto por la Sostenibilidad: Producir conservando y conservar produciendo", que busca consolidar acciones que permitan un equilibrio entre la conservación y la producción, de forma tal que la riqueza natural del país sea apropiada como un activo estratégico de la nación para impulsar condiciones óptimas para que los territorios y los sectores prevengan y reduzcan sus riesgos, minimicen los impactos negativos asociados a los desastres, y a la vez se adapten y aprovechen las oportunidades favorables que el cambio climático puede representar para el desarrollo.

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En este sentido, a través de la línea C. "Colombia resiliente: conocimiento y prevención para la gestión del riesgo de desastres y la adaptación al cambio climático", se pretende: (i) avanzar en el conocimiento de escenarios de riesgos actuales y futuros para orientar la toma de decisiones en la planeación del desarrollo; (ii) asegurar la corresponsabilidad territorial y sectorial en la reducción del riesgo de desastres y la adaptación a la variabilidad y al cambio climático; (iii) movilizar el financiamiento para la gestión del riesgo y la adaptación e incentivar la protección financiera ante desastres y; (iv) garantizar un manejo efectivo de desastres y la reconstrucción adaptada y resiliente.

La preparación de una estrategia del financiamiento del riesgo de desastres tiene como uno de sus objetivos asegurar un flujo constante y escalable de recursos para garantizar una rápida atención de la emergencia y de la reconstrucción post-desastre. En este sentido, el Ministerio de Hacienda y Crédito Público, en el marco de la Estrategia de protección financiera ante el riesgo de desastres por fenómenos naturales, ha avanzado en la evaluación y estructuración de múltiples mecanismos de este tipo, así como la coordinación a nivel territorial y sectorial.

El programa de crédito

Teniendo en cuenta el objetivo de esta operación de crédito "*fortalecer el programa del Gobierno en reducir los riesgos relacionados con desastres y el clima, incluidos los riesgos para la salud pública, con un enfoque particular en el fortalecimiento de la resiliencia a nivel sectorial y subnacional*", las acciones de política alrededor de las cuales la República de Colombia ha estado trabajando son: (i) Fomentar el desarrollo de políticas públicas en gestión del riesgo de desastres y adaptación al cambio climático, (ii) Fortalecer la resiliencia fiscal frente a los riesgos de desastre, climáticos y de salud pública, y (iii) Apoyar la corresponsabilidad sectorial y subnacional en la gestión del riesgo de desastres y la adaptación al cambio climático.

El primer pilar del marco de trabajo de este programa, involucra políticas públicas para brindar lineamientos y generar capacidades para conocer y reducir las condiciones de riesgo de desastres asociados a los fenómenos de variabilidad climática, promoviendo medidas de adaptación, que incentiven un desarrollo más resiliente, sostenible, productivo y competitivo del país. Se visualizan como estrategias intersectoriales, multidimensionales y sistémicas. De manera particular, en este primer pilar, se incluyen dos acciones previas evidenciadas en el CONPES 4021 sobre control de la deforestación y la gestión sostenible de los bosques y en el CONPES 4058 para reducir las condiciones de riesgo de desastres y adaptarse a los fenómenos de variabilidad climática.

El segundo pilar, que busca fortalecer la resiliencia fiscal frente a los riesgos de desastre, climáticos y de salud pública, se han previsto acciones de política importantes, a través la actualización de la Estrategia Nacional de Protección Financiera del Riesgo de Desastres, Epidemias y Pandemias, el Marco fiscal de mediano plazo año 2021 (que

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incorpora un capítulo de protección financiera de riesgo de desastres) y la emisión del marco de referencia de bonos verdes soberanos de Colombia. El Gobierno nacional tiene el firme propósito de robustecer su gestión fiscal ante desastres y el cambio climático que le permita al país responder de manera efectiva y oportuna.

Finalmente, el tercer pilar de este programa, busca apoyar la corresponsabilidad sectorial y subnacional en la gestión del riesgo de desastres y la adaptación al cambio climático. En este sentido, se desea integrar acciones de los diferentes sectores tales como: transporte, salud, vivienda y desarrollo territorial, entre otros, resaltando que el proceso de gestión del riesgo se debe abordar de manera articulada, donde cada entidad y sector se responsabilice de sus intervenciones, tomando en cuenta las características del entorno, del medio físico y natural, y promoviendo inversiones resilientes. Algunas de las acciones de política más importantes bajo este pilar son: la aprobación de la Ley 2079 que fortalece la resiliencia en el sector vivienda, los lineamientos de infraestructura verde vial, el plan de gestión de riesgo de desastres de INVIAS, los lineamientos para la preparación y respuesta sectorial frente a efectos en salud, que incluyen COVID-19 y el fenómeno de La Niña, así como también la optimización del programa PRASS para monitoreo y seguimiento de casos COVID-19.

Con la puesta en marcha de las acciones de política que se presentan en este programa, esperamos haber reflejado nuestra situación económica y retos actuales. Dado que es un esfuerzo permanente, que requiere ajustes y adiciones constantes y en tiempo real, y que aún hay mucho camino por recorrer en esta materia, esperamos seguir sosteniendo un diálogo abierto con el Grupo Banco Mundial en el marco de este programa de crédito, en virtud del cual podamos seguir beneficiándonos de la transferencia de conocimiento, asistencia técnica e intercambio de experiencias que el Banco ha puesto a disposición, con miras a consolidar la oportunidad, pertinencia y efectividad de las respuestas creadas para todos los colombianos y residentes en nuestro país.

Sea esta la oportunidad para agradecer una vez más el apoyo incondicional del Grupo Banco Mundial para apoyar al país en esta coyuntura desafiante para Colombia y el mundo.

Cordial saludo,

Alejandra Botero

JOSÉ MANUEL RESTREPO
Ministro
Ministerio de Hacienda y Crédito Público

ALEJANDRA BOTERO BARCO
Directora General
Departamento Nacional de Planeación

Unofficial translation of the LDP

Bogota D.C., November 12, 2021

Mr. David Malpass
President
World Bank Group
Washington, D.C.

Re: Letter of Development Policy. Third Disaster Risk Management Development Policy Loan with a Cat DDO

Dear Mr. Malpass,

We would like to express and reaffirm the commitment of the Government of Colombia to firmly advance in the development of public policies that will allow us to continue strengthening the country's disaster risk management and adaptation to climate change with high sustainability and resilience standards, as well as to continue strengthening our vision to turn these efforts into an engine of economic growth and competitiveness in the short, medium and long term.

Due to its topographic, climatic, and geological conditions, Colombia is highly vulnerable not only to geological phenomena (such as earthquakes and volcanoes) but also to hydrometeorological phenomena and climate variability, which are more frequent than the former and generate greater losses, as is the case with the “La Niña” Phenomenon. When combined with the dynamic behavior of climate, these phenomena contribute to the generation of new disaster risk conditions and exacerbate the already existing ones; this, together with factors such as the exposure and vulnerability of the population and livelihoods, creates various risk scenarios in our territory.

The vast majority (87%) of the disasters that have occurred in Colombia between 1998 and 2020 have been caused by hydrometeorological hazards. Of these, 31% are related to droughts and fires, 27% to floods, 14% to landslides, 12% to windstorms, 2% to torrential floods and 1% to other events. According to the IDB-ECLAC Assessment of Damages and Losses caused by the 2010-2011 rainy season in Colombia, events associated with climate variability have caused significant impacts on development. In 2010, the country faced losses amounting to about 2.2% of its GDP due to the “La Niña” Phenomenon (ECLAC, 2012.)

Furthermore, the National Planning Department, in its publication "The Economic Effects of Future Droughts in Colombia: Estimation Based on the “El Niño” 2015 Phenomenon,” estimated that the 2014-2016 “El Niño” Phenomenon generated losses in the agricultural sector due to the proliferation of crop pests, as well as a 5% reduction in productivity and losses amounting to 0.6% of GDP. The national

Government had to invest around $1.6 trillion pesos in prevention, response and recovery actions in the affected areas. It is particularly evident that 13% of the country's population lives in areas at risk from hydrometeorological phenomena, and failure to adapt to the climate challenges could generate losses amounting to 0.5% of GDP each year.

In addition, we now consider it very important to include health hazards of biological origin in the country, in the context of the significant effects on public health generated by COVID-19 and affecting all Colombians, demanding new ways of working and keeping the economy running and providing essential services that are now beginning to get back to normal. According to the Ministry of Health, as of November 5, 2021, Colombia has experienced a total of 5,010,982 confirmed COVID-19 cases, 11,907 active cases, 4,854,718 recovered cases and 127,456 deaths. In its October 2021 report, the World Bank mentions that economic growth is expected to rebound in 2021-2022–provided that no further COVID-19 outbreaks occur that require mobility restrictions, private domestic consumption and external demand continue to recover, and the Government maintains the confidence of economic actors with a plan to normalize the deficit and debt in the medium term.

In this scenario of high exposure and vulnerability to the occurrence of the abovementioned events which can generate disasters, the country has a National Financial Protection Strategy in place since 2013, which includes early interventions in terms of financial protection to provide a timely and adequate response to finance post-disaster phases. In accordance with the provisions of the National Council for Economic and Social Policy and Planning - CONPES 4030 of 2021, these financial protection actions seek to ensure the reduction of the State's fiscal vulnerability by structuring a portfolio that allows for the optimization of different instruments and tools to finance both risk retention and risk transfer.

For recurrent and less severe events, risk retention is used and financed through our own reserves, budget allocation and contingent credits, whereas risk that exceeds the National Government's retention capacity, namely, less frequent and more severe events, is transferred through market-based financial instruments such as traditional insurance for infrastructure, including PPPs, as well as parametric insurance, with post-disaster credit being the most widely used mechanism for long-term reconstruction.
Additionally, the Medium-Term Fiscal Framework 2021 highlights that disaster risk is a potential threat to public finances, representing 4.36% of GDP. In economic terms, this is the biggest contingent liability compared to other sources of risk, such as legal proceedings against state entities (1.19%), liabilities derived from PPP projects (1.02%) or operations guaranteed by the Nation (0.20%).

The Government of Colombia signed two contingent credit loan agreements with the World Bank; the first DPL with a Cat DDO was signed in 2008 for US$150 million, and provided immediate liquidity following the disaster declaration caused by the impacts of the 2010-2011 La Niña Phenomenon. The second DPL with a Cat DDO, signed in 2012 for US$250 million and renewed in 2015 and 2018, was disbursed in March 2020 to address the economic, social and ecological emergency caused by the COVID-19 pandemic and closed on July 10, 2021.

Given the importance of relying on this financial protection tool, the Government wishes to move forward with the negotiation of a third DPL with a Cat DDO, so that, through the World Bank's technical support, we can ensure the momentum, strength and sustainability of the policies and reforms in our disaster risk management agenda.

Macroeconomic Context

For decades and until the beginning of 2020, Colombia had managed to build a pathway to economic growth, accompanied by the reduction of poverty, unemployment, and informality, and based on responsible fiscal sustainability criteria. The global crisis generated by the COVID-19 pandemic had a strong impact on the country's economy, with significant effects on public and private activities. In response, several multisectoral measures were implemented, which had a significant fiscal impact on National Government revenues, expenditures, and public debt. As a result, in 2020, Colombia reported a fiscal deficit amounting to 7.8% of GDP (accounting for a 5.3 percentage point of GDP drop, as compared to the previous fiscal year), monetary poverty levels of 42.5%, and an extreme monetary poverty level of 15.1%.

Notwithstanding the aforementioned, the national economy is showing signs of recovery and reactivation in 2021. The Economic Tracking Indicator (ISE) registered an annual growth rate of 13.2% as of August 2021, showing a positive economic activity performance. In addition, while the unemployment rate rrose to 21.4% in May 2020, by September 2021 it had fallen to 12.1%. In addition, in the second quarter of 2021, GDP grew 17.6%, as compared to the same period in 2020, mainly driven by the trade, transportation and restaurant sector (growing 40.3% and contributing 6.8 percentage points to GDP growth), the manufacturing industries (which grew by 32.5% and contributed 3.8 percentage points to GDP growth), the arts and entertainment sector (growing 83.8% and contributing 2.2 percentage points) and the public administration, education and health sectors (growing 9.0% and contributing 1.4 percentage points). Furthermore, cumulative net tax collections in the January-August 2021 period grew 20.2%, as compared to the same period in 2020, and 5.2% as compared to the same period in 2019.

The real expansion of the economy is expected to average 3.7% over the 2021-2032 period. The economic downturn experienced in 2020 will be followed by years of robust growth that will close the output gap, leading the GDP to get back on track to reach its potential. The GDP will be driven by the reactivation plan “New Commitment for the Future of Colombia,” which will complement key actions on sustainable and inclusive growth.

It is evident that Colombia has worked steadily and responsibly over the past few years to keep a sound macroeconomic framework through policies such as the adoption of an inflation targeting regime, a flexible exchange rate, and compliance with the fiscal rule. Despite the large effect of the pandemic on growth, we expect that Colombia’s macroeconomic and institutional strength will continue to guarantee economic stability for the country.

National Development Plan 2018 – 2022, “Pact for Colombia, Pact for Equity”

The National Development Plan 2018-2022, “Pact for Colombia, Pact for Equity,” was enacted by Law 1955 of 2019. The Plan aims to develop the country based on the principles of equity, legality, and entrepreneurship. One of the pacts included in this document is the “Pact for Sustainability: Produce by Conserving and Conserve by Producing,” which seeks to consolidate actions to promote a balance between conservation and production, so that the country’s natural wealth is regarded as a strategic asset, and promote optimal conditions for territories and sectors to prevent and reduce risks and minimize the negative impacts associated with disasters, while strengthening adaptation and taking advantage of the opportunities for development brought by climate change.

In this regard, line C. “Resilient Colombia: Knowledge and prevention for disaster risk management and adaptation to climate change,” intends to: (i) make progress in the understanding of current and future risk scenarios to guide decision-making in development planning; (ii) ensure territorial and sectoral coresponsibility in disaster risk reduction and adaptation to climate variability and climate change; (iii) mobilize financing for disaster risk management and climate change adaptation, and incentivize financial protection against disasters, and; (iv) ensure effective disaster management and an adapted and resilient reconstruction.

One of the objectives of developing a disaster risk financing strategy is to ensure a constant and scalable flow of resources to guarantee rapid emergency response and post-disaster reconstruction. As part of the Disaster Risk Financing Strategy against natural hazards, the Ministry of Finance and Public Credit has made progress in the evaluation and structuring of multiple similar mechanisms, and has carried out coordination at subnational and sectoral levels.

The Loan Program

Considering the operation’s objective to “strengthen the Government of Colombia’s program to manage risk resulting from adverse natural events, including disease outbreaks,” with a particular focus on building resilience at the sectoral and subnational levels, the Republic of Colombia has been working on the following policy actions: (i) Promoting the development of disaster risk management and climate change policies; (ii) Strengthening fiscal resilience to disaster, climate, and public health risks; and (iii) Promoting sectoral and subnational coresponsibility in disaster risk management and climate change adaptation.

The first pillar of this program’s framework includes public policies seeking to provide guidelines and capacity building to understand and reduce disaster risk conditions associated with climate variability phenomena and promote adaptation measures to enable a more resilient, sustainable, productive and competitive development in the country. These measures are viewed as intersectoral, multidimensional, and systemic strategies. This first pillar specifically includes two Prior Actions, as shown in CONPES 4021: Deforestation control and sustainable forest management; and in CONPES 4058: Reduction of disaster risk conditions and adaptation to climate variability phenomena.

The second pillar seeks to build fiscal resilience against disaster, climate, and public health risks. Important policy actions under this pillar, include the update of the National Disaster, Epidemic and Pandemic Risk Financing Strategy, the 2021 Medium-Term Fiscal Framework (which includes a chapter on financial protection against disaster risk) and the issuance of the Sovereign Green Bond Framework. The National Government is strongly committed to strengthening fiscal management of disasters and climate change to allow for an effective and timely response.

Finally, the third pillar of this program seeks to promote sectoral and subnational coresponsibility in disaster risk management and climate change adaptation. In this sense, the Government seeks to integrate actions across sectors, including transport, health, housing, and territorial development, etc., while highlighting that the disaster risk management process should be conducted in a coordinated manner, where each entity and sector is responsible for its own interventions, considering the relevant characteristics of the physical and natural environment, and promoting resilient investments. Some of the key policy actions under this pillar include: the approval of Law 2079 to build resilience in the housing sector, the Green Road Infrastructure Guidelines, the INVÍAS Disaster Risk Management Plan, the guidelines for sectoral preparedness and the response to impacts on health, which include COVID-19 and the "La Niña" Phenomenon, as well as the optimization of the Testing, Tracking, and Sustainable Selective Isolation Program (PRASS) for monitoring and tracing of COVID-19 cases.

We hope that the implementation of the policy actions that have been presented in this program reflect our current economic situation and challenges. Considering that this is an ongoing effort that requires constant adjustment and additions in real time and that there is still a long way to go in this area, we hope to maintain an open dialogue with the World Bank Group through this operation and, as a result, continue to enjoy the benefits derived from the transfer of knowledge, technical assistance, and exchange of experiences that the Bank has made available, with a view to consolidating the responses that will meet the needs of all the people living in this country, both Colombians and foreign residents, in terms of timeliness, relevance, and effectiveness.

Once again, we would like to take this opportunity to express our appreciation to the World Bank Group for its unconditional support to our country at this time of great challenges, both for Colombia and the world.

Sincerely.

[signature]

JOSE MANUEL RESTREPO
Minister
Ministry of Finance and Public Credit

[signature]

ALEJANDRA BOTERO BARCO
Director General
National Planning Department

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Promoting the development of disaster risk management (DRM) and climate change policies		
Prior Action #1	Positive environmental impacts expected	Positive social impacts expected
Prior Action #2	Positive environmental impacts expected	Positive social impacts expected
Pillar 2: Strengthening fiscal resilience to disaster, climate and public health risks		
Prior Action #3	Positive environmental impacts expected	Positive social impacts expected
Prior Action #4	Positive environmental impacts expected	Positive social impacts expected
Pillar 3: Promoting sectoral and subnational coresponsibility in DRM and CCA		
Prior Action #5	Positive environmental impacts expected	Positive social impacts expected
Prior Action #6	Positive environmental impacts expected	Positive social impacts expected
Prior Action #7	Positive environmental impacts expected	Positive social impacts expected

ANNEX 5: WORLD BANK ENGAGEMENT IN COLOMBIA ON DISASTER RISK MANAGEMENT

151. **The World Bank has played a prominent role in financing Colombia's DRM and reconstruction programs since the late 1990s**. Through this long-term engagement with the Government of Colombia, Bank operations have mainly supported the provision of financial services and the generation of knowledge (see Table 6). Additional support has also been provided for the convening and coordination of key institutions and stakeholders.

152. **Through the financial services business line, the partnership between the Bank and the Government of Colombia started following the January 1999 *Eje Cafetero* (coffee-growing region) earthquake, after which four loans were structured for a total of US$93 million for the reconstruction of this region**. In 2000, the Earthquake Recovery Project (US$225 million) supported the reconstruction of essential housing and basic infrastructure, incorporating modern seismic resilience standards. In 2005, the National Disaster Vulnerability Reduction Project (DVRP) (US$260 million) and then the 2006 Bogota DVRP (US$80 million) aimed at reducing fiscal vulnerability to adverse natural events by strengthening the DRM capacity to manage disaster risk at the national and municipal level (Bogotá), respectively. Likewise, in the financial sector, the Bank has notably developed its engagement with the Government by way of a program supporting the reduction of Colombia's financial vulnerability to disasters triggered by natural events through improving Colombia's financial response capacity in the aftermath of disasters while protecting the country's long-term fiscal balance: two DPLs with a Cat DDO were approved in 2008 (US$150 million) and 2012 (US$250 million). Both Cat DDOs were fully disbursed to address the impacts of the massive flooding in 2010–2011 and the pandemic, respectively.

153. **At the national level, the Bank has actively supported the creation of public policies for a new approach to DRM comprising two principal developments**. First, a 2011 Presidential Decree created the UNGRD under the Presidency of the Republic, thus elevating the political status and convening power of Colombia's lead DRM agency. In 2012, the National DRM System Act (Law 1523) established a system that encompasses three aspects: i) risk knowledge, ii) risk reduction, and iii) disaster management, with the goal of working in a coordinated manner with the public and private sectors and civil society. Recognition of the relationship between DRM, the development process and national and local planning instruments was one of the most important changes introduced by the law.

154. **Regarding DRF, Colombia has made remarkable progress in the development of a catastrophe risk financing framework at the national level**. Since its 2011 inception, and with support from the World Bank and SECO, Colombia has made steady—and pioneering—progress on its agenda. Regarding the generation of public policy in DRF, in 2013 the MHCP prepared the "Public Policy Strategy for Disaster Risk Financial Management of Natural Disasters" (the first of its kind in the world). This document proposes the systematic evaluation of different financial instruments to strengthen Colombia's response capacity in the event of disasters and thus contribute to saving lives, initiating rehabilitation processes in a timely manner, structuring social protection programs, economic reactivation, and post-disaster reconstruction phases. This is a key component of the fiscal management strategy, as well as of the DRM policy, and part of the Government's efforts to support the sustainability of the public debt. The three policy objectives of the disaster risk financing strategy are: i) identification and understanding of fiscal risk from disasters; ii) financial management of disaster risk, which includes the implementation of innovative financial instruments; and iii) catastrophic risk insurance of public assets. In this context, a layered financing strategy is established, which considers ex-ante and ex-post instruments.

155. **This strategy was updated in 2016 to update the regulatory framework applicable to DRF management, and a Five-Year Operational Plan was prepared for its implementation with the participation of different government entities**. At the subnational level, and aligned with the national DRF strategy, in 2019, the Metropolitan Area of Valle de Aburrá and the government of Cundinamarca State designed and approved their respective DRF strategies (the firsts in

the world). In the same year, the Archipelago State of San Andrés, Providencia and Santa Catalina and the Putumayo State approved their DFR strategies, followed by Huila Department in 2021. All this has been accompanied by training for public officials at the national and subnational levels. Currently, the national strategy is being updated to incorporate two new policy objectives, to support and recognize the efforts of the subnational and sectoral levels to manage disaster risk more broadly and thus improve the financial response capacity of the country. The strategy will, at the same time, include climate change, epidemic and pandemic risk considerations.

156. **Regarding risk transfer instruments, in 2012, technical guidelines were provided on the insurance requirements for concessions through the Public-Private Partnership scheme**. As of July 2020, the insurance of 4G concessions amounted to more than US$40 billion. Furthermore, the Ministry of Finance and Public Credit assessed a Cat Swap, whose analysis served as an input for the structuring of the Cat Bond that was issued within the framework of the Pacific Alliance Initiative of Chile, Colombia, Mexico, and Peru. This Cat Bond provided US$400 million of coverage against seismic risk to Colombia for a period of three years and until February 2021. Currently, this same Ministry is evaluating risk transfer instruments to cover hydrometeorological risk.

157. **Equally important, some instruments have been developed to strengthen the insurance of public buildings, including:** i) Demand Aggregation Framework Agreements for Insurance Intermediaries; ii) a beta version, and a pilot plan of the web information system to manage information on the characteristics of public properties and their insurance policies; and iii) guidelines, objectives, and activities to generate an instrument to improve the level and quality of the fiscal assets insurance in the event of natural hazard-related disaster (they can be used by entities at the national and subnational level).

158. **It is worth mentioning the Bank's engagement at the sectoral and subnational levels**. The delivery of the flagship Colombia Country Disaster Risk Management Analysis (CCDRMA) in 2012 contributed significantly toward providing the Government with an analytical basis for decision-making on how to improve institutional organization and policies for DRM. This ground-breaking analysis at the national level included a detailed review at regional and local levels of the status and development of investment in risk management and the inclusion of hazard and risk in land use planning and watershed management. The study also analyzed the role of sectoral authorities through case studies in eight sectors (transport, energy, water, housing, agriculture, education, environment, and health) and several subnational areas (Bogotá, Cali, Medellín, Barranquilla, Manizales, Cúcuta, La Mojana, Canal del Dique, Sinú river Basin, and Río Bogotá). Later, in 2013 the CCDRMA was translated into English and further disseminated with the GFDRR Consultative Group Donors' Meeting, at the UNISDR Global Platform, and with the Ministry of Economic Development for the Province of Ontario (Canada).

159. **In the housing sector the Bank supported the formulation of a methodology for the national inventory of settlements in high-risk areas to contribute to an assessment of the size of the challenge**. Along with the methodology, the Bank supported the development of an online tool for the consolidation of such an inventory. The Bank's engagement on resilient housing culminated more recently in the approval in May 2021 of the Resilient and Inclusive Housing Project (P172535), which seeks to improve the quality of housing and public spaces for vulnerable households, including migrants from Venezuela, in selected municipalities.

160. **In addition, the Bank, through its Global Program for Safer Schools, supported Cali from 2018–20 to develop a highly innovative Municipal School Infrastructure Plan (2020–32), focused on improving the condition, capacity and management of its school infrastructure**. The plan—the first engagement at municipal level for the Bank—will guide policy decisions and investments for both new and existing school infrastructure through a seismic vulnerability reduction program and ultimately create safer learning environments for more than 180,000 students in 1,550 school buildings.

161. **Following the onset of the COVID-19 pandemic in 2020, the Bank provided support to subnational entities through the Supporting Recovery from COVID-19 and Strengthening Resilience in Colombian Cities ASA (P175858)**. Through a series of activities, the Bank assessed the impact of COVID-19 on municipal finances and explored innovative options to support subnational response to and recovery from the pandemic.

Table 6. World Bank Engagement in Colombia in DRM, by Financial and Knowledge Services Provided (1999–present)

	Foundations & Early Support (1999–2003)	Strengthening (2004–2009)	Consolidation (2010–2012)	Continuing Support (2013–present)
Financial Services	• Colombia Earthquake Recovery Project (P065263)	• First DRM DPL with a Cat DDO (P113084) • National DVRP (P082429) • Bogota DVRP (P085727)	• National Macroproyectos Social Interest Project (P110671) • GFDRR Grant for Preparation of Barranquilla Urban Flood Management Project (TF096015-Dropped) • First Programmatic Fiscal Sustainability and Growth Resilience DPL (P123267) • Second DRM DPL with a Cat DDO (P126583) • GFDRR Grant for Consolidation of Colombia DRM	• Second DRM DPL with a Cat DDO (P126583) (renewed in 2015 & 2018) • Resilient and Inclusive Housing Project (P172535)

	Foundations & Early Support (1999–2003)	Strengthening (2004–2009)	Consolidation (2010–2012)	Continuing Support (2013–present)
Knowledge Services		• PHRD Grant for Colombia DVRP (TF052529) • PHRD Grant for Bogota DVRP (TF053759) • Report on Seismic Risk Retention and Transfer for Colombia. Risk Management and Insurance • First GFDRR DRM Country Note	• Colombia Country DRM Analysis (TF098966) • Probabilistic Risk Information Technical Assistance Projects (TF09324) • Publication. Preventative Resettlement of Populations at Risk of Disaster: The Case of Nueva Esperanza, Bogota. • Colombia Disaster Risk Financing Strategy (P128518) • Agricultural Risk Management (TF050595) • Strengthening Governance for Social Risk Management (P123616) • Reference Book on Probabilistic Catastrophe Risk Modelling (TF091242) • Technical Support for identification of Barranquilla Urban Flood Risk Management Project (TF096323)	• Colombia Disaster Risk Financing (P155565) • Colombia Sovereign Disaster Risk Financing (P128518) • Colombia: Strengthening Social Protection System as a Disaster Risk Mitigation Mechanism (P162273) • Sectoral DRM policies and plans (P160023) • Consolidating DRM (P145500) • Colombia Programmatic Engagement in DRM (P129542) • Increasing the Safety and Resilience of Critical Infrastructure in Cali, Colombia (TF0A9430) • Supporting Recovery from COVID-19 and Strengthening Resilience in Colombian Cities (P175858)