



The World Bank

Third Disaster Risk Management Development Policy Loan with a Cat DDO (P176650)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 28-Oct-2021 | Report No: PIDA32721

**BASIC INFORMATION****A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Colombia	P176650	Third Disaster Risk Management Development Policy Loan with a Cat DDO (P176650)	
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date 17-Dec-2021	Practice Area (Lead) Urban, Resilience and Land	Financing Instrument Development Policy Financing
Borrower(s) Republic of Colombia	Implementing Agency Ministry of Finance and Public Credit, National Planning Department		

Proposed Development Objective(s)

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

Financing (in US\$, Millions)**SUMMARY**

Total Financing	300.00
------------------------	--------

DETAILS

Total World Bank Group Financing	300.00
World Bank Lending	300.00

Decision

Other

Explanation

The review authorized the team to proceed to appraisal pending the completion of two Prior Actions. The team was advised to seek authorization to negotiate once all Prior Actions are completed.



B. Introduction and Context

Country Context

1. Colombia has one of the highest rates of disasters caused by natural and climate-induced hazards in the Latin America and Caribbean (LAC) region, hazards that are expected to increase as a result of climate change.¹ 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.² Colombia's tropical climate, affected by the La Niña and El Niño climatic phenomena, is subject to both heavy and frequent rains and dry periods, respectively.³ If no action is taken to mitigate climate change-related risks, about 0.5 percent of Colombia's GDP could be lost each year.⁴ Around 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. Furthermore, due to human encroachment into remote, uncontrolled areas and the increase in illegal practices, deforestation has accelerated⁵—potentially generating around US\$ 4 billion in GDP losses by 2030—and forest fire hazard has increased.

2. After two decades of sustained economic growth and poverty reduction, the COVID-19 crisis hit the economy and the poor hard, with effects that will take time to absorb. Real GDP contracted by 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 population during the crisis, the overall deficit increased to 7.2 percent of GDP, from a projected 2.6 percent of GDP before the pandemic broke out, and the debt-to-GDP ratio reached 66.9 percent of GDP.⁶ Colombia's solid economic growth since the early 2000s had led to significant social improvements. Extreme poverty fell from 17.7 percent in 2002 to 7.2 percent in 2018. Moderate poverty also decreased, dropping from 49.7 percent to 27.0 percent over the same time frame. Notwithstanding the mitigating impact of government's emergency response, the crisis wiped out all gains in poverty reduction realized over the past decade; the incidence of poverty increased from 35.7 percent in 2019 to 42.5 percent in 2020. In addition, the impacts of the pandemic have demonstrated the multiplier effects caused by compound risks and the need to further strengthen financial preparedness to respond to increasingly complex, cascading and systemic shocks in a context where 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.

3. Despite being widely regarded as a regional leader in Disaster Risk Management (DRM) and globally recognized for its good practices in developing a comprehensive DRM approach, Colombia still faces challenges to address disaster, climate and public health risks and to further strengthen DRM and climate adaptation (CCA) and mitigation at the sectoral and subnational levels. 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. However, key challenges remain around: (a) implementing the National DRM Policy and Plan at the sectoral level, (b) improving disaster risk knowledge, sectoral co-responsibility, and strategies to include climate

¹ Colombia ranks fourth in the region in disaster risk. EU Commission. 2019. INFORM Risk Index.

² DNP. 2014. Bases del Plan Nacional de Desarrollo 2014-2018: Todos por un Nuevo País.

³ Hydrometeorological phenomena are the most recurrent, causing 85 percent of disasters registered between 1998-2018. 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.

⁴ DNP, CEPAL y BID. 2014. Impactos económicos del cambio climático en Colombia. Síntesis.

⁵ From 2001 to 2020, Colombia lost 4.66 million hectares (ha) of tree cover, corresponding to a 5.7 percent decrease in total tree cover and roughly 2.59Gt of CO₂ equivalent emissions.

⁶In this document, general government debt is reported as gross, non-consolidated debt (see discussion in macroeconomic section).



risk systematically, and institutional capacity of subnational entities to reduce risk, (c) developing a better understanding of climate variability and its consequences, (d) better aligning the DRM and CCA agendas and control deforestation to help achieve mitigation goals, (e) developing new financial instruments to finance green investments across priority sectors and subnational governments, (f) integrating Disaster Risk Financing (DRF) and DRM into health sector planning, and (g) improving risk knowledge, risk reduction, emergency preparedness and response capacity of the health sector, particularly at the subnational level.

Relationship to CPF

4. The proposed operation will contribute to the Colombia Country Partnership Framework (CPF)'s goals of promoting green and resilient growth for more balanced territorial development, and supporting the Government'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). The operation is closely aligned with the World Bank Group's Climate Change Action Plan (2021-2025), and the WBG COVID-19 Crisis Response Approach Paper, "Saving Lives, Scaling-Up Impact and Getting Back on Track."

C. Proposed Development Objective(s)

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

Key Results

5. 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-driven, and public health disasters. Prior Action 1 will strengthen the capacity of national, subnational and sectoral entities to understand and reduce disaster risk conditions related to climate variability and promote more resilient, competitive and sustainable development through climate adaptation measures. Prior Action 2 will strengthen the management of forest and green cover fire risks, improve cross-sector coordination to protect ecosystems from the impacts of forest fires, and strengthen the capacity of authorities involved in forest management, helping the Government achieve its goal of net zero deforestation by 2030. Prior Action 3 will help to protect the country's fiscal balance in the event of disasters and over the long term by building the capacity of institutions to assess the financial impacts of disaster and climate risks and supporting the development of financial mechanisms for disaster response and recovery. Prior Action 4 will contribute to Colombia's commitment to pursue a sustainable and low-carbon economy by mobilizing financing for green projects from the Government, private sector, investors and financial institutions. Prior Action 5 will contribute to housing and territorial planning that is more resilient to disasters and climate change by promoting risk-informed decision-making by institutions, businesses and communities. Prior Action 6 will contribute to more resilient, low-carbon, sustainable and climate-adapted road infrastructure through the implementation of green road guidelines and a DRM plan for the national roads institute. Finally, Prior Action 7 will contribute to mitigating public health risks by enhancing institutional and technical capacity to control, prevent and respond to vector-borne diseases and other



public health hazards.

D. Project Description

6. The Third Disaster Risk Management Development Policy Loan (DPL) with Catastrophe Deferred Drawdown Option (Cat DDO III) of US\$300 million will continue and deepen support for the Government of Colombia's program, which aims to reduce disaster, climate and public health risks with a particular focus on strengthening resilience at sectoral and subnational levels. The operation will support Colombia's continued progress on robust 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, climate change impacts and public health hazards in the context of continued socioeconomic development. The proposed operation will support the Government's efforts to strengthen policies, strategies and plans at the sectoral and subnational levels. The operation will comprise the following Pillars:

- **Pillar 1. Promoting the development of disaster risk management (DRM) and climate change policies:** This pillar will support the Government's efforts to define and develop public policy actions at the subnational and sectoral levels aimed at generating risk information and reducing risk related to climate change, deforestation and forest fires, and developing key measures to promote climate adaptation and mitigation.
- **Pillar 2. Strengthening fiscal resilience to disaster, climate and public health risks:** This pillar will support the Government's efforts to generate fiscal resilience and contribute to climate mitigation and sustainable development through the implementation of innovative financial instruments at the national and subnational levels.
- **Pillar 3. Supporting the Promoting sectoral and subnational co-responsibility in DRM and Climate Change Adaptation (CCA):** This pillar will support the Government's efforts to promote disaster risk reduction and climate adaptation across the housing, transport and public health sectors, both at the national and subnational level.

7. The Cat DDO may be disbursed in whole or in part when an emergency is imminent, is occurring or has occurred in Colombia resulting from a disaster caused by adverse natural or public health related events. Disbursement of the Cat DDO may only be requested after a Presidential Declaration has been issued in response to the disaster. For the purposes of this operation, 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.

E. Implementation

Institutional and Implementation Arrangements

8. As implementing entities, the Ministry of Finance and Public Credit (MHCP) and the National Planning Department (DNP) are responsible for collecting and monitoring information related to program implementation and progress towards the achievement of results for this DPL operation. MHCP and DNP are further responsible for coordinating necessary actions among the agencies involved in the reform program supported by this DPL operation, in particular, Ministry of Environment and Sustainable Development (MADS), the Ministry of Transport, the Ministry of Health and Social Protection, MVCT, DPS, and UNGRD. The World Bank has worked closely with MHCP, DNP and



relevant sectoral entities to define results indicators that are clear and measurable and that have realistic targets even in the context of the COVID-19 crisis.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

9. 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.⁷ Therefore, this group would bear the effects of climate change more directly and drastically because the housing conditions, income, basic infrastructure and response systems at its disposal are insufficient in the face of extreme weather events. 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 prevent disasters due to adverse natural events. The measures proposed under Pillar 2 will directly impact public finances, as they emphasize reducing fiscal vulnerability through the deployment of a comprehensive financing strategy manage disaster, climate and public health risks, and a Sovereign Green Bond Framework. In Pillar 3, the actions recognize that the impact of climate change is differentiated according to geographical, socio-economic, and institutional conditions.

Environmental, Forests, and Other Natural Resource Aspects

10. The environmental analysis found that all the prior actions supported by the proposed Cat DDO have potential positive effects on Colombia's environment, forests, or natural resources. In Colombia, in addition to the economic and social repercussions caused by natural hazards including climate related hazards such as floods and landslides, environmental repercussions are also considered. 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 the disappearance of natural habitats.

G. Risks and Mitigation

11. The overall risk rating for the proposed operation is Moderate. The main risk to achieving the program development objectives is 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. To mitigate these risks, 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. **Risks related to:** **(a) the macroeconomic framework; (b) sector strategies and policies; (c) technical design of the project; (d) institutional capacity for implementation and sustainability, (e) environmental and social; and (f) stakeholders are considered moderate, while fiduciary risks are considered low.**

⁷DANE. 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>



The World Bank

Third Disaster Risk Management Development Policy Loan with a Cat DDO (P176650)

CONTACT POINT

World Bank

Alexander Agosti, Diana Marcela Rubiano Vargas, Jose Angel Villalobos
Senior Disaster Risk Management Specialist

Borrower/Client/Recipient

Republic of Colombia

Implementing Agencies

Ministry of Finance and Public Credit
Karen Rodriguez
Deputy Director, Finance, Multilateral Organizations
karen.rodriguez@minhacienda.gov.co

National Planning Department
Natalia Bargans Ballesteros
Deputy Director, Public Credit
nbargans@dnp.gov.co

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Alexander Agosti, Diana Marcela Rubiano Vargas, Jose Angel Villalobos
----------------------	---

Approved By

Country Director:	Mark Roland Thomas	30-Sep-2021
-------------------	--------------------	-------------