

# Colombia: Policy strategy for public financial management for natural disaster risk

**600  
On Average**

**# disaster events  
reported in  
Colombia per year**

Disaster resulting from natural hazards represent an important challenge for Colombia's fiscal sustainability and stability.

The Government of Colombia (GoC) recognizes the importance of mitigating disaster events and has taken several steps to mainstream disaster risk management into its policy and programs, as evinced by the National Development Plan "2014-2018".

Three priority policy objectives have been identified.

## "All For a New Country "



The National Development Plan (PND) 2014-2018, entitled "All For a New Country" (Act 1753 of 2015) and the PND 2010-2014 "Prosperity for All" (Act 1450 of 2011), mandated the Ministry of Finance and Public Credit (MHCP) to design a strategy for reducing the State's fiscal vulnerability to natural disasters.

### Policy Objective 1: Identification and Understanding of Fiscal Risk due to Natural Disasters

Ministry of Finance and Public Credit (MHCP) has assessed that a 1-in-250 year earthquake event would cause fiscal losses related to its contingent liabilities estimated at approximately 1.4% of the GDP.

#### The MHCP will prioritize the following activities:

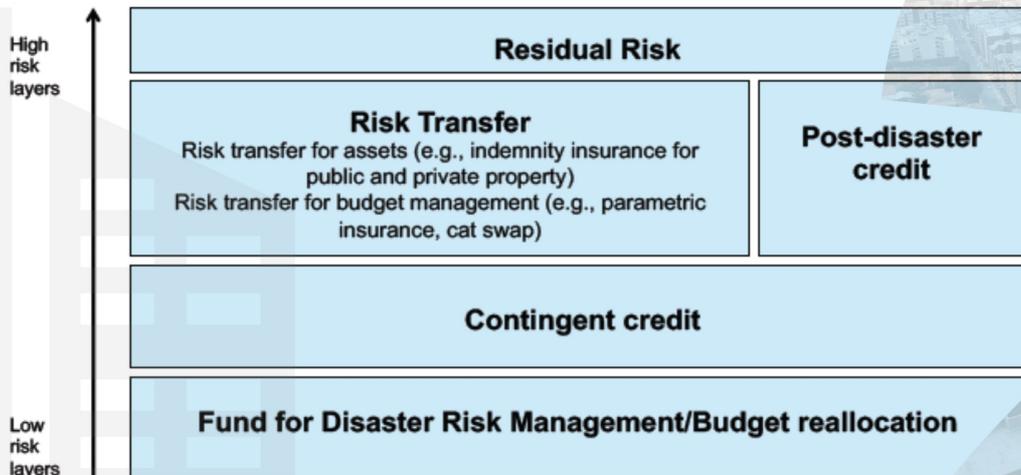
- Improve information on the exposure of public buildings and infrastructure to natural disasters, as well as historical information on disaster losses to the public sector.
- Improve its understanding of its fiscal risk profile by collecting further information on the government's historical losses from disasters.
- Use and promote the use of financial and actuarial decision making tools.
- Evaluate and adopt tools to assess possible increases in natural disaster risk generated by new public works and public-private partnerships (PPPs).
- Apply risk assessment tools to evaluate the contributions of proposed new investments to fiscal risk, including those made through PPP.

Contingent Liabilities	% of GDP
Legal actions	14.04
Infrastructure projects	0.26
Public Credit operations	0.22
<b>Natural Disasters*</b>	
Fiscal portfolio	1.40

Source: MHCP (2011).

## Policy Objective 2: Fiscal Management of Natural Disasters

The MHCP has made significant progress in designing a comprehensive strategy for the financial management of disasters. The MHCP promotes a multi risk layering strategy for financial management of disaster risk, based on the assessment of its contingent liabilities, as illustrated.



The MHCP is enhancing its use of and designing additional financial protection instruments in order to establish a solid, robust strategy for financial management of disaster risks through strengthening, implementing, and/or evaluating the following:

**#1** National Fund for Disaster Risk Management

**#2** Contingent Credit

**#3** Evaluation of financial protection instruments

## Policy Objective 3: Catastrophe Risk Insurance for Public Assets

In the longer term, the MHCP aims to reduce the government's contingent liabilities related to natural disasters through a combination of risk mitigation investments and catastrophe insurance for public assets.

Various ways to improve the insurance strategy for public assets:

- Information system on public buildings.
- Standardized approach through demand aggregation tools for hiring insurance for public buildings.
- Improvement of insurance of road infrastructure through a PPP scheme.
- "Best practices" insurance guidelines for decentralized public entities.

To achieve these objectives, the MHCP is collaborating with entities from across the government and with international partners such as the World Bank, Swiss State Secretariat for Economic Affairs (SECO) and the Global Facility for Disaster Reduction and Recovery (GFDRR).