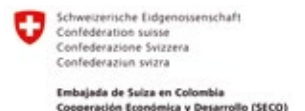




Disaster Risk Management Financial Protection Strategy FOR THE DEPARTMENT OF

HUILA

Programa de Financiamiento
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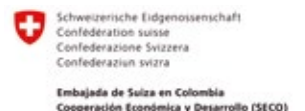




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Disaster Risk Management Financial Protection Strategy FOR THE DEPARTMENT OF HUILA

Governor's Office of Huila

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October 2021, 2021, Neiva
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ACRONYMS

DRMDCH	Departmental Committee for Disaster Risk Management of Huila
DGCPTN	General Directorate of Public Credit and the National Treasury
DNP	National Planning Department
Huila FP Strategy	Financial Protection Strategy for Disaster Risk Management of the Department of Huila
DRFM Strategy	National Strategy Policy for Public Financial Management in the Face of Disaster Risk Due to Natural Phenomena
DRMDFH	Departmental Fund for Disaster Risk Management of Huila
GFDRR	Global Facility for Disaster Reduction and Recovery
DRFM	Disaster Risk Financial Management
DRM	Disaster Risk Management
IDEAM	Institute of Hydrology, Meteorology and Environmental Studies
MHCP	Ministry of Finance and Public Credit
FP	Financial Protection
DRMPDH	Departmental Plan for Disaster Risk Management of Huila
PND	National Development Plan
DRFM Program	Disaster Risk Financial Management Program
SECO	Swiss Embassy in Colombia - Economic Cooperation and Development
SGC	Colombian Geological Survey
SNDRM	National Disaster Risk Management System
UNDRM	National Unit for Disaster Risk Management



The Government of Huila celebrates the support and technical assistance that the National Government grants us from the disaster risk financing and insurance program and the international alliances to strengthen public finances, essential for the development of our territory.

LUIS ENRIQUE DUSSÁN LÓPEZ
Governor of Huila

We appreciate the work of the World Bank, the National Planning Department, the National Unit for Disaster Risk Management, the Ministry of Finance, the Swiss Embassy in Colombia and all the entities that work to ensure that the territory's Financial Strategies are consistent and adequate.

We will work to provide all the details of the threats and vulnerabilities that Huila faces due to its geographical conditions, such as landslides, floods, flash floods, avalanches, earthquakes and forest fires. We will take advantage of the technical assistance and do our best as a sign of our interest and commitment to this great project.

In Huila, Disaster Risk Management is a priority, and we therefore consider the principle of reducing the impact on fiscal vulnerability important. From the Secretary of Finance, the Secretary of Govern-

ment, and our Disaster Risk Management Office, we are working to adopt this strategy and form part of that select group of departments in Colombia with financing and insurance against disaster risk.

We took on the challenge, built a dream and reached a goal of our Development plan: 'Huila Crece' (Huila Grows). Thank you for thinking of Huila, the department where the Magdalena River is born, with important natural reserves, with desert and snow; with varied climates, ranging from the hottest in the north to the coldest in the south of the region. A territory that exports coffee and tilapia, where the festivities of San Juan and San Pedro are celebrated and the *achira* sponge cake and *cholupa* juice are enjoyed. Huila is a resilient territory that requires planning for the development and protection of its population.

PREFACE



JAVIER ANDRÉS CUÉLLAR SÁNCHEZ
Risk Deputy Director - MHCP

Comprehensive disaster risk management must necessarily involve the evaluation and implementation of financial mechanisms that guarantee the reduction of fiscal vulnerability and the increase in the level of resilience of the Nation, the departments and the municipalities.

With this objective, the national government at the head of the Ministry of Finance and Public Credit have been providing technical assistance to the sub-national entities in the drafting and implementation of their Disaster Risk Financial Protection Strate-

gies, which, in conjunction with the National Strategy, define policy objectives grounded to individual specificities and needs.

Therefore, for the Ministry of Finance, it is a pleasure to support the Department of Huila in this process of inclusion in the Disaster Risk Financing and Insurance Program (DRFI Program) financed by the Swiss Embassy in Colombia - SECO and technically supported by the World Bank, through which the great and important achievements that position us today as a pioneer country and as international benchmark in this field have been developed.

To the governor and the officials of the different departmental secretaries who participated in this important policy document, special gratitude for the effort and the work that was carried out together with the national entities that supported this initiative.

Now there are great challenges to carry out the implementation of this Huila Strategy, which will surely benefit the department's finances and reduce its fiscal vulnerability.



Introduction

The Department of Huila as a subnational entity, within the dynamics of the prevailing administrative decentralization in Colombia, can manage interests and responsibilities in accordance with the Constitution and relevant laws. As a subnational entity, it can autonomously determine the internal structure and administrative organization, as well as to establish and distribute functions and resources for the proper fulfillment of constitutional duties, including the exercise of its own powers, participation in national income, the administration of their resources and the establishment of the departmental taxes necessary for the fulfillment of the functions.

Huila is exposed to different types of threats from natural phenomena. The Departmental Plan for Disaster Risk Management of Huila (DRMP-DH) indicates risk scenarios due to seismic movements, volcanic activity, geomorphological phenomena (erosion and mass removal), hydrometeorological phenomena (floods and flash floods), droughts and desertification, forest fires and accidents related to hydrocarbons exploitation and transportation.

The Government of the Department established the need to manage the component of financial protection against disasters. Through Ordinance 024 of 2014, the Departmental Assembly of Huila created the Departmental Fund for Disaster Risk Management of the Department of Huila (DRMDFH) which included specific issues of Financial Protection (FP) within its objectives as a comprehensive part of the Departmental DRM. In order to strengthen the Department's Disaster Risk FP (Huila FP Strategy) and in coordination with the National Strategy, the Department of Huila requested to be part of the Disaster Risk Financing and Insurance Program led by the Ministry of Finance and Public Credit.

The Financial Protection (FP) Strategy as a component of Disaster Risk Management (DRM) of the Department of Huila. The formulation of this Financial Protection Strategy for Disaster Risk Management of the Department of Huila (FP Strategy of Huila) will contribute to reducing fiscal vulnerability from the occurrence of disasters and strengthening institutional capacities that ensure optimal and adequate financial disaster risk management, under resilience and fiscal discipline standards.

Policy objectives: (i) **Identifying and understanding disasters' fiscal risk;** (ii) **Optimal combination of financial instruments for financial protection against disasters for the public and private sectors, including the agricultural sector;** and (iii) **Catastrophic insurance of public assets.** The policy objectives were designed in conjunction with the DRFM National Strategy, led by the Ministry of Finance and Public Credit (MHCP), considering the territory's unique characteristics, characterized mainly by four physiographic areas, among which we have the eastern flank of the central mountain range, composed of high topographic slopes with a very broken relief and intense deforestation that in many cases trigger strong erosive processes. In addition, the department of Huila contains the *Macizo Colombiano*, where the Andes mountain range forks, giving rise to the eastern mountain range and the main surface water systems such as the Magdalena and Suaza rivers. Also, in the western flank region of the eastern mountain range, two important reliefs stand out; the Suaza river canyon in the south and the Sumapaz plateau in the north, which is an area susceptible to erosion due to the intense deforestation of high Andean forests. Finally, the region of the upper Valley of the Magdalena River, where the northern part includes the low and undulating areas that do not ex-

ceed 800 meters above sea level, and in the southern part of the department, the valley has an undulating topography with short mountain ranges and plains of little extension in which there is important agricultural and livestock development.

This privileged location offers a great variety of climates that occur in Huila, directly associated with the area's orographic characteristics, and that give rise to the existence of a large number of strategic ecosystems that constitute the Department's geological, environmental and tourist wealth. These sites include the natural national parks of Nevado del Huila, Puracé, Cueva de los Guácharos, Cordillera de los Picachos and Sumapaz, as well as the Tatocoa Desert,

the Macizo Colombiano and the Serranía de las Nieves, among others. The Archaeological Park of San Agustín and the Betania reservoir also stand out. Thanks to this diversity, the region has a great supply of environmental goods and services which supports the regional development and its sustainable productive bets to reduce the vulnerability of the population in the territory of Huila.

After the approval of Huila's FP strategy, an operational plan will be drafted and approved for its implementation, which will be developed within the framework of the Disaster Risk Financing and Insurance Program.



Background

The legal system in Colombia establishes that subnational entities enjoy an important level of administrative autonomy to manage their development. The Political Constitution of 1991 established in Colombia the administrative and subnational decentralization scheme, based on which, the subnational entities have the capacity to govern themselves by their own authorities, exercise the competences indicated by the Constitution and the Law, administer resources, establish taxes, issue debt and participate in national income. Likewise, they have autonomy to manage their social, economic, tourist, land use, planning, environmental, transport and communication policies, among others. The Departments as entities are located between the Nation and the municipality (they have coordination roles between the powers in charge of the Nation and the powers assigned to the Municipalities), they are headed by a governor and an assembly of deputies popularly elected for 4-year periods, in accordance with the provisions of CHAPTER II (OF THE DEPARTMENTAL REGIME) articles 297 and following of the Political Charter, Decree Law 1222 of 1986¹ and Law 1754 of 2011² in terms of spatial planning, among others.

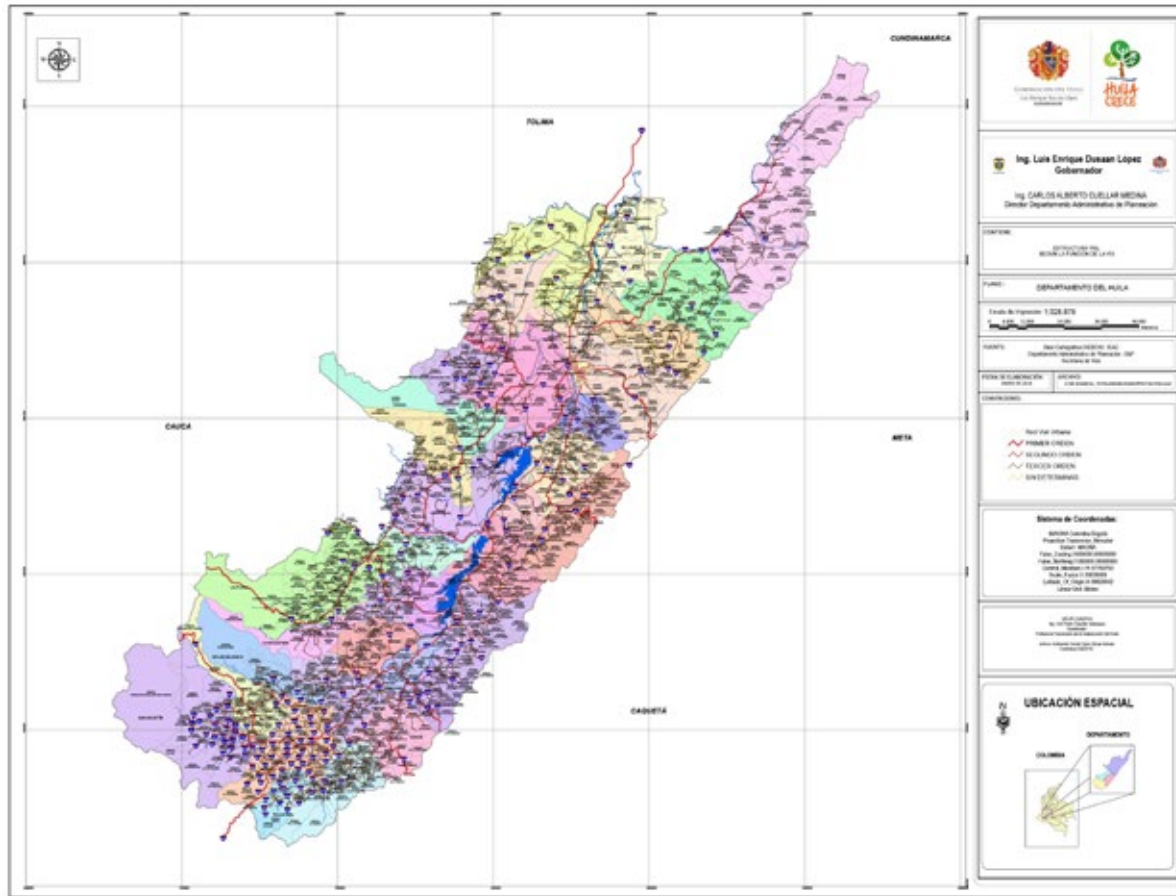
The Department of Huila's main economic activities are agricultural and livestock production, as well as oil exploration and exploitation and trade. Created by Law 46 of April 29, 1905, divided into 37 municipalities and with an area³ of 19,900 Km², the department of Huila "is located in the south of the

Andean Region, it is part of the upper basin of the Magdalena River, which is born in the *Macizo Colombiano*, at the start of the bifurcation of the Central and Eastern mountain ranges"⁴. The main drivers of our Department's economy are agricultural and livestock production, as well as minerals and hydrocarbons, in addition to the generation of electricity, construction, industry and commerce. "In subnational terms, 53% of the Department is dedicated to agricultural production, with over one million hectares destined for agricultural activities. According to figures from DANE (2011), the agricultural sector contributes 14.4% of Huila's GDP, 46% of which comes from the coffee sector... After coffee, livestock is the second most important line of the department's agricultural economy. Coffee and livestock were highly affected by the winter wave of 2010-2011 and have shown to be sensitive to climate variations" (Governor's Office of Huila, 2014, pg. 8).

The Department of Huila limits to the north with the Departments of Tolima and Cundinamarca, to the east with Meta and Caquetá, to the south with Caquetá and Cauca, and to the west with Cauca and Tolima; it is located in the most important water center in the country. "Huila, being part of the *Mazico Colombiano*, is located in the most important water center in the country. The Magdalena River, the backbone of Colombia's water, is born in the department. The continuous water supply that the department offers to Colombia depends on the man-

- 1 (abril 18) Por el cual se expide el Código de Régimen Departamental.
- 2 (junio 28) Por la cual se dictan normas orgánicas sobre ordenamiento territorial y se modifican otras disposiciones.
- 3 De acuerdo a información del Geoportal Instituto Geográfico Agustín Codazzi (IGAC). Disponible en <https://geoportal.igac.gov.co>
- 4 Gobernación del Huila. Plan Departamental de Gestión de Riesgo de Desastres del Huila. Resumen Ejecutivo-PRIMERA VERSIÓN. Neiva, Huila, 2015. p 6.

Figure 1. Location of the Department of Huila



Source: <https://www.huila.gov.co/publicaciones/152/mapa-del-huila/>

agement of its sub-watersheds, forest cover and land use. In turn, these factors depend on the presence of human communities, the territory's urban and agricultural uses, resources' extractive and industrial uses, and the energy generation infrastructure installed in the basin" (Huila's Governor's Office, 2014, pg. 5).



Exposure to disasters due to natural phenomena

The Department of Huila is exposed to different types of threats from natural phenomena. Located between the Central and Eastern mountain ranges (see Figure 1 and ob. Cit DRMPDH) “The department has 54% of the diversity of the country’s life zones and ecosystems that range from the very dry tropical forest, in the Tatacoa region, to the perpetual snows of the Nevado del Huila” (Huila’s Governor’s Office, 2014, pg. 4). In this geographic context, various risk scenarios are presented for the Department, described by the DRMPDH issued in 2015, in the following terms:

Risk scenario for seismic movements. According to the general study of seismic threats in Colombia from Los Andes University, the Colombian Association of Seismic Engineering and Ingeominas (today the Colombian Geological Service) “The department of Huila is located in an area of high seismic threat... This classification is based on the Department’s tectonic position, the geological characteristics that indicate a high recurrence probability of seismic events of significant magnitude and the historical data that demonstrate it”. (Governor’s Office of Huila, 2015, pg. 21).

Risk Scenario for Volcanic Activity. “The main volcanic threat in the Department of Huila is the Nevado del Huila volcano (5,631 meters above sea level) which is classified as an active stratovolcano, in fumarolic state, with no recorded historical activity. The records of its eruptions are mainly lava flows present in areas surrounding the crater and flows of debris and mud or ‘lahars’ that descended through the Símbola and Páez rivers until they reach the Magdalena river... On the other hand, in the municipalities of Isnos, Argentina, La Plata, Oporapa, Saladoblanco and San Agustín, in the southwestern part of the Department, and in the Acevedo region to the south-

east, there are a large number of low elevation volcanic cones that have emitted lava flows and pyroclastic deposits during their eruptions... they only have eruptive activity during their formation period... once formed, the volcano ceases all activity and becomes inactive, but there is a probability that a new volcano will appear in the area, which is why it is considered an area of potential volcanic threat in the department of Huila” (Governor’s Office of Huila, 2015, pg. 21 and 22).

Risk scenario for Geomorphological Phenomena (erosion and mass removal). The territory of the Department of Huila is characterized by the “High erosion threat associated to the areas with lithologically incompetent geological formations composed of soft rocks of clay and silt, weathered crystalline rocks and the escarpments of the terraces of the Magdalena River and the channels of the basins of the main rivers of Huila... The threat from fluvial erosion is associated to the dynamics of the rivers and streams present in Huila that generate a lateral subsidence of the channels making them deeper, destabilizing the surrounding slopes and affecting riverine constructions... Regarding mass removal phenomena, there are several susceptible areas in the department of Huila, because they gather several of the most important elements for their occurrence such as: topography, rock type and high degree of decomposition, geomechanical properties, intense rains, seismic events and deforestation to expand the agricultural frontier and illicit crops. In addition to simple and complex landslides, these factors cause falls, flows, overturning, lateral propagation, subsidence, complex movements and avalanches. These processes are the ones that cause the most material damage and personal losses in Huila” (Governor’s Office of Huila, 2015, pg. 23).

Risk scenario for Hydrometeorological Phenomena (floods and flash floods). Hydrometeorological threats are frequent in all the municipalities of the Department of Huila, where “flash floods, also known as mud flows, debris flows or torrential avalanches, move rapidly towards the channels of streams and rivers” (Governor’s Office of Huila, 2015, pg. 24).

Risk Scenario for Drought and Desertification Phenomena. “Prolonged droughts are observed in many parts of the department and are a serious threat to the environment and to agricultural performance in some areas. Desertification is the degradation of the land in arid, semi-arid and dry sub-humid regions, resulting from various factors, including climatic variations and human activities. Added to the problems that cause desertification and drought, climate change is causing global effects... In the department of Huila, there are periods of drought that cause water resources to become scarce. However, this decline is increasingly accentuated by the increased pressure on water and its uncontrolled and excessive use... Among the factors that affect desertification is the misuse of the soil through intensive agriculture, the introduction of monocultures, the use of transgenic varieties, overgrazing, urban pressure, deforestation and fires. In the years to come, climate change will accelerate the desertification rate in the department of Huila and its effects can be devastating”. (Governor’s Office of Huila, 2015, pg. 25 and 26).

But also considering that “IDEAM’s projections for Huila show a 2°C increase in the average temperature for the year 2040, which may be even higher if we start from the new worldwide projections, as well as an up to 30% decrease in precipitation. If early measures are not taken to face climate change, the solutions in the future may be much more expensive and more technically complex” (Governor’s Office of Huila, 2014, pg. 3).

Risk Scenario for Forest Fires. “The risk of occurrence of forest fires as a consequence of the increase in temperatures due to the ‘El Niño’ phenomenon is high... One of the main causes of recent years’ events is the community’s recklessness, due to the inadequate preparation of their lands and, above all, the bad intentions of certain people in the sector”. (Governor’s Office of Huila, 2015, pg. 26).

Risk Scenario for Hydrocarbon Transportation. Oil production is important to the Department’s economy. “Hydrocarbons land transport is an activity that can severely impact the environment as a result of spills that can contaminate soils and water sources, present along the roads in the department’s territory” (Governor’s Office of Huila, 2015, pg. 29).



Legal Framework

National regulatory framework in DRFM applicable to the subnational level

National support offered to the territory, and specifically to the Department of Huila, in the design and implementation of the FP Strategy, is supported by:

- i. **National Disaster Risk Management System (SNDRM) Normativity, especially Law 1523 of 2012 and its regulatory decrees⁵.** The principles of concurrency⁶ and subsidiarity⁷ established by the legal regime of the SNDRM⁸ are highlighted.
- ii. **Rules for the compulsory insurance of public goods.** Legal obligation to acquire insurance policies to guarantee the effective insurance (and for their real value) of the assets owned by the State⁹ both for the nation and for territory.
- iii. **DRFM Normativity incorporated into Laws through which the National Development Plan (PND) is issued.** Law 1955 of 2019, through which the PND 2018-2022 was issued (article 269), modified article 220 of Law 1450 of 2011 (PND 2011-2014) and reiterated the MHCP'S responsibility to design a strategy for insur-

5 Decreto 2157 de 2017 - Reglamentación PNGRD. Plan de Gestión del Riesgo de Desastres de las Entidades Públicas y Privadas (PGRDEPP). Protección Financiera: Mecanismos/ instrumentos financieros-retención intencional/transferencia del riesgo- Ex ante para acceder Ex post a recursos económicos para atención y recuperación. Decreto 1289 de 2018 - Reglamentación FNGRD.

6 “La concurrencia de competencias entre entidades nacionales y territoriales de los ámbitos público, privado y comunitario que constituyen el sistema nacional de gestión del riesgo de desastres, tiene lugar cuando la eficacia en los procesos, acciones y tareas se logre mediante la unión de esfuerzos y la colaboración no jerárquica entre las autoridades y entidades involucradas. La acción concurrente puede darse en beneficio de todas o de algunas de las entidades. El ejercicio concurrente de competencias exige el respeto de las atribuciones propias de las autoridades involucradas, el acuerdo expreso sobre las metas comunes y sobre los procesos y procedimientos para alcanzarlas.” (L 1523/12 art. 3 núm. 13).

7 “Se refiere al reconocimiento de la autonomía de las entidades territoriales para ejercer sus competencias. La subsidiariedad puede ser de dos tipos: la subsidiariedad negativa, cuando la autoridad territorial de rango superior se abstiene de intervenir el riesgo y su materialización en el ámbito de las autoridades de rango inferior, si estas tienen los medios para hacerlo. La subsidiariedad positiva, impone a las autoridades de rango superior, el deber de acudir en ayuda de las autoridades de rango inferior, cuando estas últimas, no tengan los medios para enfrentar el riesgo y su materialización en desastre o cuando esté en riesgo un valor, un interés o un bien jurídico protegido relevante para la autoridad superior que acude en ayuda de la entidad afectada.” (L 1523/12 art. 3 núm. 14).

8 Política y Sistema Nacional de Gestión del Riesgo de Desastres (SNGRD). Art 4 num. 19. Protección Financiera; Arts. 47 a 54. Mecanismos de Financiación del SNGRD. Fondo Nacional de Gestión del Riesgo de Desastres (FNGRD) y Fondos Territoriales para la Gestión del Riesgo de Desastres.

9 a Ley 734 de 2002 (artículos 34 numeral 21 y 48 numeral 63) además de considerar como deber de todo servidor público la vigilancia y salvaguarda de los bienes y valores que le han sido encomendados y cuidar que sean utilizados debida y racionalmente de conformidad con los fines a que han sido destinados, establece como falta gravísima disciplinaria (sancionable hasta con destitución e inhabilidad para el desempeño de funciones públicas) el “No asegurar por su valor real los bienes del Estado ni hacer las apropiaciones presupuestales pertinentes”. Otras normas complementarias como la Ley 42 de 1993 (artículos 101 y 107), el Decreto Nacional 663 de 1993 (artículo 101, numeral 4) y la Ley 1474 de 2011 (artículo 118) establecen, entre otros, la imposición de multas y la apertura de procesos de responsabilidad fiscal a servidores públicos y particulares que manejen fondos o bienes del Estado que falten a dichas responsabilidades, las cuales deben ser solventadas a través de cualquiera de las compañías de seguros legalmente autorizadas.

ance against risks of unintentional natural and/or man-made disasters, aimed at reducing the State's fiscal vulnerability, which was designed by the MHCP in 2013 (and updated in 2016) under the name of Policy Strategy for Public Financial Management of Natural Disaster Risk (DRFM Strategy). Additionally, the National Government established as a priority within the 2018 and 2019 Mid-Term Fiscal Framework, the territory's inclusion in the DRFM, in order to support public finance management and sustainability in the event of natural phenomena.

- iv. **DRFM Normativity related to Parametric or Index Agricultural Insurance.** Law 1955 of 2019, through which the PND 2018-2022 was issued (article 176), modified article 1 of Law 69 of 1993 (Agricultural Insurance Law), granting the power to contract Agricultural Insurance under the Parametric or Index Insurance modality and established public law entities' (including subnational entities) possibility to act as policyholders, insured parties and/or beneficiaries of Agricultural Insurance.

Regulatory Framework in FP of the Department of Huila

The Department of Huila, in compliance with Law 1523 of 2012, established the **Huila Department Fund for Disaster Risk Management (DRMDFH) and the objectives related to the FP**. The DRMDFH created by Departmental Ordinance 024 of 2014 "By which the Departmental Fund for Disaster Risk Management of the Department of Huila is created" establishes in its articles 1 and following: "The Departmental Disaster Risk Management Fund is created, in accordance with the provisions of article 54 in agreement with article 47 of Law 1523 of 2012, hereinafter, and for the purposes of this Ordinance, the

Departmental Fund, as a special department account, with equity, administrative, accounting and statistical independence, without legal status or staff, for purposes of public interest and social assistance, with the purpose of investing, saving, allocating and executing its resources in the adoption of risk knowledge and reduction measures and management of declared disasters or public calamities or of a similar nature". (Article 1).

(...) "The account of the Departmental Fund for Disaster Risk Management referred to in the previous article will be managed through a special account that will be opened by the Secretary of Finance called "Department Fund for Disaster Risk Management"; this account must generate returns at rates acceptable to the market, and it must be unseizable". (Article 2).

(...) "Its general objective to negotiate, obtain, collect, administrate, invest, manage financial protection instruments, distribute the financial resources necessary for 'implementation' and continuity of the disaster risk management policy in the Department, which includes the processes of disaster risk knowledge and reduction and disaster management in the department of Huila. These objectives are considered of public interest". (Article 3).

Within this context, the DRMDFH includes within its specific objectives "...necessary measures to reduce the fiscal impact of disasters, public calamities and emergencies or to mitigate their effects or avoid their extension, which may consist, among others, on insurance policies taken out with companies legally established in Colombian territory and seeking mechanisms to fully or partially cover the cost of premiums".

The DRMDFH considers the following resources and sources:

(...)

1. Five (5) percent of the resources from the department's fiscal surplus of the current income of unrestricted destination, at the end of each fiscal period.
2. The resources transferred by the Nation, the National, Departmental or Municipal Funds for Disaster Risk Management, the entities of the national, departmental or municipal order in any capacity.
3. The resources that are incorporated in the ordinary general budget of the Department in each fiscal period, in addition to those determined in paragraph 1 of this article.
4. The contributions and public or private resources from national or international entities that it receives in any capacity.
5. The returns obtained from the financial management given to these resources". (Article 11).

Regarding the Sub-Accounts that operate within the DRMDFH, and specifically the Sub-Account for Financial Protection, it is established that "The resources of this sub-account will be used to support the financing of financial protection. Through this sub-account, the department will manage, acquire or enter into instruments or contracts with national or foreign entities that allow the financial protection against the risk of disasters or public calamities".

Additionally, the Department Committee for Disaster Risk Management of Huila (DRM-DCH), as an advisory and coordination body attached to the Governor's Office of Huila¹⁰, has established functions related to FP. Article 9 of Decree 1063 of 2012 issued by the Governor's Office of Huila establishes that "The following are functions of the Department Committee for Disaster Risk Management: (...) Guiding the application of financial protection mechanisms: Insurance, credits, reserve funds, bonds, among others".

10 De conformidad con lo establecido por la Ordenanza No. 012 de 2012 (abril 10) "POR LA CUAL SE MODIFICA LA ESTRUCTURA ORGÁNICA DE LA ADMINISTRACIÓN CENTRAL DEPARTAMENTAL".



Fundamentals of the Department of Huila's FP Strategy

♦ **Subnational progress in DRFM, supported by national progress**

The Department of Huila requested to be part of the DRFM Program. In May 2019, the MHCP, within the framework of the “Regional Workshop: Introduction to Disaster Risk Financial Management” held in Bogotá, DC, presented the first subnational DRFM strategies in the world and extended the invitation to subnational entities to join the Disaster Risk Financial Management Program, led by it,

with technical support from the World Bank (WB) and funding from the Swiss Embassy in Colombia - Economic Cooperation and Development (SECO), in order to contribute to DRM from financial management and thus promote resilient development in Colombia. Within this context, the Department of Huila requested the MHCP for technical support, both to prepare the respective financial strategy and to generate technical capacities for the Department’s officials.



Policy objectives in the subnational perspective of the Department of Huila

The Department of Huila's FP strategy considers its specific complexities. For the purposes of preparing the FP Strategy, the Department of Huila considered the need to generate financial instruments that support both disaster risk management (DRM) and the reduction of its fiscal vulnerability in case of disasters, taking into account that the 2010-2011 winter wave showed that the agricultural sector, a key element of the Department's economy, is highly sensitive to weather variations.

In coordination with the national DRFM Strategy, the Department of Huila defines as policy objectives: (i) Identifying and understanding disasters' fiscal risk; (ii) Optimal combination of financial instruments for financial protection against disasters for the public and private sectors, including the agricultural sector; and (iii) Catastrophic risk insurance of public assets.

Led by the MHCP, several entities are working jointly to generate progress in FP. Led by the General Directorate of Public Credit and National Treasury (DGCPTN) of the Ministry of Finance and Public Credit (MHCP), and with support from the World Bank's Disaster Risk Financing and Insurance Program and supported by the Embassy of Switzerland - SECO¹¹ and the Global Facility for Disaster Reduction and Recovery (GFDRR), progress has been made at national and subnational level to strengthen the financial protection strategy to reduce fiscal vulnerability in case of disasters within the framework of the Disaster Risk Financial Management Program (DRFM Program). Said Program, under the leadership of the MHCP and with the support and coordination of several public entities such as the National Planning Department (DNP), the

National Agency for Public Contracting - Colombia *Compra Eficiencia* (CCE), the National Unit for Disaster Risk Management (UNDRM), the Financial Superintendence (SF), the Ministry of Agriculture and Rural Development, the Colombian Geological Service (SGC), the National Infrastructure Agency (ANI), the Institute of Hydrology, Meteorology and Environmental Studies (IDEAM), the Ministry of Environment and Sustainable Development (MADS), the Aburra Valley Metropolitan Area (AMVA), the District Institute for Risk Management and Climate Change (IDIGER), the Governor's Office of Cundinamarca (GC), led by the Special Administrative Unit for Disaster Risk Management of Cundinamarca (UAEDRMC), the Governor's Office of Putumayo, the Governor's Office of the Archipelago of San Andrés, Providencia and Santa Catalina have generated valuable inputs that will serve as the basis for the Department of Huila to strengthen the FP Strategy.

Policy Objective 1.

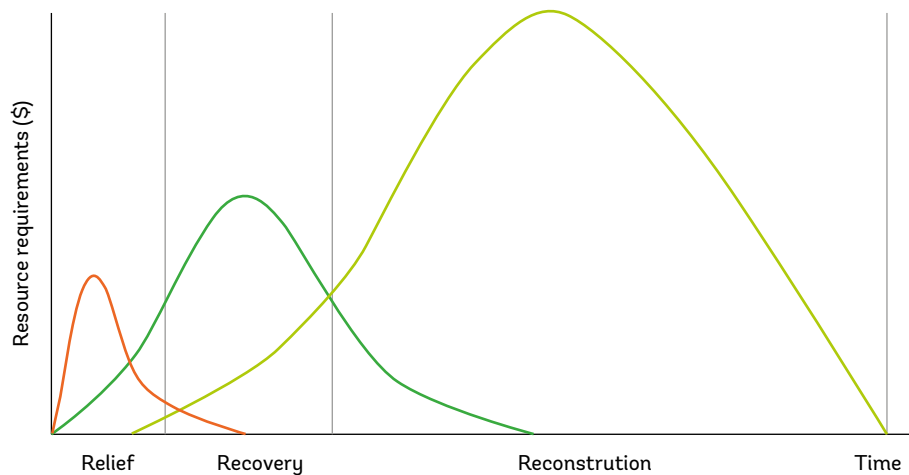
Identifying and understanding disasters' fiscal risk.

The following disaster risk awareness actions are included by the DRMPDH:

- ♦ **Knowing the level of exposure and insurance of public assets.** In order to generate inputs to strengthen the level and quality of public assets' insurance, it is necessary to improve the information regarding public assets and their level of insurance. For this purpose, the web information system that the MHCP is implementing could be evaluated to sustainably manage information related with the characteristics of the assets and their property insurance policies over time.

11 Las opiniones y contenidos expresados en este documento no son responsabilidad de la Embajada.

Figure 2. The temporal dimension in post-disaster financing



Source: Ghesquiere and Mahul (2010)

- ♦ **Incorporating disaster risk analysis and adaptation to climate change into the public investment process.** In order to generate more resilient infrastructure, it is considered relevant to strengthen and/or generate technical and legal instruments to include the analysis of disaster risk and adaptation to climate change in the public investment process, which will contribute to reducing infrastructure vulnerability.

To advance in the activities proposed in this policy objective, work will be done in coordination with technical entities, such as the Alto Magdalena Regional Autonomous Corporation.

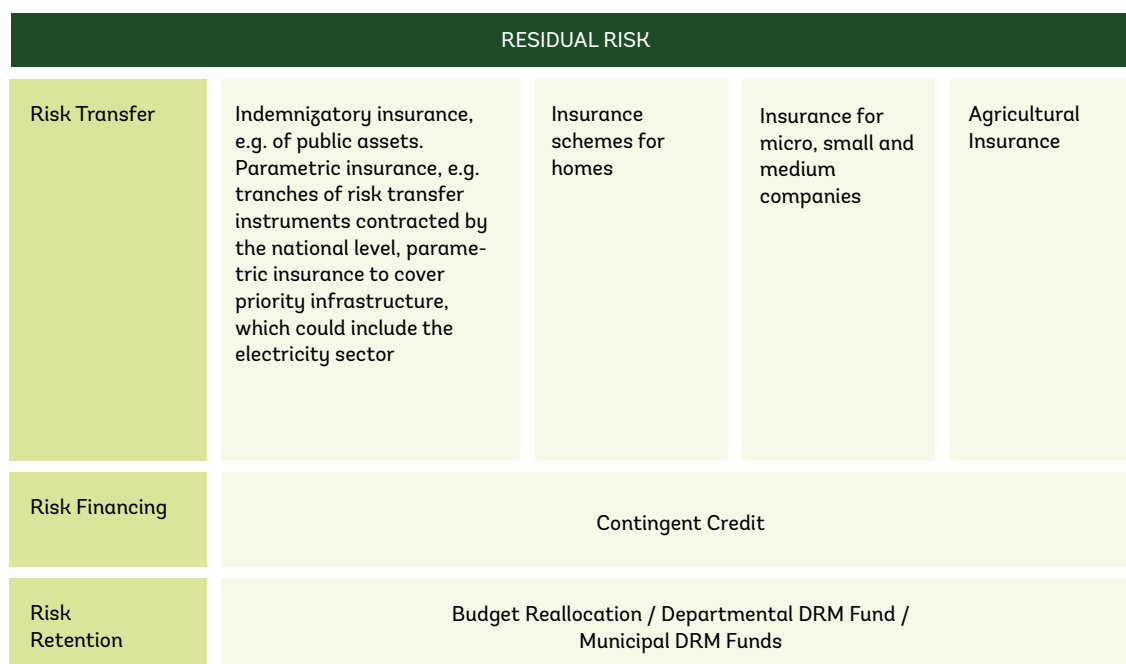
Policy Objective 2.

Optimal combination of financial instruments for financial protection against disasters for the public and private sectors, including the agricultural sector

The FP Strategy of the Department of Huila seeks to establish an optimal combination of different ex ante and ex post financial instruments for financing post-disaster activities. Financial instruments must be cost-efficient and consider the temporal dimension of post-disaster financing (resource availability in the short term for the response and rehabilitation phase, and later, resources for rebuilding), reflected in figure 2.

The Department of Huila established a layered financial strategy. The layered financial strategy is presented in figure 3

Figure 3. Layered Strategy



In general, the Department of Huila plans to evaluate the implementation/strengthening of the following financial instruments:

- ♦ **Strengthening of the DRMDFH.** The Department of Huila will evaluate alternatives to strengthen the legal, financial and operational aspects of its DRMDFH.
- ♦ **Strengthening of the Municipal DRM Funds of the municipalities that are part of the Department.** The Department of Huila will evaluate mechanisms to strengthen municipal DRM funds, including the financial protection component of said funds.
- ♦ **Contingent Credit Lines.** Contingent credit lines provide immediate liquidity for disaster response. They are offered by different multilateral banking organizations.
- ♦ **Insurance of public assets, including the insurance of sectoral assets and those from the electricity sector.** The Department of Huila seeks that the resources assigned to contracting insurance for the public sector and the sectoral level, particularly for the electricity sector, have the best coverage and at the best prices, in accordance with the best practices of the international market of insurance and reinsurance.
- ♦ **Contracting financial instruments for disaster risk transfer for seismic, hydrometeorological and volcanic events.** The Department of Huila will evaluate the viability of subscribing financial instruments for seismic and hydrometeorological risk coverage, including the possibility of subscribing tranches of financial instruments that are contracted by the national level.

- ♦ **Schemes for agricultural products coverage.** Due to the relevance of the agricultural and fishing sector in the Department's GDP, it is considered relevant to seek mechanisms to strengthen its insurance.
- ♦ **Insurance for micro, small and medium-sized companies.** In order to support both economic reactivation and job creation, the role of micro, small and medium companies is relevant after the occurrence of disasters, for which they should have access to resources, which could come from insurance.
- ♦ **Home Insurance.** The Department of Huila seeks to evaluate mechanisms to promote the insurance of private housing, which could be created jointly with other territories. To the extent that private are insured, the Department will have more resources to serve the most vulnerable affected population.
- ♦ **Procedures for the transparent use of resources.** It seeks to establish mechanisms or protocols to strengthen the traceability of the resources used for the response, rehabilitation and rebuilding phases.

Policy Objective 3.

Catastrophic risk insurance of public assets

DRFM's Strategy includes strengthening the insurance of the Department of Huila's public assets.

In Colombia, the public assets insurance is mandatory (both at national and subnational level). The Department of Huila seeks that the application of the legal obligation regarding the contracting of insurance policies will provide better coverage, at better prices and in compliance with international normativity.

- ♦ **Strengthening public buildings' insurance.** The Department of Huila will evaluate the feasibility of generating guidelines to improve the level and quality of fiscal assets insurance in the event of disasters due to natural phenomenon in the municipalities that comprise it. For this purpose, it could evaluate the guidelines and objectives for fiscal assets insurance in the event of disasters due to natural phenomenon, generated by the MHCP.¹²
- ♦ **Insurance of strategic sectoral assets.** The Department of Huila will evaluate the feasibility of generating guidelines to improve the insurance level and quality of strategic sectoral assets, such as those in the agricultural, electricity, housing and transportation sectors. For this purpose, it could evaluate the guidelines generated in this regard, either by the MHCP, or by the entities with powers at sectoral level.

12 Disponible en: http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeId=%2FOCS%2FP_MHCP_WCC-063442%2F%2FidcPrimaryFile&revision=latestreleased

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