

# STRATEGY FOR DISASTER RISK FINANCE AND **INSURANCE** MANAGEMENT **CUNDINAMARCA** **DEPARTMENT**



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# STRATEGY FOR DISASTER RISK FINANCE AND **INSURANCE** **MANAGEMENT<sup>1</sup>** **CUNDINAMARCA** **DEPARTMENT**

Bogotá, D.C., Colombia

<sup>1</sup>This document was prepared based on the contents of the 2018 - 2036 Departmental Public Policy for Disaster Risk Management for the Cundinamarca department, in particular, on the contents of Strategic Pillar 2 (Reducing current and future risk conditions). Prior to its approval on March 22, 2019, the Special Administrative Unit for Disaster Risk Management of Cundinamarca organized two work sessions (on March 1 and 8, 2019) to evaluate the document with the Finance, Government, Education, Health, Legal Affairs, Environmental and Planning Secretariats, the Cundinamarca Infrastructure and Concession Institute and the Cundinamarca Real Estate and Logistics Services Entity. The Ministry of Finance and Public Credit and the National Unit for Disaster Risk Management were also in attendance.



**Disaster Risk Financing and  
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## FOREWORD

During the 2016-2020 constitutional period, the Office of the Governor of Cundinamarca established the need to incorporate disaster risk management as a cross-cutting subject to foster institutional strengthening and modernization, with a view to becoming a safe, resilient and sustainable territory. In this sense, its Departmental Development Plan “*Unidos Podemos Más*” (Together We Can Do More) included the formulation of a 2018-2036 Disaster Risk Management Departmental Public Policy, which has been adopted via Ordinance 066 of 2018 issued by the Honorable Departmental Assembly. This has positioned the Cundinamarca department as the first in the country to have implemented this Public Policy instrument.

The above-mentioned public policy, included in the strategic pillar of risk reduction, key financial management elements and financial protection instruments with a view to identifying and designing strategies for the allocation of resources for Disaster Risk Management. Considering the foregoing, and thanks to the efforts of the Special Administrative Unit for Disaster Risk Management, we have forged a significant partnership with the national government through the Ministry of Finance and Public Credit, which will enable us to become a part of the Disaster Risk Financing and Insurance Program, with the assistance of the World Bank and funded by the Swiss Embassy in Colombia – Economic Cooperation and Development.

We will work relentlessly on the study, analysis and design of strategies that will allow reducing fiscal vulnerability and its impact on public finance in the event of potential disasters, while contributing to the improvement of the quality of life and the welfare of the inhabitants of Cundinamarca.

GERMAN RIBERO GARRIDO  
UAEGRD - Director







# PREFACE

It is a priority of the Ministry of Finance and Public Credit to support the regions in the design and implementation of their financial strategies to address disaster risks, which will ensure a decrease in the fiscal vulnerability of the regions and the National Government.

The fact that the Cundinamarca Department has joined the Disaster Risk Financing and Insurance Program with the assistance of the World Bank and financed by the Swiss Embassy in Colombia – Economic Cooperation and Development, is significant to us, for it allows us to continue positioning Colombia as a pioneering country in the consolidation of financial management tools, through a regional Disaster Risk Financing Strategy originating from a territorial entity.

The 116 municipalities in the Cundinamarca department are highly exposed to recurring natural phenomena such as floods, mass movements, flash floods, extended droughts and brushfires, among others, which have resulted in significant economic losses in the last two decades. This is why the Office of the Governor of Cundinamarca, committed to the development of strategic processes that will strengthen the department's disaster risk management, was the first territory in Colombia to create a Risk Management Public Policy projected to 2036, that established as strategic pillar risk reduction, that includes financial protection elements.

The joint work of the Department and the National Government will be carried out with a view to articulating common interest initiatives, such as the instrumentalization of financial instruments that will support emergency and rehabilitation, and reconstruction processes focused on the temporal dimension of the occurrence of natural events and the characteristics of the impact.

I would like to thank the work team that was formalized by the Office of the Governor of Cundinamarca, which involves all sectors of the department, for accepting the invitation to consolidate a work plan for the next three years as a roadmap for the strategy's implementation.

I would also like to thank the Risk Management Deputy Director's team at the Ministry of Finance and Public Credit and the Special Administrative Unit for Disaster Risk Management.



Javier Andrés Cuéllar Sánchez  
Risk Deputy Director  
Ministry of Finance and Public Credit



# INTRODUCTION













**The Financial and Insurance Management Strategy for Disaster Risk Management (DRFI Strategy) of the Cundinamarca Department will not only support disaster risk management (DRM), but also the fiscal management of the Cundinamarca Department.** The 2018-2027 Medium-Term Fiscal Framework of the Cundinamarca Department (MFMP 2018-2027), with a view to achieving financial health and a self-sustainable territory, established that *“Cundinamarca is characterized by being able to maintain its finances in compliance with the fiscal regulatory framework, which in turn means that it has consolidated its position as a strong, sustainable department from the fiscal perspective, which enables greater territorial autonomy supported by greater income, savings and payment capacity, which ultimately guarantees the social investment enshrined in the 2016-2020 Development Plan “Unidos Podemos más”<sup>2</sup>. The DRFI Strategy, which corresponds to strategic line 2.6 of Strategic Pillar 2 of the DRM Policy will contribute, among others, to reducing the fiscal vulnerability of the resources needed to finance the achievement of the goals set in the 2016-2020 Development Plan of the Office of the Governor of Cundinamarca, supporting sustainability of the debt service of the Department and to achieve compliance with the DRM Policy.*

**The “2018–2036 Disaster Risk Management Departmental Public Policy” (DRM Policy)<sup>3</sup> also promotes the Department’s sustainable development.** In consonance with the contents of the MFMP 2018-2027, Article 6 of Ordinance No. 066 of 2018 issued by the Departmental Assembly of Cundinamarca and published in Cundinamarca Gazette No. 15269 on Tuesday, June 26, 2018, of the Cundinamarca department, approved the “2018 – 2036 Disaster Risk Management Departmental Public Policy” (DRM Policy), which states that the *“Departmental Disaster Risk Management Public Policy is focused on contributing to the improvement of the quality of life and welfare of the inhabitants of Cundinamarca, by guiding the department’s and society’s actions complemented by those of the nation and the municipalities in order to strengthen knowledge, risk reduction, disaster management and the optimization of institutional and community government conducive to reducing disaster risks and **and contributing to the Department’s sustainable development**”<sup>4</sup>.*

**The Cundinamarca department designed its DRFI strategy articulated with the national DRF strategy led by the Ministry of Finance and Public Credit (MHCP).** The Cundinamarca department defined the following as the policy’s objectives: (i) Knowledge and investigation of the risk of disasters in the department; (ii) disaster risk financial management (DRF) of disasters for the public and private sectors, including the agricultural sector; and (iii) Catastrophe risk insurance for public assets. A five-year operations plan will be prepared later on for its implementation.

<sup>2</sup>MFMP 2018 – 2027 (2018), page 102.

<sup>3</sup>The referred policy was the outcome of the task led by the Special Administrative Unit for Disaster Risk Management with the Departmental System for Disaster Risk Management and with the support of the UN Development Programme UNDP.

<sup>4</sup>Emphasis added.

**BACKGROUND**









**In Colombia, territorial (subnational) entities are decentralized and autonomous within the boundaries set by the Constitution and the Law.** As of the enactment of the Political Constitution of 1991, the decentralization and autonomy of territorial entities was established, by virtue of which, *territorial entities may manage their own resources, create taxes, issue public debt securities and bonds, etc., while also allowing the departments to be autonomous in the management of their social, economic, tourism, planning, environmental, transportation and communications routes policies, the development of their borders and the possibility of creating or eliminating municipalities*<sup>5</sup>.

The political-administrative division in Colombia provides that *“a municipality is a territorial entity with an administrative and judicial organization. A mayor, along with a municipal council, governs it. Both of them are elected by popular vote. Departments are a political division between the nation and the municipality and are governed by a governor, who is in charge of the autonomous administration of the resources granted by the State. They are autonomous in the management of issues relating to their jurisdiction and operate as coordination entities between the nation and the municipalities. They are administered by a governor and a house of representatives elected by popular vote... Provinces are territorial divisions between departments and municipalities”*<sup>6</sup>.

In this context, the Cundinamarca department *“is organized considering the main population trends, both in the department and in its municipalities. On the other hand, (official) expectations of population growth and urban expansion allow to observe how the urbanization phenomenon extends beyond the different economic activities and allows inferring the structural changes to the department’s economic apparatus in the last two decades towards eminently urban activities”*<sup>7</sup> and is made up of 15 provinces (see Annex 1) encompassing 116 municipalities, excluding Bogotá D.C., as shown in Graph 1.

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<sup>5</sup>Available at:  
<http://www.banrepcultural.org/biblioteca-virtual/credencial-historia/numero-145/division-politica-administrativa-de-colombia>

<sup>6</sup>Available at:  
<http://www.colombia.co/esta-es-colombia/estructura-del-estado/como-es-la-organizacion-politico-administrativa-de-colombia/>,

<sup>7</sup>Available at:  
[http://www.cundinamarca.gov.co/wcm/connect/201abc5b-6447-4fc3-a263-8e2b2479830f/3.+Anexo+3.1+SINTESIS\\_PERFIL\\_DEPARTAMENTO.pdf?MOD=AJPERES&CVID=llg0sFw&CVID=llg0sFw](http://www.cundinamarca.gov.co/wcm/connect/201abc5b-6447-4fc3-a263-8e2b2479830f/3.+Anexo+3.1+SINTESIS_PERFIL_DEPARTAMENTO.pdf?MOD=AJPERES&CVID=llg0sFw&CVID=llg0sFw)

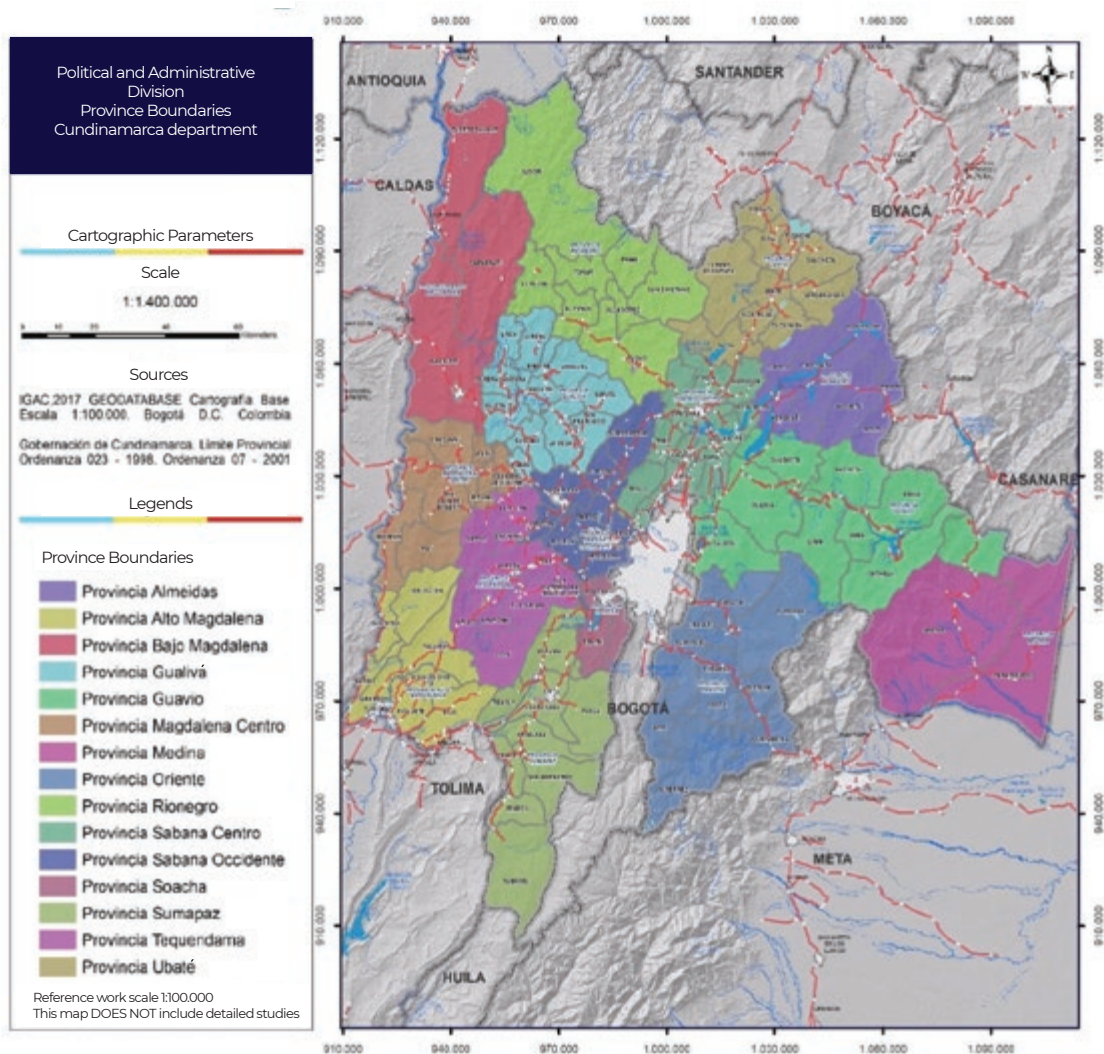


*Graph 1. Cundinamarca Department*





# STRATEGY FOR DISASTER RISK FINANCE AND INSURANCE MANAGEMENT CUNDINAMARCA DEPARTMENT





**Departments complement municipal actions, while also serving as liaisons between the Nation and the Municipalities.** According to the provisions of Article 298 of the Political Constitution of 1991 *"Departments are autonomous regarding the management of sectional matters and the planning and promotion of economic and social development within their territory in the terms set by the Constitution. Departments carry out administrative and coordination tasks, complementing municipal actions and serving as liaisons between the Nation and the Municipalities, providing the services established by the Constitution and the laws. The law will govern all matters relating to the exercise of attributions granted by the Constitution."*<sup>8</sup>(...)

**The Cundinamarca department acknowledges disaster risk financial management as a component of its DRM public policy.** As defined by Article 298 of the 1991 Political Constitution and the Departmental Regime Code<sup>9</sup>, the Cundinamarca Departmental Assembly, by way of Ordinance No. 066 of 2018<sup>10</sup> approved the "2018 – 2036 Disaster Risk Management Departmental Public Policy"<sup>11</sup> (DRM Policy), which includes, among others, issues relating to Disaster Risk Financial Management (DRF). It is worth noting that the Special Administrative Unit for Disaster Risk Management is responsible for the Department's overall DRM policy, as the entity in charge of *"...guiding the management and coordinating the entities of the Departmental System for Disaster Risk Management, with a view to preventing and mitigating the risks, articulating intervention actions and setting up emergency attention and rehabilitation and reconstruction in the event of a disaster; this, by incorporating knowledge, risk reduction and risk management with the prevention concept in the Department's planning, education and culture areas, in order to reduce vulnerability and the effects of catastrophic events resulting from natural and human-induced disasters, within the competencies defined in Law N° 1523 of 2012"*<sup>12</sup>.

<sup>8</sup> Political Constitution of Colombia of 1991. Article 298. Available [http://www.secretariasenado.gov.co/senado/basedoc/constitucion\\_politica\\_1991\\_pr010.html#298](http://www.secretariasenado.gov.co/senado/basedoc/constitucion_politica_1991_pr010.html#298)

<sup>9</sup> Decree 1222 de 1986 (April 18) "where by the Departmental Regime Code is issued".

<sup>10</sup> (June 15) "WHEREBY THE DEPARTMENTAL DISASTER RISK MANAGEMENT PUBLIC POLICY FOR CUNDINAMARCA IS ESTABLISHED, THE ORGANIZATION OF THE DEPARTMENTAL SYSTEM FOR DISASTER MANAGEMENT IS MODIFIED, ARTICLE 346 OF DEPARTMENTAL ORDINANCE 216 OF 2014 IS MODIFIED AND OTHER PROVISIONS ARE ISSUED". Published in Cundinamarca Gazette No. 15269, Tuesday, June 26, 2018. Available at:

[http://cundinet.cundinamarca.gov.co:8080/aplicaciones/gobernacion/centroDocumental/doc-URiesgo.nsf/0/B14C55B9764C7538052582E9005FF848/\\$FILE/Ordenanza%20066-2018%20Adopci%C3%B3n%20de%20la%20Pol%C3%ADtica%20P%C3%BAblica.pdf](http://cundinet.cundinamarca.gov.co:8080/aplicaciones/gobernacion/centroDocumental/doc-URiesgo.nsf/0/B14C55B9764C7538052582E9005FF848/$FILE/Ordenanza%20066-2018%20Adopci%C3%B3n%20de%20la%20Pol%C3%ADtica%20P%C3%BAblica.pdf)

<sup>11</sup> Ibidem. Art. 1

<sup>12</sup> Decree Ordinance No. 0265 of 2016 (September 16) "Whereby the structure of the departmental public administration is established, the internal organization and tasks of the divisions of the central sector of the Cundinamarca public administration are defined and other provisions are issued" Article 32. Page 16.

# LEGAL FRAMEWORK









# DRF NATIONAL LEGAL FRAMEWORK APPLICABLE AT THE TERRITORIAL LEVEL

**The DRF Strategy structured at a national level and the support provided at the territorial level, in particular to the Cundinamarca department, in the strengthening of its DRF, is framed within the provisions of the following regulations:**

- (i) Regulations part of the National System for Disaster Risk Management (SNGRD), especially Law 1523 / 2012 and Regulatory Decrees.** In this particular context, it is important to notice that the principles of concurrence and subsidiarity in the specific area of DRF are defined and set in the SNGRD's legal regime, in particular, Law 1523 / 2012 as the main regulation. In said framework, Financial Protection is one of the purposes of the SNGRD, as part of the risk reduction process and is a relevant component of its financing mechanisms.
- (ii) Regulations that define the obligation of insuring public assets.** Parallel to the SNGRD, there is a mandatory legal scope in Colombia (both at the national and territorial levels, including the Cundinamarca department and its municipalities) that establishes the obligation to get insurance policies for the effective insurance of public assets, and for their actual value<sup>13</sup>.
- (iii) Regulations relating to have DRF incorporated in laws approving the National Development Plan (PND).** Is Law 1450 / 2011, whereby the 2011-2014 National Development Plan (PND) (Article 220) was issued, which appointed the MHCP as the party responsible for designing an insurance strategy against natural and/or unintentional human-induced disaster risks focused on reducing the State's fiscal vulnerability. It remains in force to date thanks to the express provision of Law 1753 / 2015, whereby the 2014-2018 PND was issued, extending its term (Article 267). In this context, the Strategy for Public Financial Management of Natural Disaster Risk at a national level was designed by the MHCP in 2013 (and updated in 2016) (DRF Strategy). Furthermore, the foundations of the 2018-2022 National Development Plan, Pacto por Colombia, pacto por la equidad (A Pact for Colombia, A Pact for Equality), state in "Colombia resiliente: conocimiento y prevención para la gestión del

<sup>13</sup> Law 734 / 2002 (Articles 34 paragraph 21 and 48 paragraph 63) in addition to considering that it is the duty of all public officials to oversee and safeguard the assets and goods entrusted and ensure that they are duly and rationally used in accordance with their purposes, also defines as a serious disciplinary misconduct (punishable up to the removal and disqualification from performing public duties) "Not insuring the State's assets for their actual value or failing to make the budgetary appropriations needed". Other supplementary laws, such as Law 42 / 1993 (Articles 101 and 107), National Decree 663 / 1993 (Article 101, paragraph 4) and Law 1474 / 2011 (Article 118) establish, among others, the imposition of fines and opening fiscal liability processes to public officials and private individuals who manage public funds or assets and default on these responsibilities, which must be compensated by any of the legally authorized insurance companies



riesgo de desastres y la adaptación al cambio climático” (A resilient Colombia: Knowledge and Prevention for Disaster Risk Management and Adaptation to Climate Change) that the MHCP must promote the adoption by territorial entities of financial protection strategies to deal with the occurrence of natural events.

## DRF Legal Framework of the Office of the Governor of Cundinamarca

**The “2018 – 2036 Disaster Risk Management Departmental Public Policy<sup>14</sup>” (DRM Policy) includes, among other, issues related to Disaster Risk Financial Management (DRF).** The Cundinamarca Departmental Assembly, via Ordinance No. 066 of 2018<sup>15</sup> approved the “2018 – 2036 Disaster Risk Management Departmental Public Policy<sup>16</sup>” (DRM Policy), which includes, among others, issues related to Disaster Risk Financial Management (DRF). Based on the mission processes related to its purposes of: knowledge of risk, risk reduction and disaster management, calamity or emergency situations, as well as the cross-cutting process of institutional strengthening in the Department, social and community participation and organization concerning risk management, and reporting and communicating for risk management, the DRM Policy is structured from Five Strategic Pillars, thus:

- Strategic Pillar 1. Knowledge and investigation of disaster risk in the Department.
- Strategic Pillar 2. Reducing current and future risk conditions.
- Strategic Pillar 3. Disaster management and timely response.
- Strategic Pillar 4. Risk governance and social and institutional development for its management.
- Strategic Pillar 5. Reporting and communication in disaster risk management.

The DRM Policy has established specific Strategic Lines in each Strategic Pillar for its implementation.

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<sup>14</sup> Ibidem. Art. 1

<sup>15</sup> (June 15) “WHEREBY THE DISASTER RISK MANAGEMENT PUBLIC POLICY IN CUNDINAMARCA WAS ADOPTED, THE ORGANIZATION OF THE DEPARTMENTAL SYSTEM FOR RISK MANAGEMENT WAS MODIFIED, ARTICLE 346 OF DEPARTMENTAL ORDINANCE 216 / 2014 WAS MODIFIED AND OTHER PROVISIONS ARE ISSUED”. Published in Cundinamarca Gazette No. 15269, Tuesday, June 26, 2018.

Available at:

[http://cundinet.cundinamarca.gov.co:8080/aplicaciones/gobernacion/centroDocumental/doc-URiesgo.nsf/0/B14C55B9764C7538052582E9005FF848/\\$FILE/Ordenanza%20066-2018%20Adopci%C3%B3n%20de%20la%20Pol%C3%ADtica%20P%C3%BAblica.pdf](http://cundinet.cundinamarca.gov.co:8080/aplicaciones/gobernacion/centroDocumental/doc-URiesgo.nsf/0/B14C55B9764C7538052582E9005FF848/$FILE/Ordenanza%20066-2018%20Adopci%C3%B3n%20de%20la%20Pol%C3%ADtica%20P%C3%BAblica.pdf)

<sup>16</sup> Ibidem. Art. 1





In this context, Strategic Pillar 2 includes Strategic Line 2.6 called “Financial and Insurance Management for Disaster Risk Management”, which seeks to *“Develop and promote financial strategies to transfer the cost of losses and/or attention/reconstruction to financial third parties by way of mechanisms such as insuring and reinsuring the assets, contingent loans available upon the occurrence of the disaster, listed catastrophe bonds and other similar mechanisms at a departmental and municipal level”*. Said Strategic Line includes goals linked to: (i) Insurance of public assets; (ii) Insurance of crops; (iii) Strengthening the DRM Departmental Fund.

Strategic Line 2.6 includes:

- Sub-line 2.6.1 called Financial Transfer of the Risk, which establishes *“The use of financial mechanisms to transfer the costs of losses and of attention/reconstruction to financial third parties by mechanisms such as insuring and reinsuring the assets, contingent loans available upon the occurrence of the disaster, listed catastrophe bonds and other similar mechanisms”*. Said Sub-line includes goals related to: (i) Information on the insurance of public assets, crops and public works; (ii) contingent credit line.
- Sub-line 2.6.2 called Financial Strengthening of Risk Management, which seeks to *“Guarantee sustainable resources to carry out risk management tasks in the department”*. Said Sub-line includes goals related to increasing the resources allocated to the DRM Departmental Fund.

In consonance with the foregoing, the financial guidelines for the execution of the DRM Policy state that the financial management for disaster risk reduction, which include the implementation of innovative financial instruments and risk transfer, must take into account the following, among others:

- Design of financial products, such as bonds, loans, insurance, reinsurance, etc.
- Design and consolidation of contingent loans concerning disaster risk management.
- Insuring municipal and departmental assets against catastrophe risk.
- Strengthening the Departmental Fund and Municipal Funds for DRM.

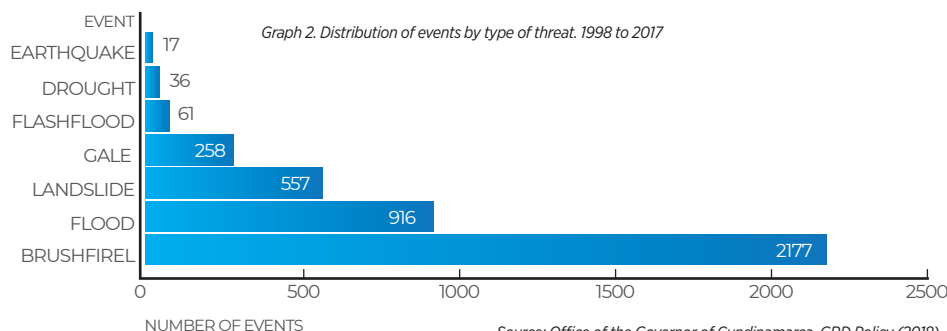
In addition, the National Government has prioritized the inclusion of the territorial level in the DRF within the 2018 Medium-Term Fiscal Framework (MFMP 2018) as a key mechanism for the proper management and sustainability of public finance in the occurrence of natural phenomena.

This public policy framework, along with the national DRF achievements and progress, provide a favorable context that will enable the Office of the Governor of Cundinamarca to strengthen its DRF.



## Exposure to disasters resulting from natural phenomena

**The Cundinamarca department is affected by recurring and non-recurring events.** The DRM Policy of the Cundinamarca department provides that “...during the rainy season floods, mass movements, flash floods, etc. are frequent and during the dry season we are faced with problems such as lack of drinking water, prolonged drought, brush and crop fires, which have entailed the loss of lives, and social, economic and environmental losses as well in the territory, that lead to the potential decline in the quality of life of the Cundinamarca inhabitants and to arrest or reverse the department’s development and growth processes”<sup>17</sup>. It is worth noting that La Niña phenomenon brings with it increased rain, therefore more floods and mass movement, while El Niño brings about conditions that are drier than usual, which may entail, among others, agricultural drought and lack of drinking water for the people. The distribution of the events by type of threat from 1998 to 2017 is shown in Graph 2.

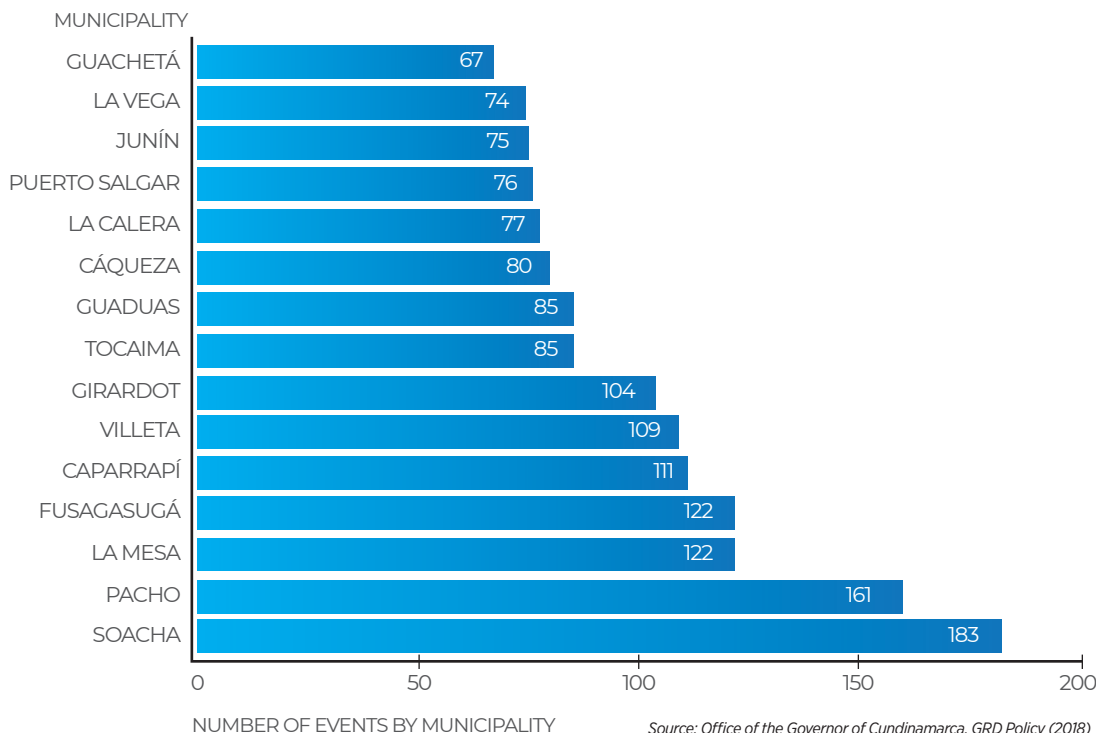


**The entire Cundinamarca department is subject to the occurrence of said events.** The occurrence of the different events mentioned takes place throughout the department. The municipalities that have registered the greatest number of events for the period 1998-2016 are shown in Graph 3.

<sup>17</sup> Extracted from the Presentation of the Cundinamarca Disaster Risk Management Public Policy 2018 - 2036.



Graph 3. Municipalities with the greatest number of events registered, 1998-016.



**The losses and damages evidence different impacts between rural and urban municipalities.**

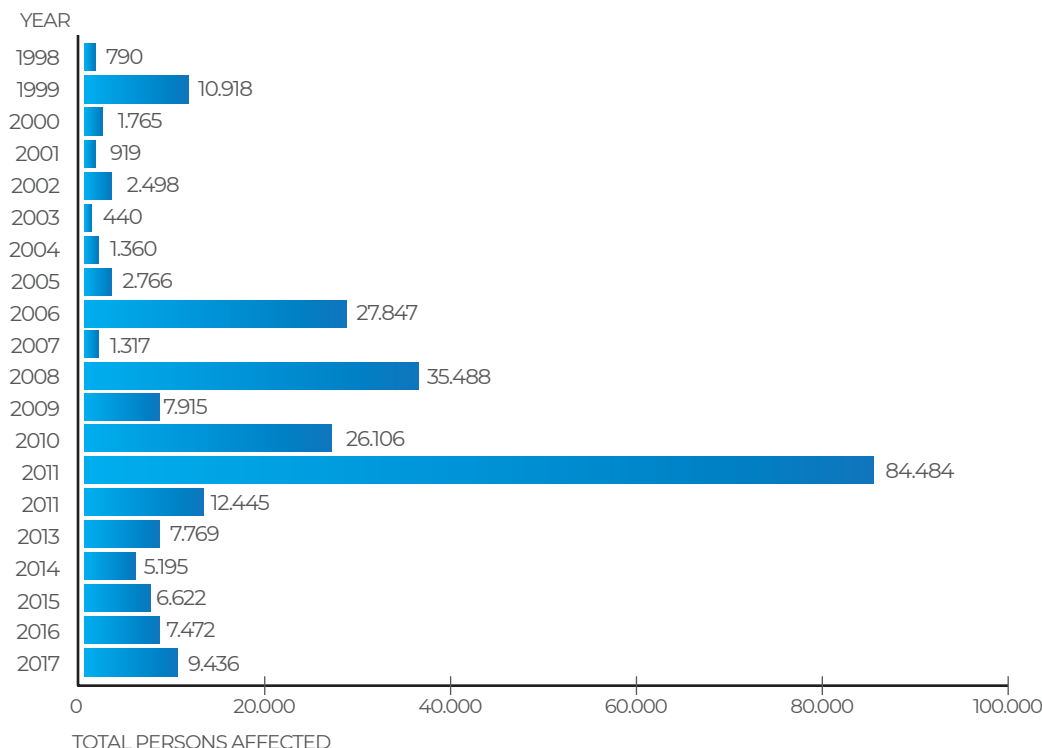
According to the DRM Policy, *“The occurrence of these events and the ensuing losses and damages show the department’s high vulnerability concerning its infrastructure production and population in the occurrence of these adverse events. The territorial distribution shows a concentration of events in a few municipalities (15) and provinces, and a differentiated recurrence among urban municipalities (e.g. Soacha) and rural municipalities.*

*The distribution of events and damages shows two pictures in the department: on the one hand, the situation of the urban municipalities near Bogotá that were flooded due to rain and overflowing rivers, with greater exposure of the inhabitants and infrastructure, but also with greater economic resources to*



face the situation, and on the other, the more rural and isolated municipalities, with fewer resources available and to which the losses are significant because of what they represent to the municipality and the community, but not because of their economic value<sup>18</sup>. Graph 4 shows the losses and damages for the 1998-2017 period by people affected, housing affected and hectares affected.

Graph 4. Losses and Damages reported 1998 -2017. For three major variables:  
4.a) Number of people affected, 4.b) Number of houses affected and 4.c) Number of hectares affected

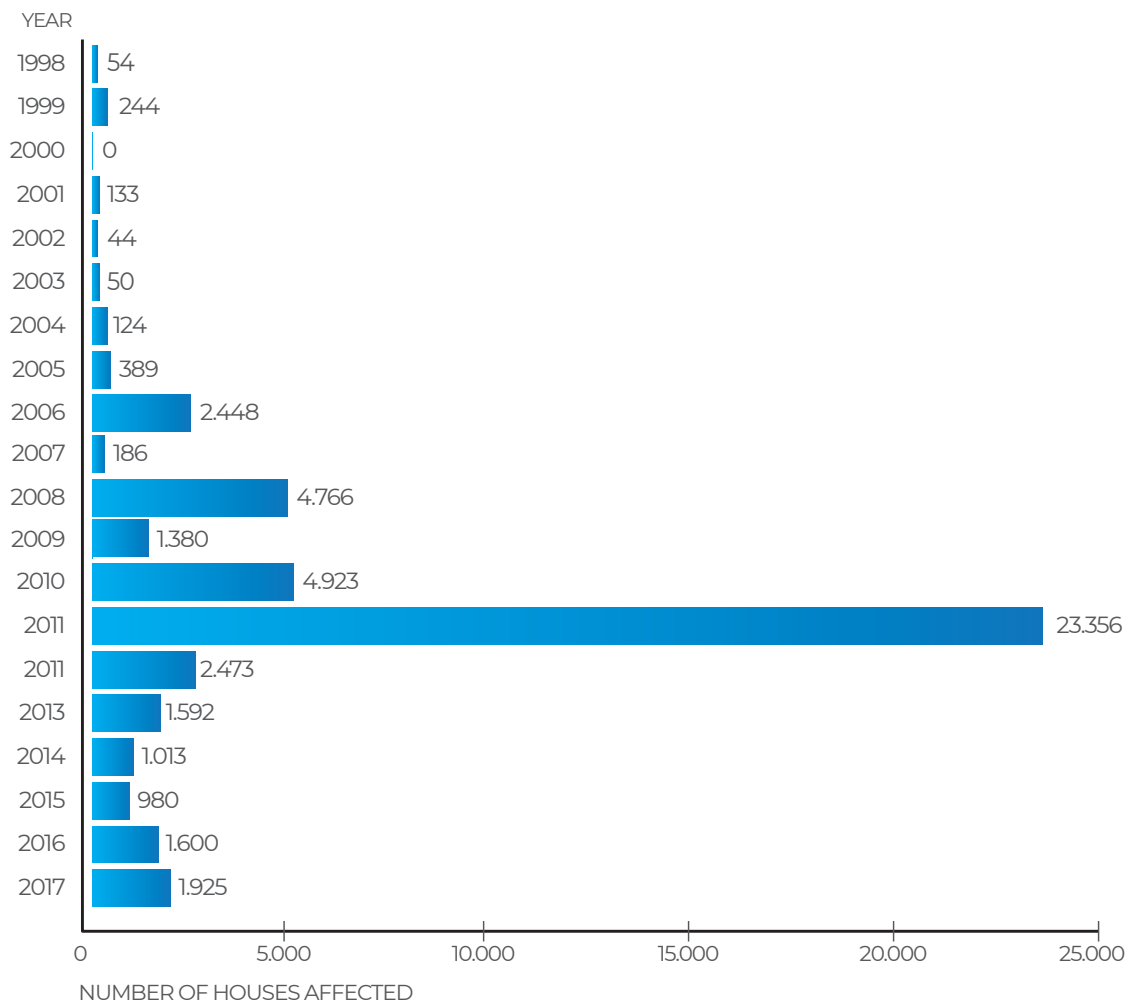


Source: Office of the Governor of Cundinamarca. DRM Policy (2018)

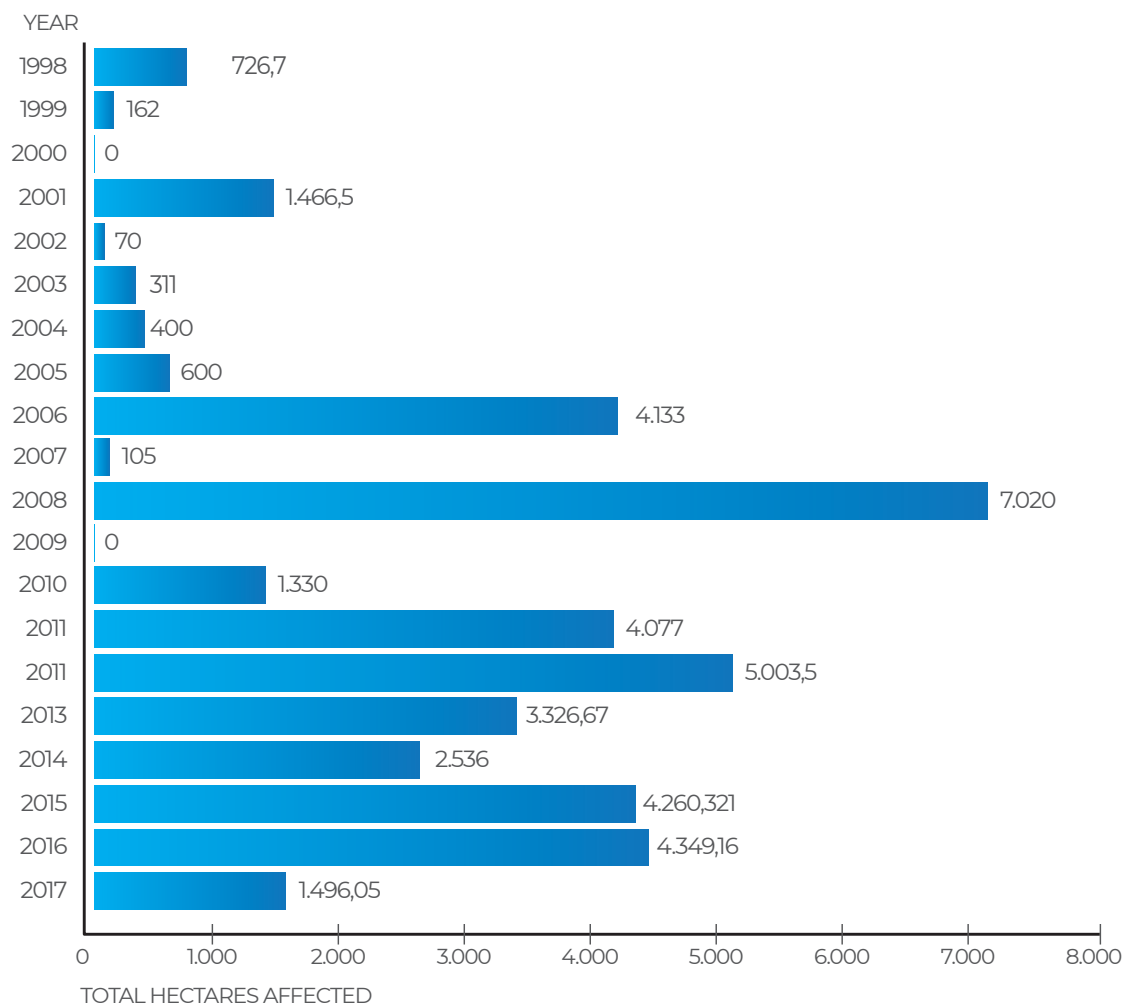
<sup>18</sup> DRM Policy, page 75



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Source: Office of the Governor of Cundinamarca. DRM Policy (2018)



Source: Office of the Governor of Cundinamarca. GRD Policy (2018)



# Foundations of the DRF Strategy of the Office of the Governor of Cundinamarca

**The DRM Policy, along with the national DRF achievements and progress, and considering that the national 2018 Medium-Term Fiscal Framework (MFMP 2018) and the Foundations of the 2018-2022 PND established the inclusion of the DRF at a territorial level as a priority, have provided a favorable context for the Cundinamarca department to strengthen its DRF.**

Consistent with the strategic pillars, strategic lines and sub-lines of the DRM Policy and the financial guidelines for the execution of the DRM Policy take into account the following: (i) Design of financial products such as bonds, loans, insurance, reinsurance, etc.; (ii) Design and consolidation of contingent loans for disaster risk management; (iii) Catastrophe insurance of municipal and departmental assets; and (iv) Strengthening of the Departmental Fund and Municipal Funds for the DRM. The foregoing, in a context where Colombia established in 2013 the Policy Strategy for Public Financial Management of Natural Disaster Risk (DRF Strategy) (updated in 2016)<sup>19</sup>, which has guided the activities carried out nationwide to continue making progress in the DRF. The policy objectives of said strategy are: (i) Identification and understanding of fiscal risk due to disasters; (ii) Financial management of natural disaster risks, including the implementation of innovative financial instruments; and (iii) Catastrophe risk insurance for public assets. In addition, the MFMP 2018 defines the inclusion of DRF at a territorial level as a priority at a national level.

**Under the leadership of the Ministry of Finance and Public Credit (MHCP), from its General Directorate of Public Credit and National Treasury, and with the support of the Disaster Risk Financing and Insurance Program of the World Bank and the Swiss Embassy in Colombia – Economic Cooperation and Development (SECO)<sup>20</sup> and the Global Facility for Disaster Reduction and Recovery (GFDRR), the Cundinamarca Department will strengthen its financial strategy to reduce its vulnerability against the occurrence of disasters (DRF Program), articulated with the national DRF strategy.**

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<sup>19</sup>Ministry of Finance and Public credit. General Directorate of Public Credit and National Treasury. Office of the Risk Deputy Director, "FINANCIAL STRATEGY TO REDUCE THE STATE'S FISCAL VULNERABILITY IN THE OCCURRENCE OF A NATURAL DISASTER", 2013 and updated in 2016.

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<sup>20</sup>The opinions and contents herein expressed are not the responsibility of the Embassy.



The DRF has made progress under the leadership of the MHCP, with the support and coordination of several public entities, such as the National Planning Department (DNP) the National Agency for Public Procurement - Colombia Compra Eficiente (CCE), the National Unit for Disaster Risk Management (UNGRD), the Financial Superintendence, the Ministry of Agriculture and Rural Development, the Colombian Geological Service, the National Infrastructure Agency (ANI), the Adaptation Fund, the Hydrology, Meteorology and Environmental Studies Institute (IDEAM) and the Ministry of the Environment and Sustainable Development. The breakthroughs achieved by this collective hard work, will provide essential input that will enable the Cundinamarca Department to strengthen its DRFI Strategy with the assistance of the MHCP.

## Policy Objectives from the territorial perspective of the Office of the Governor

### Policy Objective 1. Knowledge and investigation of the risk of disaster in the department <sup>21</sup>

**The development and promotion of knowledge and investigation processes to broaden the generation and permanent update of disaster risk assessments and analysis and the effects of climate change to which the people and their goods, infrastructure and facilities, ecosystems' sustainability and the Cundinamarca department's capacity to operate are subject, concerning institutional, sectoral, social and community decision-making<sup>22</sup> constitutes the cornerstone of any DRF Strategy.** In order to move forward in the implementation of the DRFI Strategy, the following are required, among others<sup>23</sup>:

<sup>21</sup> Corresponds to Strategic Pillar 1 of the DRM Policy.

<sup>22</sup> Corresponds to the goal of Strategic Pillar 1 of the DRM Policy.

<sup>23</sup> The proposed components encompass, among others: (i) All Strategic Lines of Strategic Pillar 1 of the DRM Policy, corresponding to knowledge and investigation of disaster risks; (ii) Strategic Line 2.3 of the DRM Policy, which is in line with the provisions of Article 42 of Ordinance No. 066 / 2018 issued by the Cundinamarca Departmental Assembly and published in Cundinamarca Gazette No. 15269 on Tuesday, June 26, 2018, Department of Cundinamarca, whereby the "2018 - 2036 DISASTER RISK MANAGEMENT DEPARTMENTAL PUBLIC POLICY " was approved, referring to the incorporation of Risk Management in Public Investments.





- **Preparation and update of the analysis of threats and exposure at the different territorial levels.** Corresponds to the contents of Strategic Line 1.1 of the DRM Policy *“Update and generate new knowledge concerning the threats that have already been studied at a municipal, provincial and departmental levels, and incorporate the study of new threats”*. The above, considering the threats that could have the greatest economic impact on the department, its provinces and municipalities.
- **Develop vulnerability and risk analyses.** Corresponds to the contents of Strategic Line 1.2 of the DRM Policy *“Create tools and methodologies supporting the preparation of vulnerability studies and promoting their development in multiple threat scenarios with a view to contributing to comprehensive disaster risk evaluation and analysis processes”*.
- **Develop analyses of risks linked to variability and climate change.** Corresponds to the contents of Strategic Line 1.3 of the DRM Policy *“Prepare, update and consolidate the analysis of risks linked to variability and climate change for decision-making at a provincial and departmental level based on the information from the third communication issued by the IDEAM, as it becomes necessary to consolidate processes that complement this policy, such as climate change at the different territorial levels”*.
- **Studies on underlying causes of the risk.** Corresponds to the contents of Strategic Line 1.4 of the DRM Policy *“Prioritize processes for the preparation and update of studies of the causes, consequences, processes and dynamics of the generation, construction and accumulation of risk scenarios based on the analysis of economic, social, environmental and institutional dimensions that may help identify and structure risk reduction measures in the short, medium and long term”*. The foregoing includes quantifying the fiscal impact of the occurrence of historical events, broken down at a municipal and sectoral level.
- **Forward-looking analysis of the losses and damages linked to the multiple risks at a municipal and departmental level.** Corresponds to the contents of strategic Line 1.5 of the DRM Policy *“Developing forward-looking risk analyses and their expression in terms of probabilities of suffering future losses and damages constitutes a significant tool for long-term decision-making and in the definition of current and future risk reduction scenarios”*.
- **Inclusion of risk reduction criteria in investment projects<sup>24</sup>.** Corresponds to the contents of Strategic Line 2.3 of the DRM Policy, *“Developing tools, methodologies, criteria and procedures for the inclusion, assessment and follow-up of significant investment projects, either public or private,*

<sup>24</sup> The foregoing is in line with Article 42 of Ordinance No. 066 / 2018 issued by the Cundinamarca Departmental Assembly and published in Cundinamarca Gazette No. 15269 on Tuesday, June 26, 2018, Department of Cundinamarca, whereby the “2018 - 2036 DEPARTMENTAL PUBLIC POLICY FOR DISASTER RISK MANAGEMENT” was approved and which states that “According to the provisions of Law 1523 / 2012, all public investment projects impacting the municipal or departmental territory must duly incorporate a disaster risk analysis, the details of which will depend on the complexity and nature of the project under discussion. This analysis must be considered from the initial formulation phase in order to prevent the generation of future risk conditions linked to the installation and operation of public investment projects in the national territory”.



*that may have a great impact on the territory, but which may also be affected by multiple threatening events during their development and operation, requires the effective inclusion of risk analyses to support the decision-making process involved throughout their development". To do so, the Office of the Governor of Cundinamarca will rely on the advancements that have been implemented nationwide concerning guidelines and manuals that incorporate disaster risk management criteria and climate change in public investment projects led by the National Planning Department-DNP, with the support of the Ministry of Finance and Public Credit, the National Unit for Disaster Risk Management and the Ministry of the Environment and Sustainable Development.*

- **Consolidation and analysis of the level of exposure and insurance of the inventory of public assets, separated at a municipal and sectoral level.** The information on the characteristics of the public assets and their property insurance policies at a municipal and sectoral level, will allow negotiating better terms and conditions in accordance with international standards, as well as evaluating schemes to manage these property insurance policies as a pooling.

## Policy Objective 2

### Disaster risk financial management of disasters for the public and private sectors, including the agricultural sector

**The DRM Policy defines in Strategic Line 2.6 the “Disaster Risk Finance and Insurance Management”.** As previously mentioned, Strategic Pillar 2 (Reducing current and future risk conditions)<sup>25</sup> of the DRM Policy, includes Strategic Line 2.6 called “Disaster Risk Finance and Insurance Management”, which includes: (i) Sub-line 2.6.1 called Financial Risk Transfer, that includes goals related to: (i) Information on insurance of public assets, crops and public works; (ii) Contingent credit line; (ii) Sub-line 2.6.1 called Financial Strengthening of Risk Management, which includes goals related to: (i) Increasing the resources allocated to the DRM Departmental Fund. Also, the financial guidelines for the execution of the DRM Policy state that financial management for disaster risk reduction, which encompasses the implementation of innovative financial instruments and risk transfer, must take into account the following, among others: (i)

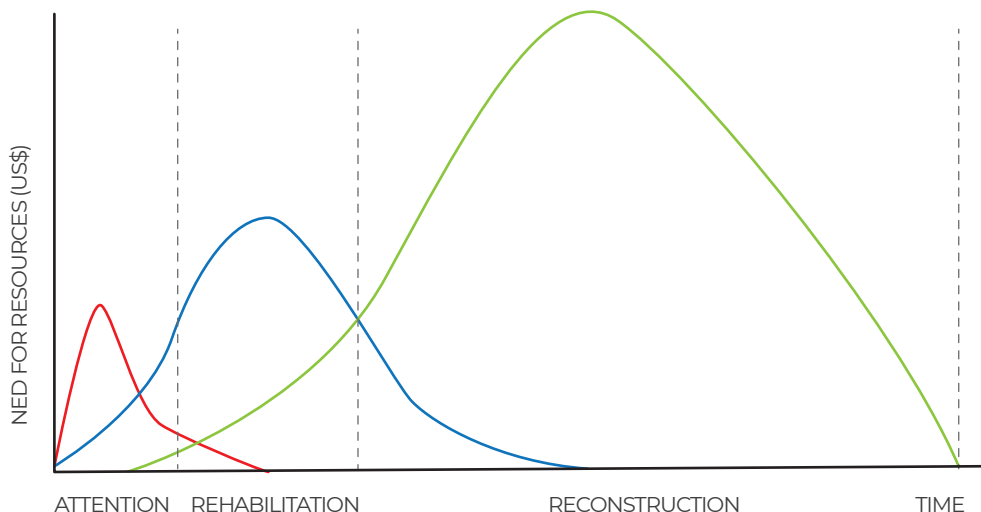
<sup>25</sup> Article 8 of No. 066 / 2018 issued by the Cundinamarca Departmental Assembly and published in Cundinamarca Gazette No. 15269 on Tuesday, June 26, 2018, Department of Cundinamarca, whereby the “2018 - 2036 DEPARTMENTAL PUBLIC POLICY FOR DISASTER RISK MANAGEMENT” was approved and which states as part of its purpose the reduction of risk, which is defined as the “process of risk management that seeks to modify or reduce the existing risk conditions understood as: mitigating the risk and not generating any new risks in the territory, understood as: prevention of the risk by way of sectoral, institutional and territorial measures with a view to reducing the threat, exposure and vulnerability of people, means of subsistence, assets, infrastructure and environmental resources to avoid or minimize damages and losses should the hazardous physical events occur, complemented by the corresponding financial management and risk transfer”.



Design of financial products such as bonds, loans, insurance, reinsurance, etc.; (ii) Design and consolidation of contingent loans for disaster risk management; (iii) Catastrophe insurance of municipal and departmental assets; and (iv) Strengthening of the Departmental Fund and Municipal Funds for the DRM.

**One of the purposes of the DRFI Strategy of the Cundinamarca Department is to guarantee resources to finance post-disaster activities.** The strategy will help the Department's fiscal management, for it seeks to guarantee the optimal combination of different cost-effective financial instruments ex ante and ex post to fund post-disaster activities, considering the temporal dimension of the post-disaster financing (availability of timely resources for the attention and rehabilitation phase and later on for reconstruction), as shown in Graph 5.

*Graph 5. Temporal dimension of post - disaster financing*

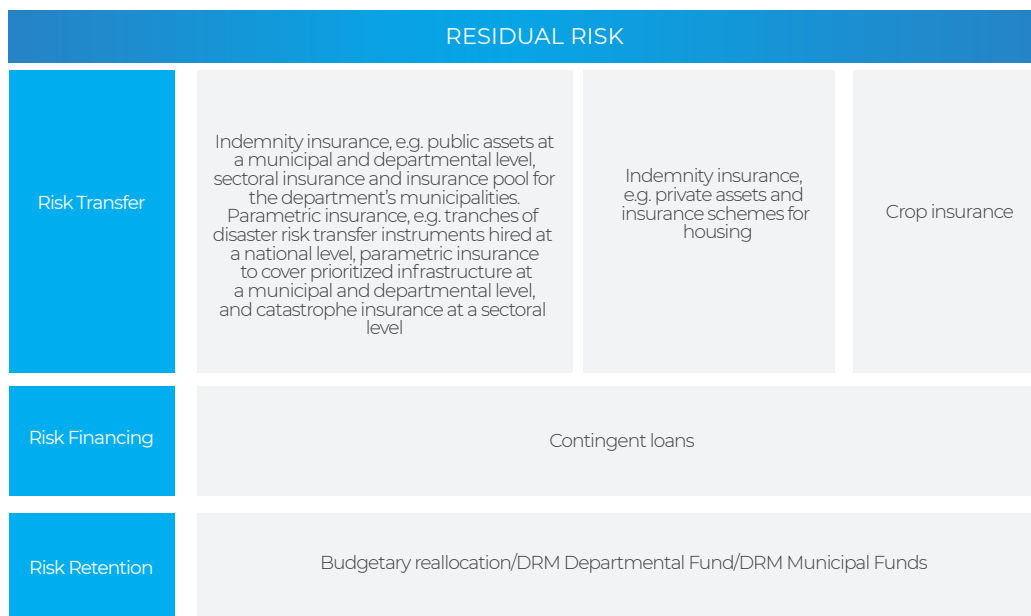


*Source: Ghesquiere & Mahul (2010)*



**The Cundinamarca department has established a financial strategy by layers.** The financial strategy by layers for disasters resulting from natural phenomena is shown in Graph 6. It is important to point out that the strategy's design will also take into account that a few municipalities (mostly urban) have greater resources to attend disasters, while others (mostly rural) have fewer resources to attend disasters.

Graph 6. Strategy by Layers



**In general, the Cundinamarca department has foreseen the implementation/strengthen of the following financial instruments, many of which meet the stipulations of the DRM Policy:**

***Strengthening the DRM Departmental Fund.*** The Cundinamarca department will evaluate alternatives to strength the legal, financial and operational aspects of the DRM Departmental Fund. As for the current legal framework governing said fund, it is important to mention that:

Ordinance No. 066 / 2018, whereby the "2018 - 2036 DISASTER RISK MANAGEMENT DEPARTMENTAL



PUBLIC POLICY" was approved and which establishes the Disaster Risk Management Fund as the DRM financing mechanism as *"a special account with technical and financial autonomy whose purpose is to invest, allocate and execute its resources in the adoption of disaster risk knowledge and reduction, preparation, response, rehabilitation and reconstruction measures in the Cundinamarca department..."*

As for the source of the resources of said fund, Article 46 of said Ordinance stated: *"Modify Article 346 of Departmental Ordinance 216 / 2014, "Whereby the Cundinamarca Department Income Statute was issued, powers were granted to Department's Governor and other provisions are issued" so that:*

*"From the Cundinamarca Department's registration tax that corresponds to the free destination current income, zero point four per cent (0,4%) must be allocated to the sustainability and implementation of the disaster risk management public policy in its mission-related and cross-cutting components, declared public calamities and emergencies. These resources will increase by zero point one per cent (0,1%) for each one of the next six (6) fiscal periods after the enactment of this ordinance, until a total of one point zero per cent (1,0%) has been reached.*

*The following will also serve as resources for the Fund:*

- 1. Transfer resources from the Nation, the National, Departmental or Municipal Fund for Disaster Risk Management, and municipal, departmental or national entities for any reason.*
- 2. Contributions of the department's general budget allocated thereto.*
- 3. Public or private resources and contributions received for any reason.*
- 4. Resources from public or private entities, either national or foreign.*
- 5. The yields produced by the financial management of these resources.*
- 6. Taxes, charges, surcharges, contributions, stamps or any other tax approved by the assembly for disaster risk management.*
- 7. Resources from internal or external loans.*
- 8. Resources from international cooperation or institutions.*
- 9. All other resources obtained or allocated for any reason".*

Furthermore, Article 47 of the said Ordinance orders to *"Modify Article 13 of Departmental Ordinance 140 / 2012, "Whereby the Cundinamarca Department Disaster Risk Management Fund is created and organized and other provisions are issued", with a view to creating subaccounts in the Departmental Fund, including the following:*

***"Financial Protection Subaccounts.*** *The resources in this subaccount will be used to support the funding of financial protection. The Finance Secretariat will use this account to manage, acquire or enter into the instruments or contracts with national or foreign entities to obtaining financial protection against disaster risks".*



The Cundinamarca department will evaluate the definition of operation rules that link the allocation of the fund's resources to the realization of disaster risk reduction activities and to strength the insurance of its infrastructure, especially for the municipalities that have resources available to attend emergencies.

***Departmental guidelines on the strengthening of DRF mechanism (including DRM Municipal Funds).***

The Department will assess the creation of DRF guidelines so that the Cundinamarca department may strengthen its DRF at the municipal level.

***Contingent Credit Lines.*** Contingent credit lines provide immediate liquidity in case of a disaster. To illustrate this point, the Government of Colombia has a contingent credit line with the World Bank (Development Policy Loan (DPL) with a Deferred Drawdown Option for Catastrophe Risk (CAT DDO)) for US\$ 250 million. It is worth noting that in 2010-2011 with the arrival of La Niña, Colombia used the entire contingent credit line available at that time with the World Bank equivalent to US\$ 150 million.

***Insurance of public assets.*** As has been mentioned, in Colombia, the insurance of public assets is mandatory. In this sense, it is important that the resources allocated for said insurance will look for the best coverage, in accordance with the market's best practices. Likewise, the legal, operational and financial feasibility of establishing an insurance pool for the Department's municipalities with a view to obtaining benefits from the diversification of the risks will be assessed.

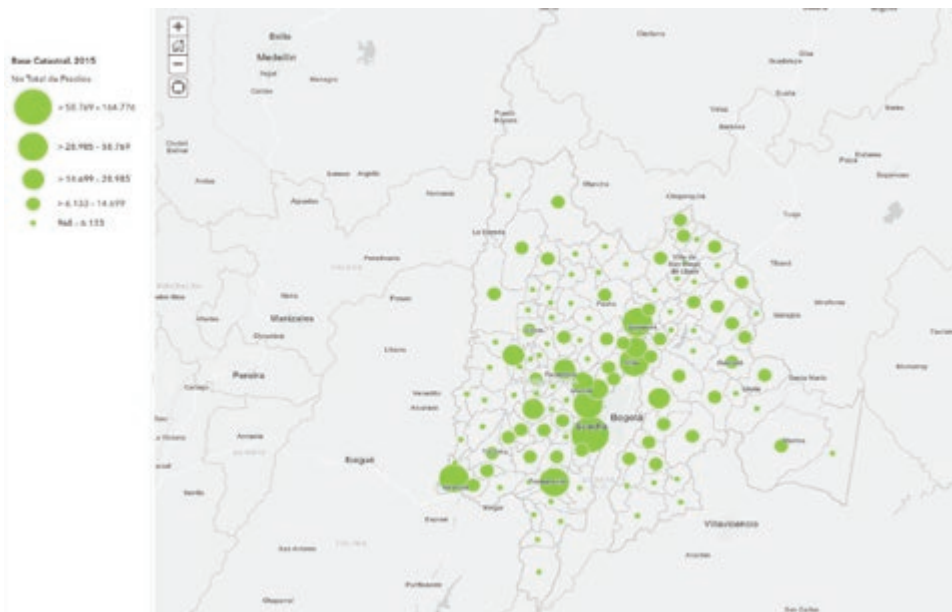
***Asset insurance at a sectoral level.*** Mechanisms will be assessed to promote the insurance of the Department's most relevant sectors, in terms of GDP and job creation.

***Hiring of financial instruments to transfer disaster risks.*** The Cundinamarca department will analyze multiple alternative instruments to transfer disaster risks, e.g. tranches of instruments to transfer disaster risks acquired at a national level, parametric insurance to protect prioritized infrastructure at a municipal, departmental and national level and catastrophe bonds.

***Private insurance promotion schemes, including private housing.*** The Cundinamarca department is interested in evaluating, among other things, schemes to promote the insurance of private housing. The distribution of dwelling throughout the department is shown in Graph 7. By fostering the insurance of private housing, this will enable the Department to allocate greater resources to attend the most vulnerable population in case of a disaster.



Graph 7. Distribution total amount of dwellings



<https://www.arcgis.com/home/webmap/viewer.html?webmap=f40df8d27fb34b4f8bc7747ba6fbbe3c>

**Crop insurance.** The Cundinamarca department will study mechanisms to support the strengthening of management of agricultural risks as a component of its DRFI strategy. This, in a context where the agricultural sector of the department is faced with risks that entail significant socioeconomic effects. To this end, it will take into account, among others, the “Public Policy Strategy for the Comprehensive Management of Agricultural Risks in Colombia” (2018)<sup>26</sup> in particular, issues relating to specific goal OE3

<sup>26</sup> A comprehensive review of the nation's agricultural risk management was conducted with a view to preparing the Strategy for the Integrated Management of Agricultural Risks based on the identification of the gaps and opportunities for improvement to strengthen the existing policies, while also adopting new strategies in this area. The problems that impact the integrated management of agricultural risks in the country were identified, including the sector's restriction and structural issues, including: (i) inefficient information management to identify and assess risks; (ii) the absence of a policy allowing for the integrated management of agricultural risks; (iii) low productivity and loss of competitiveness in local and foreign markets; (iv) limited access and formalization of the land and the judicial insecurity aspects hindering possession and use of the lands in the post-conflict context; and (v) weak commercialization policies of the agricultural sector. Considering the risk context of the sector, the problems identified and the orientation of the policies and programs, the goal of the Strategy for the Integrated Management of Agricultural Risks is to improve the management of agricultural risks in Colombia by setting five specific goals: (i) strengthen information management for the management of agricultural risks; (ii) improve the institutional and coordination framework towards the implementation of an integrated management of agricultural risks; (iii) foster the agricultural sector's productivity and competitiveness; (iv) contribute to access to and the formalization of lands; and (v) improve the commercialization condition of agricultural products.



referring to “fostering the agricultural sector’s productivity and competitiveness”, to which end the following must take place: (i) reduce the fiscal vulnerability of agricultural risks and (ii) reduce the effects of the variation of agricultural products’ prices.

**Implementation of an optimal combination of financial instruments.** In consonance with the best practices at a national and international level, the Cundinamarca department endeavors to find the optimal combination of financial instruments to attend the occurrence of a disaster, based on a Cost-Benefit analysis, as well as on the analysis of their availability over time (availability of timely resources for the attention and rehabilitation phases and of future resources for reconstruction).

## Policy Objective 3

### Catastrophe risk insurance for public assets

**The DRFI Strategy encompasses strengthening the insurance of public buildings, of concessions built by Public-Private Partnerships (PPP) and fostering insurance at a sectoral level.** As mentioned in the section on the DRF’s legal framework, in Colombia it is mandatory the insurance of public assets (both at a national and territorial levels). The Cundinamarca department seeks, among others, that the resources that must be allocated towards get insurance will entail better coverage at better prices, in line with international standards. Sectoral-level insurance must also be promoted.

- **Strengthening the insurance of public buildings.** Strategic Line 2.6 of the DRM Policy sets goals related to the insurance of public assets. Therefore, the Cundinamarca department will assess the feasibility of creating guidelines to improve the level and quality of the insurance of public assets in the event of disasters caused by natural phenomena. To this end, it could assess the guidelines and objectives for insuring fiscal assets in the event of disasters caused by natural phenomena elaborated by the MHCP and the CCE<sup>27</sup>. It will also assess the legal, operational and financial feasibility of creating an insurance pool for the department’s municipalities, allowing to benefit from the diversification of risks.

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<sup>27</sup> Available at:  
[http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeld=%2FOCS%2FP\\_MHCP\\_WCC-063442%2F%2FidcPrimaryFile&revision=latest](http://www.minhacienda.gov.co/HomeMinhacienda/ShowProperty?nodeld=%2FOCS%2FP_MHCP_WCC-063442%2F%2FidcPrimaryFile&revision=latest)  
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- **Strengthening the insurance of concessions built by PPP.** The Cundinamarca department will evaluate the feasibility of creating technical guidelines for setting the insurance requirements (based on the best practices of the international insurance and reinsurance markets), as well as the requirements for the participants on the insurance contracts, with a view to guaranteeing high quality insurance coverage.
- **Asset insurance at a sectoral level.** The Cundinamarca department will evaluate mechanisms to promote the insurance of the Department's most relevant sectors in terms of GDP and job creation.



# ACRONYMS AND ABBREVIATIONS









STRATEGY FOR DISASTER RISK FINANCE  
AND **INSURANCE MANAGEMENT**  
**CUNDINAMARCA DEPARTMENT**

<b>ANI</b>	National Infrastructure Agency
<b>PPP</b>	Public-Private Partnership
<b>CCE</b>	National Agency for Public Procurement - Colombia Compra Eficiente (CCE) (Colombia Efficient Purchase)
<b>DNP</b>	National Planning Department
<b>DPL with Cat DDO</b>	Development Policy Loan with a Deferred Drawdown Option for Catastrophe Risks
<b>DRFI Strategy</b>	Financial and Insurance Management Strategy for Disaster Risk Management in the Cundinamarca Department
<b>DRF Strategy</b>	Policy Strategy for Public Financial Management of Natural Disaster Risk
<b>GFDRR</b>	Global Facility for Disaster Reduction and Recovery
<b>DRF</b>	Disaster Risk Financial Management
<b>DRM</b>	Disaster Risk Management
<b>IDEAM</b>	Hydrology, Meteorology and Environmental Studies Institute
<b>MFMP 2018</b>	Medium-Term Fiscal Framework 2018 at a national level
<b>MFMP 2018 – 2027</b>	Medium-Term Fiscal Framework 2018-2027 of the Cundinamarca Department
<b>MHCP</b>	Ministry of Finance and Public Credit
<b>PND</b>	National Development Plan
<b>DRM Policy</b>	2018-2036 Disaster Risk Management Departmental Public Policy, which has been adopted via ordinance 066 of 2018 issued by the Cundinamarca Departmental Assembly, and published in Cundinamarca Gazette No. 15269 on Tuesday, June 26, 2018, of the Cundinamarca department
<b>DRF Program</b>	Financial strategy to reduce fiscal vulnerability against disaster
<b>SECO</b>	Swiss Embassy in Colombia - Economic Cooperation and Development
<b>SNGRD</b>	National System for Disaster Risk Management
<b>UNGRD</b>	National Unit for Disaster Risk Management

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**ANNEX**







## Provinces of the Cundinamarca Department

The 15 provinces of the Cundinamarca department (1. Almeidas, 2. Alto Magdalena, 3. Bajo Magdalena, 4. Gualivá, 5. Guavio, 6. Magdalena Centro, 7. Medina, 8. Oriente, 9. Rionegro, 10. Sabana Centro, 11. Sabana Occidente, 12. Soacha, 13. Sumapaz, 14. Tequendama and 15. Ubaté) are those which despite having been created in Ordinance 023 / 1998 issued by the Cundinamarca Departmental Assembly, currently do not formally constitute territorial entities or territorial associations with their own public institutional apparatus, as provided in Chapter II Title II of Law 1454 / 2011 (June 28) *“Whereby organic laws are issued pertaining to territorial organization and other provision are modified”*. In this sense, and because they do not operate as territorial entities per se, they do not constitute administrative entities under public law with their own legal status, administrative autonomy, independent equity, special administrative and fiscal authority or regime, which currently prevents them from acquiring specific financial rights and obligations, including those relating to DRF. Thus, in the terms set by the Cundinamarca sub-regional indicator called Cundinamarca Provinces Competitiveness Index (ICPC) which identifies the variables that the Office of the Governor, along with the 116 municipalities of the department, the academia and the guild and corporate sectors, the basic purpose of the provinces existing in the Cundinamarca department has been to position themselves *“as the ideal scenario for the departmental administration to focus on and gain relevance in the process of designing and executing its policies, programs and projects”*. The Cundinamarca Provinces Competitiveness Index (ICPC) for 2018 is available in:

<http://www.urosario.edu.co/competitividad/Documentos/ICPC-2018-110518.pdf>





# STRATEGY FOR DISASTER RISK FINANCE AND **INSURANCE** MANAGEMENT **CUNDINAMARCA** **DEPARTMENT**



El emprendimiento  
es de todos

Minhacienda

Disaster Risk Financing and  
Insurance (DRFI) Program



WORLD BANK GROUP



**GFDRR**

Global Facility for Disaster Reduction and Recovery



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Embajada de Suiza en Colombia  
Cooperación Económica y Desarrollo (SECO)



**GESTIÓN  
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