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COLOMBIA

CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES

(CO-O0018)

LOAN PROPOSAL

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CONTENTS

ANNEXES	
Annex I	Summary Development Effectiveness Matrix
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

LINKS
REQUIRED:
1. Monitoring and evaluation plan
OPTIONAL:
1. Program economic analysis
2. Program Operating Regulations
3. Automatic redirection list
4. Contribution to climate change adaptation (technical document)
5. Alignment with the crosscutting theme of gender equality (technical document)
6. Bibliography
7. Integrated natural disaster risk management plan
8. Results matrix indicator definitions, formulas, and sources
9. CCF experience and results from disaster and crisis response in Latin America and the Caribbean
10. Colombia: Analysis of the institutional and governance framework on disaster risk management

ABBREVIATIONS

ARL	Automatic Redirection List
Cat DDO	Catastrophe Deferred Drawdown Option
CCF	Contingent Credit Facility for Natural Disaster and Public Health Emergencies
COVID-19	Coronavirus disease 2019
DNP	Departamento Nacional de Planeación (National Planning Department)
FNGRD	Fondo Nacional de Gestión de Riesgo de Desastres (National Disaster Risk Management Fund)
FOME	Fondo de Mitigación de Emergencias (Emergency Mitigation Fund)
iGOPP	Index of Governance and Public Policy in Disaster Risk Management
IMF	International Monetary Fund
ND-GAIN	Notre Dame Global Adaptation Index
NPV	Net present value
PAIA	Paris Alignment Implementation Approach
PGIRDN	Plan de Gestión Integral del Riesgo de Desastres Naturales (Integrated Natural Disaster Risk Management Plan)
PNGRD	Plan Nacional de Gestión del Riesgo de Desastres (National Disaster Risk Management Plan)
SNGRD	Sistema Nacional de Gestión del Riesgo de Desastres (National Disaster Risk Management System)
SOFR	Secured Overnight Financing Rate
UNGRD	Unidad Nacional para la Gestión del Riesgo de Desastres (National Disaster Risk Management Unit)
WHO	World Health Organization

PROGRAM SUMMARY

COLOMBIA
CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES
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<table>
<tr><th colspan="6">Financial Terms and Conditions[a]</th></tr>
<tr><th colspan="4">Borrower:</th><th colspan="2">Flexible Financing Facility[b]</th></tr>
<tr><td colspan="4">Republic of Colombia</td><td>Amortization period:</td><td>25 years[c]</td></tr>
<tr><th colspan="4">Executing agency:</th><td>Grace period:</td><td>5.5 years[c]</td></tr>
<tr><td colspan="4" rowspan="2">The borrower, acting through the Ministry of Finance and Public Credit</td><td>Original weighted average life:</td><td>15.25 years[c]</td></tr>
<tr><td>Coverage period:</td><td>5 years[d],[e]</td></tr>
<tr><th>Source</th><th colspan="2">Amount (US$ millions)</th><th>%</th><td>Interest rate:</td><td>SOFR-based</td></tr>
<tr><td rowspan="3">IDB (Ordinary Capital):</td><td>Modality I</td><td>300</td><td>75</td><td>Inspection and supervision fee:</td><td>[f]</td></tr>
<tr><td>Modality II</td><td>100</td><td>25</td><td>Drawdown fee:</td><td>[g]</td></tr>
<tr><td>Total</td><td>400</td><td>100</td><td>Approval currency:</td><td>United States dollar</td></tr>
</table>

Program at a Glance

Program objective: The program's general development objective is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the country's public finances. Its specific development objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies.

Special contractual condition of general eligibility to request disbursements (coverage trigger): Approval and entry into effect of the program Operating Regulations, on the terms previously agreed on with the Bank (paragraph 3.4).

Special contractual conditions precedent to the first disbursement for each eligible event:

a. Disbursements under Modality I (natural disasters): (i) the Bank has verified the occurrence of an eligible event according to the parameters defined in the program Operating Regulations; and (ii) the Integrated Natural Disaster Risk Management Plan (PGIRDN), previously agreed on with the Bank, is being implemented to the Bank's satisfaction (paragraphs 2.7, 2.8, and 3.5);

b. Disbursements under Modality II (natural disasters): (i) the Bank has verified the declaration of a national disaster or emergency due to an eligible event as defined in the program Operating Regulations; (ii) the PGIRDN, previously agreed on with the Bank, is being implemented to the Bank's satisfaction; and (iii) the Bank has verified that the borrower, through the respective implementing entities, is in compliance with the agreed supplemental measures and conditions for risk retention financing (paragraph 3.5); and

c. Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public health emergency due to an eligible public health event as defined in the program Operating Regulations; (ii) the borrower, through the Ministry of Health and Social Protection, has submitted evidence that it is up to date with its progress reporting to the World Health Organization (WHO) on compliance with the International Health Regulations; (iii) the borrower, through the Ministry of Health and Social Protection, has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/Pan American Health Organization recommendations, to address the event for which the national public health emergency has been declared; and (iv) the Bank has verified the compliance of the borrower, through the respective implementing entities, with the agreed supplemental measures and conditions for risk retention financing (paragraph 3.5).

In addition to the contractual conditions mentioned above, the borrower will have submitted, within 90 calendar days after the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s) and, for disbursements under Modality I for natural disasters and Modality II for public health events, whether such disbursement(s) will be drawn from the regular lending program, undisbursed balances from the Automatic Redirection List (ARL), or a combination of these two sources. In the case of loans from the ARL, the request will identify the loans in question and the respective amount to be utilized. Disbursements under Modality II for natural disasters may not be drawn from the ARL (paragraph 3.6). For special contractual conditions for execution, see Annex III.

Exceptions to Bank policies: None.

Strategic Alignment							
Objectives:[h]	O1 ☐		O2 ☒			O3 ☐	
Operational focus areas:[i]	EO1 ☒	EO2-G ☒ EO2-D ☒	EO3 ☒	EO4 ☐	EO5 ☐	EO6 ☐	EO7 ☐

[a] Financial terms and conditions of the contingent loan under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (document GN-2999-4, approved by the Board of Executive Directors pursuant to Resolution DE-40/20 of 12 May 2020).

[b] Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[c] Amortization periods, weighted average life, and grace periods run from the date of the first disbursement for each eligible event.

[d] The coverage period or disbursement period (equivalent terms) runs from the entry into effect of the loan contract and may be extended for up to five additional years at the Bank's discretion and upon the borrower's request.

[e] Disbursements will be contingent on the availability of sufficient resources from the ARL or the Bank's regular lending program for Colombia, as applicable, when the disbursement is requested (paragraph 2.5).

[f] The inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

[g] The fee is not charged if the loan is not used. The Bank will charge a one-time drawdown fee of 50 basis points at the time of disbursement, applicable solely to the amount disbursed against resources from the regular lending program. This fee is applicable to each disbursement. The drawdown fee will be subject to periodic review by the Board of Executive Directors, as with all lending charges. The fee does not apply to amounts disbursed from loans included in the ARL.

[h] O1 (Reduce poverty and Inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

[i] EO1 (Biodiversity, natural capital, and climate action); EO2-G (Gender equality); EO2-D (Inclusion of diverse population groups); EO3 (Institutional capacity, rule of law, and citizen security); EO4 (Social protection and human capital development); EO5 (Productive development and innovation through the private sector); EO6 (Sustainable, resilient, and inclusive infrastructure); EO7 (Regional integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. Colombia's vulnerability to natural disasters and climate change

1.1 Owing to its geographic position and the location of its main urban centers, Colombia is exposed to a high number of natural threats, such as earthquakes, floods, volcanic eruptions, droughts, tsunamis, and forest fires [1,[1] 2]. Over 80% of the population and assets are exposed to two or more threats [3]. This high exposure, in conjunction with vulnerabilities like the high incidence of poverty and rapid unplanned urbanization in hazard-prone areas, increases the risk of disasters [3]. Since 1990, the country has recorded 163 disasters affecting more than 13 million people [4]. Hydrometeorological phenomena, exacerbated by the El Niño-Southern Oscillation, have been the most recurrent cause of disasters, accounting for approximately 85% of the total since 1990 [4].

1.2 Disasters that have led to major economic losses include: (i) the eruption of the Nevado del Ruíz volcano in 1985, which destroyed the city of Armero, causing over 20,000 deaths and approximately US$1 billion in losses [5, 6, 7]; (ii) the 6.2-magnitude Quindío earthquake in 1999, in which 1,185 people died, more than 200,000 people were displaced, and an estimated US$1.857 billion in damages was caused [7, 8, 9]; and (iii) the floods caused by La Niña and the 2010-2011 winter wave, which led to more than US$6 billion in economic damages (2.2% of GDP) and affected 7% of the population [10, 11, 12]. The forest fires recorded in January 2024 affected over 174 municipios [13, 14].

1.3 **Climate change and extreme events.**[2] Colombia is highly vulnerable to climate change [15]. According to the Notre Dame Global Adaptation Index (ND-GAIN), Colombia ranks 92nd out of 187 countries with a score of 48.7, below the average for Latin America and the Caribbean [16].[3] As the effects of climate change intensify, extreme weather events are expected to be increasingly frequent and destructive [17], with negative consequences for the vulnerable population, the agriculture sector, and the country's food security [18]. The population affected by floods is expected to triple if global warming reaches 1.5°C [19]. Projections for 2050 indicate that 80% of the country's crops could be affected [20].

1.4 **Gender, diversity, and natural disasters.**[4] Disasters tend to have a greater impact on the most vulnerable groups and those who face historical discrimination, such as women, girls, Afro-descendant and Indigenous populations, and persons with disabilities [21, 22, 23, 24, 25, 26, 27]. In Colombia, the 2010-2011 winter wave highlighted these gaps in emergency situations. The presence of people in vulnerable circumstances exacerbated the impact and had a negative effect on their ability to respond to the event. Over 712,000 households (81.4% of those affected) had at least one vulnerable person, including pregnant women, people

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[1] Optional link 6.

[2] Optional link 4.

[3] ND-GAIN values range from 0 to 100. A higher score reflects less vulnerability to the effects of climate change and greater capacity to leverage investments and convert them into adaptation actions. See ND-GAIN Country Index Technical Report.

[4] Optional link 5.

with disabilities, older adults, and minors [10]. Moreover, a quarter of those affected are ethnically recognized populations. While the country has made progress with the general conceptualization of a differential approach to disaster risk management [28], clear, specific, and practical guidelines on gender and other vulnerable groups are necessary to foster a more effective response.

2. The country's vulnerability to public health events

1.5 The country has faced a number of public health events, including the Chikungunya (2014-2015), Zika (2015-2017), and, more recently, COVID-19 (2020-2022) viruses. The country was particularly hard hit by COVID-19: the economy contracted sharply by 7.2% in 2020, over 6.3 million cases of the virus were recorded, and close to 142,000 people died [29]. Against this backdrop, the national government took a series of measures to mitigate the impact of the pandemic, which included declaring a public health emergency[5] and a state of economic, social, and ecological emergency throughout the country,[6] as well as creating the Emergency Mitigation Fund (FOME). As reported by FOME, total public expenditures between 2020 and 2022 for emergency response rose to US$4.5 billion [30].

1.6 These risks are significant contingent liabilities for public finances since, if they were to materialize, they would require not only a solid public health system, but also adequate ex ante financial coverage needed to cover the extraordinary public spending on an immediate response.

3. Financial vulnerability to natural disasters and public health events

1.7 After a period of strong post-pandemic growth (2021-2022), the Colombian economy slowed in 2023, as evidenced by real growth of 0.6%. The consolidation of the public finances was nevertheless maintained with a reduction of 1.1 percentage points in the total fiscal deficit of the central national government compared to 2022, reaching 4.2% of GDP in 2023. The economy is expected to rebound in the next few years, with growth of 1.1% and 2.5% in 2024 and 2025,[7] respectively, driven by inflation that continues to decline,[8] less and less contractionary monetary policy,[9] and the reactivation of key economic sectors. Although the fiscal deficit of the central national government (5.3%) is expected to increase in 2024 due to higher primary and interest expenditure, this increase would be aligned with the fiscal rule.

1.8 In this context, the occurrence of a 100-year, large-magnitude earthquake (estimated losses of 4.9% of GDP[10]) or severe floods similar to those in 2010-2011 caused by La Niña (estimated losses of 2.2% of GDP) (paragraph 1.2) could affect the fiscal consolidation process and economic recovery and limit the government's

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[5] Resolution 385 of 2020.

[6] Decree 417 of 2020.

[7] According to the International Monetary Fund (IMF) as of April 2024. These figures show movement toward the Colombian economy's potential long-term growth of 3%.

[8] According to the National Administrative Department of Statistics, total annual inflation in April 2024 was 7.16%. Inflation is not expected to return to the targets set by Banco de la República (2%-3%) in the next two years. According to the IMF, inflation will be 6.4% and 3.6% in 2024 and 2025, respectively.

[9] At 11.75% in May 2024 according to Banco de la República.

[10] Global Earthquake Model Foundation (2023). Colombia seismic risk profile.

response capacity. In light of this, the Colombian government requested the Bank's support to structure this contingent loan.

4. Natural disaster risk management in Colombia

1.9 Law 1523 of 2012 established the National Disaster Risk Management Policy and created the National Disaster Risk Management System (SNGRD).[11] The SNGRD is headed by the Office of the President of the Republic. The National Disaster Risk Management Unit (UNGRD), attached to the Office of the President of the Republic, manages SNGRD operations and is in charge of implementing the National Emergency Response Strategy and its protocols. In emergencies, at the strategic level, the National Risk Management Council is the planning and decision-making body, under the direction of the President of the Republic. At the operational level, the National Disaster Management Committee, under the coordination of the UNGRD, is the advisory, planning, and monitoring body responsible for guaranteeing effectiveness and cooperation in the disaster management process. Sector and territorial entities are responsible for implementing response actions and properly managing public resources.

1.10 The National Disaster Risk Management Fund (FNGRD) was created to manage disaster response resources. It has a board of directors and is administered by Fiduprevisora S.A., an asset management company. The Ministry of Finance and Public Credit is the implementing entity for disaster risk financing instruments and is responsible for ensuring that resources are available for the FNGRD. The diagnostic assessment of Colombia's disaster risk management is documented in the Integrated Natural Disaster Risk Management Plan (PGIRDN) (paragraphs 2.7 and 2.8). The main findings are summarized below.

1.11 **Governance.** According to the Index of Governance and Public Policy in Disaster Risk Management (iGOPP),[12] the country's General Framework of Governance for disaster risk management is achieving 88% progress (in the "very good" range), reflecting the regulatory progress associated with the adoption of Law 1523 as public policy in disaster risk management [31]. Instruments like the National Disaster Risk Management Plan, the FNGRD, the National Response Strategy, and the linking of disaster risk management and climate change adaptation in the different national development plans, introduced through Law 1523, are examples of the significant progress reported in this area.

1.12 Although Colombia has an appropriate regulatory and institutional framework for disaster risk management, the disasters that have hit the country in the past decade have revealed specific opportunities for improvement in the response phase. The impact of Hurricane Iota in 2020 in the San Andrés Archipelago showed that there are still challenges in the SNGRD's response capacity.[13] To strengthen its capacities, the government is implementing the National Disaster Risk Management Plan (PNGRD) 2015-2030 [32]. This loan will encourage these improvements through the PGIRDN (paragraphs 2.7 and 2.8) and technical

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[11] See optional link 10 for a comprehensive analysis of Colombia's disaster risk management institutional framework.

[12] The iGOPP measures on a scale from 0% (minimum) to 100% (maximum) whether a country has the right conditions to implement disaster risk management public policy.

[13] World Bank (2021). Colombia – Third Disaster Risk Management Development Policy Loan.

cooperation operation ANT/OC-21266-CO, approved for US$150,000 in 2024 to provide operational support (paragraph 1.25).

1.13 **Risk identification and awareness.** Progress in this component of the iGOPP is rated as "good" at 48%. In terms of territorial responsibilities for risk identification, the iGOPP highlights as significant progress the responsibility defined in Law 1523 for municipios and departments to assess disaster risks in their respective areas and the threat zoning included in land-use plans. For threat monitoring and forecasting, the Risk Management Index[14] highlights the expansion of a monitoring system with the acquisition of weather radar systems for the Institute of Hydrology, Meteorology, and Environmental Studies.

1.14 **Disaster risk reduction.** According to the iGOPP, Colombia has made "good" progress in this area, with 69% compliance. The country has made progress on incorporating risk into municipal and territorial instruments, such as development plans, land-use plans, and watershed management plans. The 2020 Risk Management Index outlines the disaster risk reduction work carried out by the UNGRD, nature-based solutions, and macroprojects put forward by the Colombia Adaptation Fund. However, the iGOPP identified regulatory gaps in relation to the concept of acceptable risk and the establishment of the obligation to incorporate disaster risk reduction measures in public and private infrastructure projects during the construction phase.

1.15 **Preparedness and response.** Colombia's progress under the iGOPP is 61% (rated as "good") for this strategic disaster risk management component, highlighting the establishment of the SNGRD (paragraph 1.9). The Risk Management Index also identifies the PNGRD 2015-2025 as an instrument that incorporates disaster management, establishing mandatory protocols, response procedures and strategies, and contingency plans. Also identified are Decree 2157 of 2017, which includes emergency and contingency plans for public and private entities and service providers, and Decree 2434 of 2015, which creates the National Emergency Telecommunications System.

1.16 **Financial protection.** The Ministry of Finance and Public Credit has made notable progress in strengthening the public finances in the face of disasters by implementing the National Financial Protection Strategy approved in 2013 and updated in 2021 [32]. The Ministry of Finance and Public Credit has implemented various risk transfer and retention instruments. The FNGRD was created through Law 1523, with the aim of addressing needs in disaster situations[15] (paragraph 1.10). Colombia has also had contingent lines, such as Catastrophe Deferred Drawdown Options (Cat DDOs) loans with the World Bank.[16] The complementarity of this operation with the CAT-DDO is noteworthy, as both instruments cover different strategic needs. The CAT-DDO can reduce financing gaps due to temporary tax revenue shortfalls, while the Contingent Credit Facility for Natural Disaster Emergencies (CCF) is able to finance extraordinary public spending required for the immediate response. The country also issued a

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[14] The Risk Management Index is a set of indicators related to the country's risk management performance.

[15] See optional link 10 for more details.

[16] The first for US$150 million in 2008, the second for US$250 million in 2012, and the third for US$300 million in 2021 (all of which have been disbursed). In February 2025, the World Bank approved a fourth Cat DDO for US$200 million.

US$400 million earthquake catastrophe bond [33]. The CCF and the technical cooperation operation prepared to support this loan (paragraph 1.25) are expected to help the country to continue strengthening this strategy.

5. Public health risk management in Colombia

1.17 The Ministry of Health and Social Protection is responsible for formulating, implementing, monitoring, and assessing policies, plans, and projects for public health care at the national level. The National Superintendency of Health is in charge of the inspection, surveillance, and control of various actors in the system for the comprehensive management of health risks [34]. The Ministry of Health and Social Protection is an integral part of the SNGRD. In the wake of COVID-19, the country improved its capacity to respond to the health emergency, as evidenced by the successful implementation of the National COVID-19 Vaccination Plan [35].

1.18 **Epidemiological surveillance system.** The National Health Institute tracks the country's public health events through the Public Health Surveillance System (SIVIGILA). Information from that system is collected by public and private health service provider institutions and by the territorial health secretariats. The National Health Institute uses this information to manage the Early Warning System in order to identify outbreak and epidemic alerts and respond in a timely manner, in coordination with territorial entities [36].

1.19 **Provision of health services.** Colombia has a health insurance model managed by health promoting entities through subsidized and contributory regimes; these offer a range of health services under contract with public health service provider institutions. According to information from the Special Registry of Health Service Providers [37], the country has 11,060 health service provider institutions, of which 9% are public and 91% are private or mixed. Lastly, the country has 1.7 hospital beds per 1,000 inhabitants, below the average [4.3] of the Organisation for Economic Co-operation and Development [38].

6. Programs for financing and transferring risks for natural disaster and public health emergencies

1.20 The Bank has developed an integrated disaster risk management and finance approach to help countries improve financial planning (GN-2354-7). Its objective is to help borrowing member countries with the design and implementation of natural disaster financing and risk transfer programs.

1.21 Within this strategic framework, the Bank created the CCF (GN-2502-2) to provide countries with significant liquid resources immediately after a natural disaster. Amid the challenges of the COVID-19 pandemic, the CCF was expanded in 2020 to include public health risks (GN-2999-4).

1.22 Natural disaster financing and risk transfer programs assume that, because of budgetary and financial constraints, no single instrument can effectively cover all layers of risk [39]. Accordingly, when designing these programs, having various complementary risk transfer and retention instruments for each layer of risk is recommended, including the use of reserve funds to cover risks associated with recurring events and contingent debt and risk transfer instruments, such as insurance and/or catastrophe bonds, for severe or catastrophic events [40].[17]

1.23 **Potential benefits.** The benefits of natural disaster financing and risk transfer programs for the emergency phase have been shown to be greater than their potential costs. These programs make it possible for countries to obtain financial coverage that benefits the population, regardless of whether the risks actually materialize, and this type of financing is more efficient in terms of direct costs as well as the savings created. This is achieved by reducing the liquidity gap that governments face due to the combination of increased expenditures, lower revenues [41], and incremental constraints in terms of cost and access to credit resources.

1.24 The availability of ex ante financial coverage for the emergency phase reduces the event's impact on public accounts and the vulnerable population by fast-tracking resources to meet the costs of the emergency response. This has been verified in studies conducted by the Bank [42] and other multilaterals, such as the International Monetary Fund (IMF) [43].

7. The operation in the Bank's sector and country strategy

1.25 **The Bank's support in Colombia's natural disaster sector and lessons learned.** The Bank supported the public policy reform process for disaster risk management in Colombia through loan 2616/OC-CO (US$120 million, approved in 2012, in execution) (paragraph 1.11), which contributed to the strengthening and modernization of the regulatory, institutional, and public policy framework for disaster risk management and adaptation to climate change, in line with the objectives and targets of the National Development Plan 2010-2014. The Bank also supported the country in applying the iGOPP (paragraphs 1.11-1.15). Since then, it has continued to support the country in managing disaster risk and adapting to climate change through technical assistance, including operation ATN/SX-18687-RG in the amount of US$1 million for client support, approved in 2021 and 90.31% executed. One lesson learned from previous operations that has been included in the design of this operation is the importance of incorporating the decentralization of disaster risk management responsibilities at the various territorial levels in project implementation arrangements. For example, this consideration was incorporated into the PGIRDN, particularly through the goals and indicators to guide the development of strategies for financial protection from disaster risk at the territorial level. Likewise, technical cooperation operation ATN/OC-21266-CO "Strengthening integrated management of disaster risk and climate change" was approved in 2024, and will support implementation of the contingent loan (paragraph 1.12).

1.26 **The Bank's support in Colombia's health sector and lessons learned.** Through the operation ''Program to Enhance Sustainability and Inclusiveness in the Colombian Health Care System'' (5170/OC-CO, US$150 million, approved in 2020, executed), a series of actions were taken to improve the management of spending on health services, implement the territorial integrated care model and insurance coverage, and provide services to the migrant population. Moreover, the "Program to Improve Effective Access to Health Services for the Colombian Population" (5853/OC-CO, US$150 million, approved in 2024, which is effective

[17] For further discussion on the complementarity of IDB products, see Innovative Climate and Disaster Risk Finance Solutions.

and pending eligibility) seeks to improve effective access to health services through primary health care and the interoperability of medical records. The digital transformation process in the sector was supported through two technical cooperation operations (ATN/KP-19602-CO involving client support, in the amount of US$700,000, approved in 2022 and 65.86% executed, and ATN/OC-18853-CO for operational support, in the amount of US$300,000, approved in 2021 and 99.10% disbursed). One lesson learned from the pandemic is the importance of having a financial instrument in place to support the immediate public health response, as evidenced through the creation of the FOME (paragraph 1.5).

1.27 **Good practices and lessons learned under the CCF.** The Bank has 13 active CCF loans in the region amounting to approximately US$3.4 billion, including US$518.2 million disbursed to date in support of the response to disaster emergencies or the COVID-19 pandemic on 10 occasions. The instrument's relevance and effectiveness have been verified and supported by the Office of Evaluation and Oversight (OVE) [44] and the project completion reports validated by that office for the operations executed in response to the 2016 Manabí earthquake in Ecuador (5136/OC-EC), Hurricane María in the Dominican Republic in 2017 (4331/OC-DR), Hurricanes Eta and Iota in Nicaragua in 2020 (5195/BL-NI), and the COVID-19 pandemic (5136/OC-EC, 5243/OC-DR, 5186/BL-GY). The most significant results of these interventions include: (i) rapid access to resources for a timely response to the emergency, reflecting the effectiveness of the parametric triggers; (ii) complementarity with other Bank interventions; and (iii) strengthening of the countries' disaster risk management through the PGIRDN. Based on previous experiences, the following elements are being incorporated into this operation: (i) the design of the parametric triggers for disaster coverage according to the country's risk profile and the effects of climate change (paragraphs 1.1-1.3); (ii) the incorporation of operating procedures and guidelines based on execution experience in the program Operating Regulations, including the execution mechanism; (iii) stronger intersectoral coordination between the entities involved in emergency response (paragraphs 3.2 and 3.3); (iv) the requirement of an independent, concurrent, and reasonable assurance audit to safeguard the eligibility of expenses (paragraph 3.10); and (v) the active participation of other key sector entities, such as the National Planning Department (DNP), the UNGRD, the Ministry of Health and Social Protection, and Fiduprevisora S.A. throughout the entire process of preparing this operation, as well as the ongoing training of these actors during the coverage period through workshops and simulation exercises to strengthen disaster response capacity (paragraphs 1.12 and 2.12).

1.28 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Greater Scale and Impact (CA-631) and is aligned with the objective of addressing climate change by strengthening countries' climate resilience and adaptation capabilities, particularly disaster risk management, through increased ex ante financial coverage for natural disaster and public health emergencies. Thus, based on the joint methodology of the multilateral development banks for tracking climate finance,[18] this operation is deemed to have 100% climate finance for adaptation, as it finances resources and makes them available to the country to strengthen Colombia's resilience and mitigate the

[18] Optional link 4.

impacts of climate- and weather-related natural disasters. Under the Green Finance Tracking Methodology at the IDB Group (GN-3101), this operation also contributes fully to the environmental sustainability objective of "resilience and disaster risk management," meaning that green and climate financing under the operation is 100%. The program is also aligned with the following operational focus areas: (i) biodiversity, natural capital, and climate action; (ii) gender equality and inclusion of diverse population groups (paragraph 1.31); and (iii) institutional capacity, rule of law, and citizen security (paragraphs 1.7 and 1.8).

1.29 This loan is also consistent with the Bank's Disaster Risk Management Policy (GN-2354-5), the Climate Change Sector Framework Document (GN-2835-13), the Health and Nutrition Sector Framework Document (GN-2735-12), and the Gender and Diversity Sector Framework Document (GN-2800-13), as it will contribute to enhancing Colombia's financial management of climate, disaster, and public health risks with a gender lens. The operation is aligned with the IDB Group's Country Strategy with Colombia 2024-2027 (GN-3238-3) by contributing to the objective of improving the government's strategic management capacity by increasing financial resilience to catastrophes and disasters. Lastly, the operation is included in the 2024 Operational Program (GN-3207).

1.30 **Alignment with the Paris Agreement.** Contingent loans do not fall within the scope of the Paris Alignment Implementation Approach (PAIA) as established in document GN-3142-1. Therefore, no information is provided on how to assess their alignment with the mitigation and adaptation targets of the Paris Agreement.[19]

1.31 **Gender and vulnerable group considerations.** The program, through the PGIRDN, will promote actions for mainstreaming gender equity and diversity for ethnic groups and people with disabilities in the country's disaster risk management. Actions in the first year of the program, which are included in the governance and risk reduction components of the PGIRDN, will focus on: (i) implementation of the gender and climate change action plan of the Ministry of the Environment and Sustainable Development; and (ii) incorporation of the gender lens into the comprehensive climate change management plan for the environmental sector. Furthermore, in view of the inequality gaps identified (paragraph 1.4), the operation provides for an additional output, which is the update and dissemination of guidelines for a differential approach in disaster risk management, including the gender, ethnicity, and disability perspective (paragraph 1.37). This output will be produced following the guidelines of the strategic framework for gender mainstreaming in contingent loans and will be implemented as part of the PGIRDN's monitoring and supervision framework (paragraph 3.13).

B. Objectives, components, and cost

1.32 **Objectives.** The program's general development objective is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the country's public finances. Its specific development objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to

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[19] The PAIA, in keeping with the practice of other multilateral development banks, does not include credit facilities for natural disaster and public health emergencies (GN-3142-1, paragraph 2.11).

cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies.

1.33 As additionality, the operation will contribute to enhancing the country's disaster risk management through the PGIRDN (paragraphs 2.7 and 2.8). Moreover, gender equality will be mainstreamed in the country's disaster risk management through gender actions in the PGIRDN (paragraph 1.31).

1.34 **Sole component.** The proposed operation consists of a sole component for US$400 million that will structure stable, efficient, and rapidly accessible ex ante financial coverage to provide timely financing for extraordinary expenditures that are likely to arise during severe natural disaster and public health emergencies.

1.35 **Subcomponent 1.1. Coverage under Modality I (US$300 million).** This subcomponent will provide timely financing for extraordinary public expenditures that are likely to occur during severe or catastrophic natural disaster emergencies (parametric coverage) (paragraph 2.3). Covered events are earthquakes, hurricanes, and flooding caused by excessive rainfall.

1.36 **Subcomponent 1.2. Coverage under Modality II (US$100 million).** This subcomponent will provide timely financing for extraordinary public expenditures that are likely to occur during severe or catastrophic public health or natural disaster emergencies (nonparametric coverage) (paragraph 2.4). Covered events are forest fires, droughts, volcanic eruptions, tsunamis, and future epidemics and pandemics.

1.37 As a specific output, the operation also calls for updating and disseminating guidelines with a differential approach in disaster risk management, including the gender, ethnicity, and disability perspective,[20] in order to strengthen the country's efforts on this issue (paragraph 1.31).

1.38 To assess the country's financial needs for dealing with emergencies caused by severe or catastrophic natural disasters or public health events, the Bank analyzed its exposure and vulnerability to such events and their historical impact (paragraphs 1.1 to 1.8). Based on this analysis, the loan amount was set at US$400 million, consisting of US$300 million under Modality I and US$100 million under Modality II. These amounts are within the limits established in each modality for CCF operations (GN-2999-9, paragraphs 4.4 through 4.7).[21]

1.39 **Beneficiaries.** The potential beneficiaries are, in general terms, the entire population of Colombia and, specifically, the affected population that receives emergency assistance under the proposed coverages. It should be noted that ex ante financial coverage for natural disasters will benefit 471,000 people, while coverage for public health will benefit 381,000 people.[22]

C. Key results indicators

1.40 To demonstrate the expected contribution to the program's general objective (paragraph 1.32), the following indicators will be monitored: (i) ex ante financial coverage relative to the likely maximum expenditure during emergencies caused

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[20] This output will be financed with resources from technical cooperation operation ATN/OC-18888-RG.

[21] The coverage ceiling under Modality I is US$300 million or 2% of the country's GDP, whichever is less. The coverage ceiling under Modality II is up to US$100 million or 1% of GDP, whichever is less.

[22] National Disaster Risk Management Fund and CCF loan coverage is estimated (see the results matrix).

by natural disasters of catastrophic magnitude covered by the program; and (ii) ex ante financial coverage relative to probable maximum expenditure during national public health emergencies covered by the program.

1.41 To determine whether the operation's specific objective has been met (paragraph 1.32), the following indicators will be monitored: (i) the amount of ex ante financial coverage available for the country to respond to natural disaster or public health emergencies; (ii) the potential beneficiaries of the ex ante financial coverage available for natural disaster emergencies; (iii) the potential beneficiaries of the ex ante financial coverage available for public health emergencies; (iv) the spread between the financial cost of the IDB loan and that of Colombia's long-term sovereign external commercial debt; (v) the financial savings ratio following the occurrence of an eligible event: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in terms of net present value; and (vi) the speed of access to funds following the occurrence of an eligible event: number of days between the eligibility verification request and availability of the funds.

1.42 **Economic analysis.** The economic analysis employs a cost-effectiveness methodology to evaluate a scenario in which the full US$400 million financial coverage would be used due to the occurrence of a catastrophic natural disaster and a public health event.[23] The net present value (NPV) of the funding cost of the IDB loan was compared to the cost of issuing bonds under the following assumptions: (i) a fixed interest rate for the Bank loan; and (ii) bonds issued with a maturity of approximately 10 years with a rate based on the country's current risk premium on the international market. The two NPVs were calculated using a discount rate of 12%. The results show that the contingent loan is 72.9% of the cost of issuing debt, which makes it a much more efficient option.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

2.1 This proposal is for an investment loan from the Bank under the CCF (GN-2999-9) for up to US$400 million. Of that amount, up to US$300 million will be used under Modality I for natural phenomena (parametric coverage) and up to US$100 million will be used under Modality II for natural disasters and public health events (nonparametric coverage). The funds may come from the regular lending program, available undisbursed balances of investment loans in execution that are identified in the Automatic Redirection List (ARL),[24] or a combination of these two options. For coverage of natural disasters under Modality II, funds may not be drawn from the ARL (GN-2999-9, paragraph 4.12).

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[23] Two other scenarios were evaluated, and the results indicate that the contingent loan would still be the most efficient option. See optional link 1.

[24] The ARL includes the Bank's investment loans in effect with the country that have balances available for disbursement. In these cases, the remaining balances can be automatically redirected following an event (GN-2999-9, paragraph 4.12). The ARL was agreed on between the borrower and the Bank, based on the following criteria: (i) the government's priorities in the context of a potential emergency; and (ii) the status of project execution and performance. In consultation with the borrower, the ARL will be periodically updated to include new loans. If an event is declared eligible by the Bank and the resources disbursed come entirely or partially from ARL balances, the Bank will update the project management systems to reflect the corresponding changes in the selected loans.

2.2 Loans issued under the CCF have specific financial terms and conditions to support the country at the critical time of an emergency caused by severe events, when public finances are affected. The specific terms and conditions include the following: (i) the amortization periods, weighted average life, and grace periods are calculated from the date of the first disbursement for each eligible event; (ii) the Bank will only charge a one-time disbursement fee of 50 basis points (reviewed periodically) at the date of each disbursement, applicable solely to the amount disbursed against resources from the regular lending program (i.e., not funded from the ARL); and (iii) the period during which resources are available (coverage period) is five years, running from the entry into force of the loan contract, and can be extended for up to five additional years at the borrower's request and at the Bank's discretion, as long as the PGIRDN is still in place and progressing to the Bank's satisfaction and/or the country is up to date with its progress reporting to the World Health Organization (WHO) in compliance with International Health Regulations.

2.3 **Eligible events under Modality I.** The loan will provide coverage under Modality I for earthquakes, hurricanes, and flooding caused by excessive rainfall that occur during the coverage period and satisfy the parameters of intensity and affected population contractually agreed on between the country and the Bank and detailed in the terms and conditions of coverage under Modality I (program Operating Regulations, Annex I). Event eligibility will be verified on the basis of the agreed parameters. The annex specifically details how the parametric triggers work to determine event eligibility, as well as the methodology for calculating the maximum amount of available coverage.

2.4 **Eligible events under Modality II.** The loan will provide coverage under Modality II for the following types of events that occur during the coverage period: forest fires, droughts, volcanic eruptions, and tsunamis that result in the declaration of a national disaster throughout the national territory; and future epidemics and pandemics that result in a health emergency and/or a state of economic, social, and ecological emergency throughout the national territory. Specific issues related to the legal framework, scope, and procedure for declaring emergencies are addressed in Annex II of the program Operating Regulations.

2.5 Disbursements will be contingent on the availability of sufficient resources from the ARL or resources allocated to the Bank's regular lending program with Colombia, as applicable, when the disbursement is requested. With respect to disbursements under Modality II for natural disasters, financing may not be drawn from the ARL. If sufficient resources are not available at the time of the disbursement request, the Bank may disburse up to the maximum amount of available resources. In the event that no funds are available, the Bank will not be obligated to make any disbursements for as long as, and to the extent that, no resources are available. Once this situation has ended as determined by the Bank, it will notify the borrower.

2.6 **Disbursement limits per event.** The maximum amount that may be disbursed for each eligible event will be subject to the lower of the following limits: (i) the available undisbursed balance of coverage available under the corresponding modality; and (ii) the limit for each disbursement method established in the program Operating Regulations, in particular for the advancement of funds (paragraph 2.13). For Modality I, the limit will also be subject to the maximum amount resulting from applying the terms and conditions of parametric coverage to the eligible event.

2.7 **PGIRDN.** To be eligible to receive financing through the CCF, countries are required to have a public policy in place for integrated natural disaster risk management and to promote its effective development (GN-2999-9, paragraph 4.3(a)). Colombia has a PGIRDN agreed on between the Bank and the country, and so meets this eligibility requirement. The agreed PGIRDN has been documented in Annex III of the program Operating Regulations and is satisfactory to the Bank.

2.8 To maintain natural disaster coverage, the country must ensure that the PGIRDN is progressing to the Bank's satisfaction. For monitoring purposes, annual progress indicators are identified for each of the strategic pillars of the PGIRDN. The Bank will perform annual assessments to monitor progress. For the next such assessment, annual indicators were agreed on and are specified in Table 1 of Annex III to the program Operating Regulations. Satisfactory execution of the plan will be determined by significant progress on all agreed indicators. For subsequent annual verification periods, new annual progress indicators, including those related to gender, will be identified.

2.9 **International Health Regulations.** The CCF states that, in order to receive financing through public health coverage, countries must be up to date with their progress report to WHO regarding compliance with International Health Regulations.[25] As reported in the WHO's State Party Self-assessment Annual Reporting Tool platform, Colombia complied with the annual self-assessment requirement for 2023 based on the required IHR guidelines. During the coverage period of the loan, the Bank will monitor the country's annual compliance with reporting to the WHO under the International Health Regulations.

B. Environmental and social risks

2.10 Operations financed under the CCF are exempt from the Bank's Environmental and Social Policy Framework (GN-2965-23). No adverse environmental or social impacts are anticipated because the loan proceeds may only be used to finance expenditures to address emergencies, and the Ministry of Finance and Public Credit, as executing agency, must adhere to the country's environmental and social legislation. Moreover, the loan contract includes a list of the types of ineligible expenditures (negative list).

C. Fiduciary risks

2.11 The operation will be consistent with the specific fiduciary control requirements and procedures established in the CCF policy document (GN-2999-9) and in Annex III, "Fiduciary Agreements and Requirements," supplemented by the Financial Management Guidelines for IDB-financed Projects (OP-273-12).

D. Other key issues and risks

2.12 **Institutional environment risk.** There is a medium-high risk that, due to delays in interagency coordination between the public sector entities involved in budget execution during natural disaster or public health emergencies, namely the Ministry of Finance and Public Credit, the DNP, the UNGRD, the Ministry of Health and

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[25] The report on compliance with the recommendations of the International Health Regulations is updated annually through the State Party Self-Assessment Annual Reporting Tool. See Guidance Document for the State Party Self-Assessment Annual Reporting Tool.

Social Protection, Fiduprevisora, and other institutions required for emergency response, the resources disbursed for an eligible event may not be executed in a timely manner within the period stipulated in the loan, making the emergency response and the operation less effective. As mitigation measures: (i) the Bank will provide technical support to the Ministry of Finance and Public Credit, DNP, UNGRD, and Ministry of Health and Social Protection, including training workshops and simulation exercises with the participation of implementing entities,[26] as part of the project supervision and implementation process; and (ii) a coordination and execution mechanism will be established in the program Operating Regulations to streamline communication and processes related to financial and procurement management (paragraphs 3.2 and 3.3).

2.13 There is another medium-high risk related to the institutional environment whereby, due to weaknesses in the UNGRD's institutional capacity, particularly in the effectiveness of its internal controls, resources disbursed for an eligible event may not be executed in accordance with the eligibility criteria, reducing the program's effectiveness and increasing the likelihood of integrity risks. To mitigate risk, the following measures have been considered: (i) the Ministry of Finance and Public Credit will be the executing agency for the operation; (ii) prior to the first disbursement for each eligible event, priority will be given to expenditures within the National Risk Management Council and in coordination with the Bank, in accordance with the program Operating Regulations; (iii) for the advance of funds method, a limit of 35% of the maximum amount that can be disbursed for each eligible event under each disbursement request will be applied (paragraph 2.6); (iv) work will be carried out with the UNGRD to strengthen the coordination and internal control mechanisms of the public-sector implementing entities responsible for emergency response actions (paragraph 1.9); (v) a sound process involving internal coordination, monitoring, and IDB team support will be implemented, with the participation of the Country Office, sector divisions, and fiduciary team, in order to support the country in using the disbursed resources promptly, efficiently, and transparently (paragraph 3.3); (vi) the reasonable assurance audit, which will be performed concurrently to verify compliance with the eligibility criteria for expenditures, will complement the various levels of control and safeguards established in national regulations (paragraph 3.10); (vii) the program Operating Regulations will require the amended trust contract with Fiduprevisora to safeguard resource usage under this operation (paragraph 3.4); ; (viii) the PGIRDN (paragraph 2.7) and the approved technical cooperation operation (paragraph 1.25) will include actions to strengthen both the institutional and risk management capacity of the SNGRD and the UNGRD, including the regulations governing the FNGRD's subaccounts; and (ix) in coordination with the IDB Group Office of the Institutional Integrity (OII), the integrity risk management considerations in the program Operating Regulations will be strengthened.

2.14 **Sustainability.** The country is expected to continue to strengthen integrated disaster risk management by implementing the current 2015-2025 PNGRD and its subsequent update (paragraph 1.12), including efforts to strengthen institutional coordination and capacity, as well as the country's financial resilience through the adoption of efficient risk transfer and retention instruments. The Bank will support

[26] Corresponds to ministries, departments, and units responsible for response actions that make up the SNGRD. The primary sectors involved are humanitarian assistance, health, electricity, and transportation.

the country in implementing the PNGRD and, in general, strengthening its disaster risk management through the PGIRDN (paragraphs 2.7 and 2.8) and the technical cooperation in support of this operation (paragraph 1.25).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower will be the Republic of Colombia. The Ministry of Finance and Public Credit will be the executing agency. The executing agency will be responsible for: (i) ensuring that the program objectives and terms and conditions established in the loan contract are fulfilled, within the scope of its competence; (ii) handling and processing disbursement requests with the Bank; (iii) making timely resource transfers to the implementing entities in accordance with the guidelines of national legislation (paragraphs 1.9 and 1.10) and the program Operating Regulations; (iv) providing the Bank, within the prescribed time, with the reasons for the use of the disbursed resources and year-end information, in coordination with the FNGRD and the implementing entities; and (v) submit the reports compiled by the implementing entities that corroborate the fulfillment of the loan objectives, terms, and conditions.

3.2 **Regulatory framework for interagency coordination in natural disaster and public health emergencies.** The Ministry of Finance and Public Credit is the implementing entity for disaster risk financing instruments, including this contingent loan, and is responsible for ensuring that resources are available for the FNGRD and the implementing entities. Therefore, in its role as the executing agency, it will request that the Bank verify the eligible events and corresponding disbursements according to the prioritization carried out by the National Risk Management Council. In accordance with national legislation, actions during natural disaster or public health emergencies will be coordinated and implemented within the framework of the SNGRD (paragraph 1.9). The loan proceeds will be channeled through the Ministry of Finance and Public Credit to the FNGRD and subsequently to the prioritized implementing entities for each eligible event. These will be responsible for implementing the emergency response actions and providing information to substantiate the use of the resources.

3.3 **Coordination and execution mechanism for drawing on the loan proceeds.** The Bank will monitor the proper implementation of the coordination and execution mechanism, which will facilitate the flow of funds to the implementing entities in case of natural disasters or public health events (see program Operating Regulations). This mechanism will be coordinated within the country's existing framework of institutional arrangements (paragraphs 1.9 and 3.2) and will include the following processes: (i) prioritization and planning of the response with the National Risk Management Council in accordance with the specific action plans for each event; (ii) budget and cash management with the Ministry of Finance and Public Credit and FNGRD; (iii) execution and monitoring with each implementing entity to streamline communication and the proper implementation of financial management and procurement processes; and (iv) accountability and closing with independent verification (paragraph 3.11). Furthermore, in accordance with the law, SNGRD and State monitoring and control mechanisms will be applied.

3.4 **Special contractual condition of general eligibility to request disbursements (coverage trigger) will be as follows: (i) Approval and entry into effect of the**

program Operating Regulations, on the terms previously agreed on with the Bank. The program Operating Regulations will include: (i) the reference framework, including the interagency coordination and execution mechanism; (ii) operational provisions; (iii) the terms and conditions of coverage under each modality; (iv) the PGIRDN; (v) the ARL; (vi) terms of reference for contracting the audit firm for independent and concurrent verification of the use of the disbursed resources following the occurrence of an eligible event; (vii) an example of an indicative list of potential eligible expenditures for future pandemics; (viii) the list of excluded expenditures (negative list); and (ix) the amended trust agreement with Fiduprevisora for the use of resources of the contingent loan through the FNGRD in the terms agreed on in the loan contract.

3.5 **The special contractual conditions precedent to the first disbursement for each eligible event will be as follows:**

a. **Disbursements under Modality I (natural disasters): (i) the Bank has verified the occurrence of an eligible event according to the parameters defined in the program Operating Regulations; and (ii) the PGIRDN, previously agreed on with the Bank, is being implemented to the Bank's satisfaction (paragraphs 2.7 and 2.8);**

b. **Disbursements under Modality II (natural disasters): (i) the Bank has verified the declaration of national disaster or emergency due to an eligible event as defined in the program Operating Regulations; (ii) the PGIRDN, previously agreed on with the Bank, is being implemented to the Bank's satisfaction; and (iii) the Bank, through the respective implementing entities, has verified the borrower's compliance with the agreed supplemental measures and conditions for risk retention financing; and**

c. **Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public health emergency due to an eligible public health event as defined in the program Operating Regulations; (ii) the borrower, through the Ministry of Health and Social Protection, has submitted evidence that it is up to date with its progress reporting to the WHO on compliance with the International Health Regulations; (iii) the borrower, through the Ministry of Health and Social Protection, has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/Pan American Health Organization recommendations, to address the event for which the national public health emergency has been declared; and (iv) the Bank, through the respective implementing entities, has verified the borrower's compliance with the agreed supplemental measures and conditions for risk retention financing.**

3.6 **In addition to the above-mentioned contractual conditions, the borrower will have submitted, within 90 calendar days after the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s) and, for disbursements under Modality I for natural disasters and Modality II for public health events, whether such disbursement(s) will be drawn from the regular lending program, undisbursed balances from the ARL, or a combination of these two sources. In the case of loans from the ARL, the request will identify the loans in**

question and the respective amount to be utilized. Disbursements under Modality II for natural disasters may not be drawn from the ARL. These contractual conditions are established in the CCF policy document (GN-2999-9) as standard conditions for the execution of contingent loans.

3.7 Each disbursement will be made in accordance with the financial terms and conditions established in document GN-2999-9 and the program summary of this proposal, regardless of whether the resources come entirely or partially from the regular lending program, loans included in the ARL, or a combination of the two sources, as applicable.

3.8 **Eligible expenditures.** The loan proceeds may be used to finance extraordinary public expenditures that are incurred during emergencies caused by eligible events and that, pursuant to document GN-2999-9 (paragraph 4.20(c)): (i) are not explicitly excluded in the loan contract (negative list); (ii) are legal under the laws of the Republic of Colombia; (iii) are directly or indirectly related to the natural disaster or public health emergency for which the financing has been provided; (iv) have verifiable, clearly documented, and registered procurement and payments as evidence that the goods and services have been utilized; and (v) have been adequately dimensioned and priced. Examples of types of expenditures that might be eligible are included in Annex VI of the program Operating Regulations.

3.9 The Bank may recognize up to 100% of the amount of eligible expenditures effectively incurred and paid by the borrower from the day on which the eligible event began and for a period of up to 180 calendar days immediately thereafter. Upon request from the borrower, the Bank, at its sole discretion, can extend this period for an additional 90 days (GN-2999-9, paragraph 4.20(f)). All procurement-related matters will be governed by the rules established in the CCF policy document (GN-2999-9). The borrower will use its national laws on the procurement of goods and the contracting of works or services applicable to extraordinary fiscal expenditures in emergency situations (Annex III).

3.10 **Reasonable and concurrent assurance audits.** The Bank will require independent verification of expenditures financed by the loan to assess compliance with the eligibility criteria set forth in the loan contract and the program Operating Regulations. This independent and concurrent verification will be performed by a reasonable assurance audit firm included in the list of audit firms approved by the Bank. Pursuant to the program Operating Regulations, Fiduprevisora will contract the audit firm and will initially assume the costs (GN-2999-9, paragraph 4.20(b)). This contracting will occur within 45 days after the first disbursement and may be conducted using the corresponding Bank policy; its costs are eligible to be financed from the loan proceeds.

3.11 **Substantiated use of loan proceeds.** The borrower, in accordance with the program Operating Regulations, will substantiate the use of disbursed resources through a consolidated report on the appropriate use of loan proceeds, which it will submit to the Bank within 365 calendar days after the occurrence of the eligible event for which the Bank has disbursed the loan proceeds in question. This report will be accompanied by the final report of the reasonable assurance audit commissioned by the borrower for the concurrent expenditure review (paragraph 3.10). Once the consolidated report on appropriate use of loan proceeds has been submitted, the Bank will determine the total amount of expenditures eligible for financing. If there are unsubstantiated or ineligible expenditures, the Bank may require the borrower to reimburse the unsubstantiated amount.

3.12 If necessary, as established in document GN-2999-9, and no later than two years after each disbursement, the Bank, at its sole discretion and without cost for the borrower, may conduct subsequent audits to verify the eligibility of the expenditures declared as eligible, the findings of which may support a request for reimbursement of amounts deemed ineligible for financing.

B. Summary of arrangements for monitoring results

3.13 **Monitoring.** During the coverage period of the loan, the Bank will monitor and assess, on an annual basis, progress in implementing the PGIRDN (see the monitoring and evaluation plan). If, as a result of these assessments, the Bank finds that the PGIRDN is not progressing satisfactorily, the borrower will be notified of the specific actions that must be taken within a period of no more than 90 days from the issuance date of the notification in order to maintain eligibility for natural disaster coverage. Once this timeframe passes, if the Bank finds that the recommended remedial actions were not completely and properly taken, it may, upon formal notification to the borrower, suspend the borrower's eligibility for natural disaster coverage until the shortcomings have been properly remedied. However, once this coverage has been triggered, it will remain active for the duration of the period established in the contract, unless the Bank formally notifies the borrower of coverage suspension (GN-2999-9, paragraph 4.25).

3.14 **Evaluation.** As indicated in the monitoring and evaluation plan, the loan is evaluated following the occurrence of an eligible event that results in a disbursement through a project completion report. The evaluation methodologies consist of a reflexive methodology and an ex post cost-effectiveness analysis. In the former, the evaluation would focus on the efficiency of the loan over the entire period of coverage provided and on whether the speed with which the country accessed the loan proceeds is adequate. In the latter, the evaluation would focus on comparing the NPV cost of the funds disbursed against the cost of other sources of financing, thus making it possible to estimate the financial savings ratio for the country.

Development Effectiveness Matrix		
Summary	**CO-O0018**	
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	**-Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security**	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-3238-3**	**Improve the government's strategic management capacity by increasing financial resilience to catastrophes and disasters**
Country Program Results Matrix	**GN-3207**	**The intervention is included in the 2024 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**9.7**	
3.1 Program Diagnosis	**2.5**	
3.2 Proposed Interventions or Solutions	**3.2**	
3.3 Results Matrix Quality	**4.0**	
4. Ex ante Economic Analysis	**10.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**2.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**2.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**9.5**	
5.1 Monitoring Mechanisms	**4.0**	
5.2 Evaluation Plan	**5.5**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium Low**	
Environmental & social risk classification	**N.A.**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System.**
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	**Yes**	**ATN/OC-18888-RG.**

The project CO-O0018 is a Contingent Loan for Natural Disaster and Public Health Emergencies in Colombia. The loan allows for US$300 MM under Modality 1 for severe or catastrophic natural disasters such as earthquakes, hurricanes, and floods; and US$100 MM under Modality 2 for public health risks or non-parametric severe or catastrophic natural disasters like forest fires, drought, volcanic eruptions, or future epidemics, amongst others. What ties the events under both modalities is their unpredictability and their low probability of occurrence; that they are not tied to economic factors; that they tend to greatly impact the most vulnerable population; and that they are a major source of contingent fiscal liability.

The general objective of the project is to contribute to alleviating the impact that a natural disaster or public health event of severe or catastrophic magnitude could have on the country's public finances. The specific objective is to improve financial management of risks for both natural disasters and public health crises by increasing stable, cost-efficient, and rapid-access contingent financing to cover extraordinary public expenses aimed at servicing the population affected by emergencies due to natural disasters or public health crises.

The diagnosis is solid and clearly identifies, based on empirical evidence, the main problem and the factors that determine it. The intervention proposal is clearly linked to the problems and factors identified. The Results Matrix reflects the objective of the program and captures a good vertical logic in accordance to the instrument of the contingent credit line.

An ex-ante cost-effectiveness analysis is carried out which clearly demonstrates the benefits of the contingent financing. Furthermore, the proposed monitoring and evaluation (M&E) plan is in accordance with the DEM guidelines and the characteristics of contingent loans for natural disaster emergencies. The proposed evaluation seeks to assess the efficiency of the operation with an ex- post cost-effectiveness analysis in the event of the occurrence of an eligible natural disaster or public health emergency. Additionally, the M&E plan proposes a reflexive evaluation.

RESULTS MATRIX

AMENDED PROGRAM OBJECTIVE:	The program's specific development objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies. Its general development objective is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the country's public finances.

GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: To help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the country's public finances							
Indicator 1.[1] Ex ante financial coverage relative to probable maximum expenditure during emergencies caused by natural disasters of catastrophic magnitude covered by the program	%	2.7[2]	2024	5	9.3[3]	Ministry of Finance and Public Credit (MHCP)	Optional link 8
Indicator 2.[1] Ex ante financial coverage relative to probable maximum expenditure during national public health emergencies covered by the program	%	2.9[4]	2024	5	6.0[5]	MHCP	Optional link 8

[1] This indicator measures impact because it aggregates all the sources of contingent coverage vis-à-vis maximum expenditure.

[2] The country has the National Disaster Risk Management Fund (FNGRD), with an average equity of approximately US$130.6 million. The probable maximum expenditure estimate is based on a catastrophic natural disaster that occurs once every 100 years.

[3] Assuming no severe or catastrophic disasters occur during the coverage period of the contingent loan and CCF coverage of US$400 million.

[4] The FNGRD covers public health events. The probable maximum expenditure estimate in a national health emergency reflects extraordinary public expenditures in the health sector in response to the COVID-19 pandemic.

[5] Assuming no severe or catastrophic public health event occurs during the coverage period of the contingent loan and CCF coverage of US$100 million.

SPECIFIC DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification	Comments
Specific development objective: To improve the financial management of natural disaster and public health risks by increasing stable, cost-effective, and rapidly accessible contingent financing to cover extraordinary public expenditures to aid the population affected by natural disaster and public health emergencies											
Category: Availability and stability. Increase in the country's ex ante financial coverage for extraordinary expenditures during emergencies caused by natural disasters or public health events											
1. Amount of ex ante financial coverage available for the country to respond to natural disaster or public health emergencies	US$ millions	130.6[6]	2025	530.6[7]	530.6	530.6	530.6	530.6	530.6	MHCP	Optional link 8
Category: Vulnerable people with enhanced resilience to natural disasters, epidemics, and pandemics when benefiting from the ex ante financial coverage provided by the contingent loan											
2. Potential beneficiaries of the ex ante financial coverage available for natural disaster emergencies	Thousands of people	118[8]	2025	510[8]	501	490	481	471	471	MHCP	Optional link 8
3. Potential beneficiaries of the ex ante financial coverage available for public health emergencies	Thousands of people	241[9]	2025	413[9]	405	397	389	381	381	MHCP	Optional link 8
Category: Financial cost - contingent financial coverage is cost-efficient											
4. Differential between the financial cost of the IDB loan and of Colombia's long-term	Basis points	225[10]	2025	Cost diff.	Cost diff.	Cost diff.	Cost diff.	Cost diff.	100 or more	IDB Finance Department (FIN),	Optional link 8

6 The baseline considers the average equity of the FNGRD, excluding the COVID-19 period from 2020 to 2022.

7 Includes the total amount of this contingent loans (US$400 million). It does not include the ex ante coverage that the country would have with the approval of the new Catastrophe Deferred Drawdown Option (Cat DDO) with the World Bank (in preparation).

8 The ex ante financial coverage provided by Modality I and II of the contingent loan (US$400 million) and the estimated FNGRD coverage (US$130.6 million). This assumes coverage per person of US$1,110 for 2024, adjusted for inflation in subsequent years.

9 The ex ante financial coverage provided by Modality II of the contingent loan (US$100 million) and the estimated FNGRD coverage (US$130.6 million). The average estimated financial coverage per person is US$542 (estimated cost of care per hospitalization for dengue in 2024, adjusted for inflation in subsequent years).

10 See project economic analysis (optional link 1).

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification	Comments
sovereign commercial external debt										Refinitiv Eikon, MHCP	
5. Financial savings ratio following the occurrence of an eligible event: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in terms of net present value (NPV)[11]	Percentage	27.1[12]	2025	10	10	10	10	10	10 or higher	FIN Refinitiv Eikon, MHCP	Optional link 8
Category: Speed of access - contingent financial coverage is efficient in terms of how rapidly the country can access the loan proceeds to cover potential emergency expenditures											
6. Speed of access to funds following the occurrence of an eligible event: number of days between the eligibility verification request and availability of the funds	Days	90[13]	2024	30	30	30	30	30	30	FIN, MHCP	Optional link 8

[11] The following formula is used to calculate the indicator: NPV (net present value) [1 - ∑ (financial cash flow from the IDB loan) / ∑ (financial cash flow from sovereign debt)] and a discount rate of 12%.

[12] A cost-effectiveness analysis was used that compares the NPV of the funding cost of the IDB loan with the cost of issuing bonds. See optional link 1.

[13] Average time taken to authorize and process a sovereign bond issue on the international market for a country that performs this type of operation intermittently (subject to revision based on future issues).

OUTPUTS

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification
1. Sole component: Stable, efficient, and rapidly accessible ex ante financial coverage to provide timely financing for extraordinary expenditures that are likely to arise during severe natural disaster and public health emergencies										
Subcomponent 1.1: Coverage under Modality I: severe or catastrophic natural disasters (parametric coverage)	US$ millions	0	2025	300	300	300	300	300	300	MHCP
Subcomponent 1.2: Coverage under Modality II: severe or catastrophic natural disaster and public health emergencies (nonparametric coverage)	US$ millions	0	2025	100	100	100	100	100	100	MHCP
2. Guidelines for a differential approach in DRM, including the gender, ethnicity, and disability perspective.[14]	Number	0	2025	0	1	0	0	0	1	**Pro-gender and pro-diversity indicator** National Unit for Disaster Risk Management (UNGRD) See monitoring and evaluation plan

[14] This output will be financed with resources from regional technical-cooperation operation ATN/OC-18888-RG.

Country: Colombia **Division:** IFD/CMF **Operation No.:** CO-O0018 **Year:** 2025

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Ministry of Finance and Public Credit (MHCP)

Operation name: Contingent Loan for Natural Disaster and Public Health Emergencies

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. **Use of country systems in the operation**[1]

☒ Budget	☒ Reports	☒ Information systems	☐ National Competitive Bidding (NCB)
☒ Treasury	☐ Internal audit	☐ Shopping	☒ Others – country's emergency response mechanisms
☒ Accounting	☐ External control	☐ Individual consultants	

2. **Fiduciary execution mechanism**

☒	Features of fiduciary execution	Pursuant to Decree 1289 of 2018 regulating the national disaster risk management policy, the Ministry of Finance and Public Credit (MHCP) is the implementing agency for risk transfer instruments that guarantee an income for the National Disaster Risk Management Fund (FNGRD), the mechanism provided for in the national legal system for financing national emergencies, for which Fiduciaria Fiduprevisora S.A. has the role of spokesperson, legal representative, and administrator. In accordance with Law 1523 of 2012 regulating the National System for Disaster Risk Management (SNGRD), the National Unit for Disaster Risk Management (UNGRD) coordinates the System's national and territorial levels and plays the role of expenditure authorizing officer for FNGRD resources and its subaccounts. The operation will consist of an investment loan under the Contingent Credit Facility (CCF) for Natural Disaster and Public Health Emergencies (GN-2999-9) for up to US$400 million, which will include: US$300 million under Modality I (parametric) and US$100 million under Modality II (nonparametric). Given the specific features of the CCF, when the events occur and according to the type of event, the borrower will designate the public entities that will be tasked with the emergency response and related procurement activities using funds from this operation (implementing entities). The executing agency, acting through the assigned team, will coordinate the prioritization and allocation of the loan proceeds through the FNGRD to the implementing entities in accordance with the response plan determined by the country for each event. The procurement and financial management requirements will include the operational guidance established in policy document GN-2999-9,

[1] Any system or subsystem subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation.

		"Contingent Credit Facility for Natural Disaster and Public Health Emergencies," approved on 14 May 2020.

3. **Fiduciary capacity**

Fiduciary capacity of the executing agency	The MHCP and the national natural disaster response mechanism have the necessary and sufficient capacity to ensure effective, transparent financial execution of this operation's resources.

4. **Policies and guidelines applicable to the operation:**

- Procurement provisions in the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (GN-2999-9);
- Financial Management Guidelines for IDB-financed Projects (OP-273-12);
- Special regime for disaster and public calamity situations contained in Law 1523 of 2012 of the Republic of Colombia;
- Executive decrees issued by the highest national authority and/or competent authority declaring a state of emergency caused by natural disasters and/or public health events; and
- Other executive decrees, resolutions, recommendations, provisions, and agreements issued by the highest national authority and/or competent authority, in addition to or supplementing the provisions of Law 1523 of 2012.

5. **Exceptions to policies and guidelines:** For procurement entailed in this type of operation, the government agencies assigned to manage the emergency use national regulations for procurement, in accordance with the provisions of document GN-2999-9. Moreover, operations financed under the CCF are exempt from the Bank's Environmental and Social Policy Framework (GN-2965-23).

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Compliance with clauses 3.03 (iii), 3.04 (iv), or 3.05 (v) of the loan agreement, will require: (i) Opening of the account designated in the Central Bank to receive the loan proceeds; and (ii) Opening of sub-accounts to record each eligible event in the FNGRD and of an exclusive bank account to manage the funds from the operation that will be used to address the emergency.
Special condition of general eligibility: (i) Approval and entry into effect of the program Operating Regulations under the terms previously agreed on with the Bank.
Exchange rate: For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the one prevailing on the effective date on which the borrower, the executing agency, or any other person or legal entity with delegated authority to incur expenditures makes the respective payments to the contractor, vendor, or beneficiary.

Type of audit: A concurrent reasonable assurance audit will be performed. The borrower, acting through the executing agency, will deliver to the Bank a final reasonable assurance report issued by the contracted external audit firm within 365 calendar days after the declaration of an eligible event, in accordance with the terms of the loan contract and the terms of reference agreed on with the Bank.
Other: The Bank-eligible audit firm will be commissioned no later than 45 days after the first disbursement for each eligible event. Fiduprevisora will contract the audit firm, in coordination with the UNGRD.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

☒	Use of country systems	In Colombia, emergency procurement is subject to the special regime for disaster and public catastrophe situations contained in Law 1523 of 2012, through which the national disaster risk management policy is adopted, the SNGRD is established, and other provisions are issued.
☒	Records and files	The borrower and implementing entities will keep the program's fiduciary records (documents related to procurement and financial management) independently in accordance with their scope of authority, using digital and physical files, and will have procedures and instructions for their proper storage, to ensure that all expenditures are properly documented and available for review upon request by the Bank or the auditors, for a two-year period running from the date on which each disbursement is made.

Main procurement items

Since this is a contingent loan, the procurement to be financed will be determined after the occurrence of the event triggering the need for funding to address the aftermath. Therefore, procurement items cannot be identified at the time of approval of the operation.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

☒	Programming and budget	Once the National Emergency Declaration is signed, the UNGRD will submit a request the MHCP to include the resources in the General Budget of the Nation. The borrower will approve the budget items, and the MHCP will create the budgetary and accounting records necessary for specific emergency expenses using the country's Integrated Financial Information System, version 2 (SIIF II).

☒	Treasury and disbursement management	For coverage of disbursements under Modality I and Modality II for public health risks, upon the occurrence of an eligible event, at the country's discretion, the amounts to be disbursed may be drawn alternatively from the resources of the regular lending program, other investment loans previously approved and identified in the Automatic Redirection List, or a combination of the two options. For disbursements under Modality II for natural disasters, funds may be drawn only from the regular lending program. The executing agency may submit disbursement requests within the time frame established for this operation under the main modalities: **Designated account.** To administer the advances of funds, the Bank and the borrower will agree, prior to the request for an advance, on the opening of a designated account at Banco de la República for the purpose of managing the funds and identifying their use. (i) Reimbursements of eligible expenditures incurred by the borrower using its own resources, up to 100% of total approved coverage, with the delivery of the audited report. This disbursement mechanism will be prioritized as the main one for this operation. The borrower will include a declaration letter signed by the executing agency in the reimbursement request, expressly indicating that the expenditures to be reimbursed by the Bank were financed exclusively with Treasury resources. (ii) Advances of funds to finance eligible expenses. The borrower may request funds depending on cash flow needs and liquidity requirements. The IDB will conduct the relevant technical and fiduciary analysis of this information and will determine the reasonableness of the amount requested by the borrower or will propose any adjustments it deems appropriate. Accounting for the advance of funds: Before the borrower may request a further advance of funds, substantiation of at least 60% of the total accumulated balances pending substantiation must be provided to the Bank. The borrower will provide a justification of the use of operation resources within 365 calendar days after the start of the eligible event for which the funds were disbursed. For this justification, the Bank may require the borrower to obtain an independent verification of the use of resources. **Eligible expenditures.** To be eligible, expenditures must be made within the designated period and satisfy the eligibility criteria established in the loan contract. **Projection of priority expenditures.** Prior to each request for an advance of funds, the borrower will provide the Bank with a projection of financial needs and prioritized eligible expenditures consistent with the amount of the requested advance and based on the cash flow model, which will be submitted to the Bank on a timely basis. The Bank will perform a preliminary review of the information provided according to the applicability criteria in relation to the list of prioritized expenditures, as well as proportionality in relation to the allocation of the requested resources. If necessary, the Bank will propose changes to the borrower.

☒	Accounting, information systems, and reporting	**Information system.** The official accounting and budget control system (SIIF II) will be used, as will the information systems supporting the implementing agencies' financial management when they are not part of the national government. **Documentation and recording of expenditures.** To be declared eligible, payments must be incurred (paid), recorded, and documented in accordance with applicable national laws. **Records.** Proper record-keeping will ensure that payments for which the financing is being requested have not been, and will not be, submitted by the borrower to receive financing from other Bank operations and/or other multilateral finance institutions. **Reports.** The MHCP, through the UNGRD, will provide the Bank with a statement of eligible expenditures consistent with the requested amount and based on the pro forma report provided by the Bank. The items included in the statement of expenditures must be sufficiently detailed to allow the Bank to review the expenditures incurred and to facilitate the expenditure audit process to be conducted by an independent audit firm. Each item listed in the statement of expenditures will have, at a minimum, a breakdown of the information as agreed on with the Bank.
☒	External control and financial reports	Within 365 calendar days after an eligible event, the MHCP, through the UNGRD, will submit to the Bank a final report of the reasonable assurance audit issued by a Bank-eligible external audit firm. Fiduprevisora will use resources from the financing to commission the reasonable assurance audit in accordance with the terms of reference previously agreed on with the Bank. The commissioning of the independent audit firm will be completed no later than 45 days after the first disbursement is made for each eligible event. **Final report.** The audit firm will prepare a final report of the reasonable assurance audit, which will be a required part of the borrower's submittal of a final accounting for the use of resources within 365 calendar days after the occurrence of an eligible event. The audit firm will issue a conclusion, with a reasonable degree of certainty, as to whether the expenditures submitted by the borrower are sufficiently compliant with policies, procedures, characteristics, records, and supporting documentation to be declared eligible as stipulated in the loan contract and applicable policies. The Bank may request partial audit reports on progress in executing expenditures, which may accompany the partial accountability reports. Additionally, the Bank, at its sole discretion and without cost to the borrower, may verify the appropriateness of the expenditures declared as eligible by means of independent external audits. Such audits will be performed no later than two years after the end of the disbursement period of the contingent loan under the corresponding facility. If the Bank finds ineligible expenses as a result of any of the loan audits, it may require that the borrower immediately remedy the situation or reimburse it for the disputed amounts.
☒	Financial supervision of the operation	Financial supervision will be conducted through in-person visits or virtual work meetings and the review of assurance reports or such other reports or activities as the Bank may take into consideration.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/25

Colombia. Loan CO-O0018 to the Republic of Colombia. Contingent Loan for Natural Disaster and Public Health Emergencies

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Colombia, as borrower, for the purpose of granting it a Contingent Loan for Natural Disaster and Public Health Emergencies. Such contingent loan will be for the amount of up to US$400,000,000 from the resources of the Bank's Ordinary Capital, subject to the availability of resources from the Bank's regular loan program with the Republic of Colombia or from the Automatic Redirection List, as the case may be, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2025)

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