PHILIPPINE—DISASTER RISK FINANCE COUNTRY NOTE

CONTEXT AND BACKGROUND

Located within the Pacific Ring of Fire—a region of the Pacific Ocean where most of Earth's volcanic eruptions and earthquakes occur—and within the Pacific Typhoon Belt, the Philippines is highly prone to devastating natural hazards. It is estimated that on average the country is hit by 20 typhoons each year, and earthquakes are common as well.

The financial impact of these disasters hurts efforts to reduce poverty and promote sustainable economic growth in the country. The poor suffer from disasters more than any other segment of the population. Not only do disasters destroy struggling households' sparse assets and livelihoods; they make it harder for them to afford essentials and hence more likely to resort to negative coping strategies, such as cutting back on food or pulling children out of school. These practices can lead to malnutrition (stunting) and interfere with learning, both of which directly correlate with lower lifetime earnings.

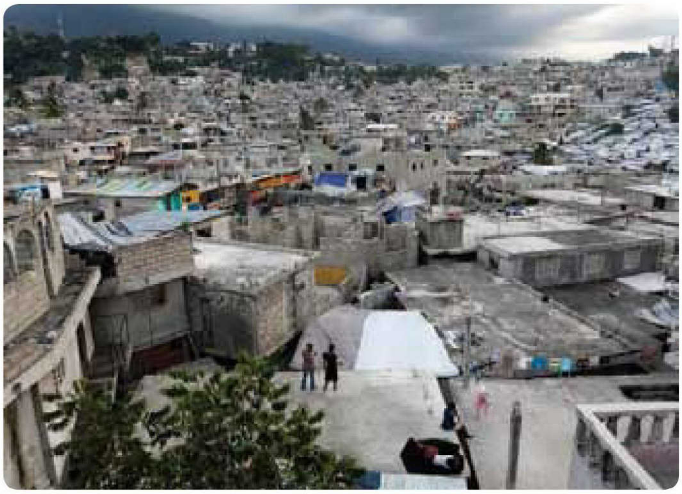
Typhoon Yolanda

Typhoon Yolanda hit the Philippines in November 2013. It killed 6,200 people, left 1,700 missing, and cost the country an estimated ₱571.1 billion (around US$12.9 billion in December 2013) in damage and economic losses. The government estimates that Yolanda pushed some 2.3 million people (nearly half a million households) below the poverty line, raising the poverty rate from 41 percent to approximately 56 percent in the worst-affected areas.

Yolanda is not an isolated incident. Since 2009, the Philippines has experienced multiple highly destructive weather events. Storms Ondoy, Pepeng, Sendong, and Pablo claimed over 3,000 lives, affected more than 10 million people, and caused economic damages and losses amounting to approximately US$5.7 billion.

GOVERNMENT OF THE PHILIPPINES' DISASTER RISK FINANCING STRATEGY

The Philippine government is among the first to develop a strategy for comprehensively managing the costs of disasters. In 2010, through the Disaster Risk Reduction and Management Act and the Strategic National Action Plan for Disaster Risk Reduction, the government adopted a proactive approach to understanding and managing the risks faced by the country. This includes efforts to increase its financial resilience to disasters.



In 2015 the Department of Finance identified three strategic priorities that would strengthen the country's ability to absorb the financial impact of disasters across society:

- To maintain sound fiscal health at the **national government level**, necessary to support long-term rehabilitation and reconstruction needs
- To develop sustainable financing mechanisms for **local government units**, necessary to provide immediate liquidity at the onset of a disaster
- To reduce the impact on the **poorest and most vulnerab**le and prevent them from falling into a cycle of poverty, while also shielding the near-poor from slipping into poverty.

NATIONAL LEVEL

OBJECTIVE: Improve the financing of post-disaster emergency response, recovery, and reconstruction needs.

WHAT: Access to immediate liquidity is crucial to support relief and early recovery operations, whereas the financing of reconstruction usually starts several months after a disaster, giving the government more time to mobilize the required resources. To minimize the cost of funding and optimize efficiency and timing, different risk financing instruments should be combined to protect against events of different frequencies and severities.

HOW: To carry out this strategy, the Department of Finance is working toward the following key steps:

- **Quantify and clarify the contingent liabilities facing the government.** This is done by gathering and developing the necessary risk information to analyze likely government spending for future disasters.
- **Set up access to contingent financing to protect against moderate disasters.** This provides rapid financing when a disaster exceeds the capacity of calamity fund reserves. Pre-negotiated rates and conditions ensure that such loans are cost-effective and immediately available when needed.
- **Use risk transfer to access international private reinsurance and capital markets.** This step improves the government's disaster response capacity by providing immediate liquidity following rare but potentially devastating disasters.

LOCAL LEVEL

OBJECTIVE: Provide local governments with predictable and rapid funds for post-disaster recovery and reconstruction efforts.

WHAT: Local governments often absorb a significant share of the public cost of disaster recovery and reconstruction. Yet often they find themselves unable—or without the appropriate incentives—to finance this share, and the national government has to bridge the resulting funding gaps. The Department of Finance and the Department of Interior are working with local governments to better address both their immediate and longer-term post-disaster financing needs.

HOW: Two key steps are being taken as part of this strategy:

- **Establish Local Disaster Insurance Fund.** The government is currently working with provinces to establish a catastrophe risk insurance facility to improve access to quick liquidity for emergency response and early recovery. This approach could significantly reduce the cost of premiums for catastrophe risk insurance, and by accumulating financial reserves over time, it would allow participating local government units to finance first losses from regional reserves. A pilot is currently being finalized.
- **Insure public assets to help transfer risk to specialized risk carriers.** Local government units are legally required to purchase insurance from the state-owned Government Service Insurance System, but currently only around 30 percent of local government properties are actually insured. To improve compliance, the government is providing local government units with standardized policies to be adopted by all public agencies.

INDIVIDUAL LEVEL

OBJECTIVE: Empower poor and vulnerable households and small and medium enterprises to quickly restore their livelihoods after a disaster.

WHAT: The poor are hit hardest by disasters, and the private sector often bears the brunt of the financial impact in absolute terms. It is mostly micro, small, and medium enterprises—those with limited or no access to the formal financial sector—that suffer the financial impact of major disasters like Typhoon Yolanda.

HOW: The government will work toward two priorities:

- **Link the disaster risk financing and social protection agendas.** The government is working to establish a post-disaster emergency income support program by integrating a post-disaster scalability component in the national conditional cash transfer program.
- **Through public-private partnerships, expand private property catastrophe risk insurance and broaden agricultural insurance and micro-insurance.** The government will investigate appropriate policies and regulations to incentivize the uptake of insurance, including establishing standard insurance terms and conditions. It may also create a facility to manage catastrophe risk insurance policies for the retail sector.

RISK ANALYTICS TO SUPPORT DECISION MAKING ABOUT FINANCIAL PROTECTION

The development of the national disaster risk financing strategy and its implementation require well-informed decisions based on risk data and sound analysis.

In 2014, with the assistance of the World Bank, the government of the Philippines completed its first nationwide catastrophe risk assessment. Offering an overview of potential disaster losses to public and private assets, this assessment provides the necessary foundation for the government's national disaster risk financing and insurance strategy, and makes it possible to analyze the costs and benefits of various risk financing instruments as well as their optimal combination.

The government will continue to invest in risk analytics through three priorities:

- **Build an improved asset exposure database and historical loss database.** This will provide better information on the exposure to natural disasters of public and private buildings and infrastructure. In particular, the databases will be expanded to include local government assets and their associated loss data.
- **Refine the catastrophe risk model that was developed for the national level.** This will allow for catastrophe risk assessment below the provincial level to inform disaster risk finance at the local level.
- **Develop financial and actuarial tools to inform future disaster risk financing and insurance decisions.**

WORLD BANK'S ROLE

The World Bank has a strong, comprehensive engagement with the government of the Philippines on disaster risk finance and insurance. It offers support through advisory and financial services, led by the joint Global Facility for Disaster Reduction and Recovery–Global Practice for Finance and Markets (GFDRR–GFMDR) Disaster Risk Financing and Insurance team. Contributions from donors like GFDRR and the Department for International Development (DFID), and close collaboration with partners like the Japan International Cooperation Agency (JICA) and Asian Development Bank (ADB), have provided important technical and financial support for the government of Philippines' disaster risk financing strategy.

In particular the WBG is supporting the government of the Philippines through:

- **Financing services** include a contingency risk financing mechanism—the second Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CATDDO)—in the amount of US$500 million was approved by the board in December 2015. This mechanism provides immediate liquidity for emergency relief and for recovery and reconstruction efforts following a major disaster. And a 2017 catastrophe risk insurance program providing US$206 million in coverage against losses from major typhoons and earthquakes to national government assets, and to 25 participating provinces against losses from major typhoons.
- **Advisory services** include the establishment of the local disaster insurance fund as mentioned above, together with acting as reinsurance carriers transferring the risk from the pilot to financial markets through the World Bank Treasury, integration of disasters in fiscal risk management, strengthening catastrophe risk insurance supervision and regulation, and supporting the establishment of the post-disaster emergency income support program through the country's conditional cash transfer program. The Bank is also supporting Risk Analytics informing the other priorities.
- **Convening services** include support to the Department of Finance in shaping DRF as a key topic under the country's APEC presidency, as well as under the 'Vulnerable 20' climate change initiative chaired by the Philippines in the first year.