PROJECT HIGHLIGHTS

Region: East Asia and the Pacific
Country: Philippines

Focus Area:
Financial Protection
Assessing and reducing contingent liabilities; budget appropriation and execution; ex-ante and ex-post financing instruments; etc.

Strengthening Financial Resilience in the Philippines

Background

The Philippines sits in the Pacific typhoon belt where an estimated 74 percent of the Philippine population is vulnerable to natural disasters. Catastrophic disasters could result in at least 8 percent of contingent liability, totaling more than 18 percent of annual public expenditures. Without a sustainable financial system for resilient reconstruction and recovery, the country has been highly exposed to fiscal risk. To address this need, in 2010, the Government adopted a pro-active approach to identifying and preparing for disaster risk, through the Disaster Risk Reduction and Management Act and a Strategic National Action Plan for Disaster Risk Reduction. The World Bank, in partnership with GFDRR, is supporting the Government of the Philippines' effort to increase its financial resilience in a comprehensive way by, among other things, offering technical assistance for the development of: (i) a compressive risk financing and insurance strategy; and (ii) a contingency risk financing mechanism called the Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO) in the amount of US$500 million. The CAT-DDO is a lending instrument that provides immediate liquidity for emergency relief, recovery and reconstruction efforts in the aftermath of a major disaster.

Challenges

The Philippines is one of the world's disaster hotspots: it ranks 8th among nations most exposed to multiple hazards and 13th at high economic risk to natural events. Over the past two decades, damages to the agriculture and infrastructure sectors alone reached US$500 million, equivalent to 0.5 percent of the gross domestic product (GDP). For example, in 2009, the losses caused by the Typhoons Ondoy (Ketsana) and Pepeng (Parma) amounted to some US$4.4 billion, or 2.7 percent of GDP. This is sufficiently large to have an impact on growth rates, poverty levels, and the fiscal position of the country. The challenge for the government is to enhance its capacity to guarantee a rapid response to natural events with adequate contingent financing.

Approach

The Philippines ranks 8th among nations most exposed to multiple hazards and 13th in high economic risk to natural events. Over the past two decades, damages to the agriculture and infrastructure sectors alone reached US$500 million, equivalent to 0.5 percent of the domestic product (GDP). For example, in 2009, the losses caused by Typhoons Ondoy (Ketsana) and Pepeng (Parma) amounted to approximately US$4.4 billion, or 2.7 percent of GDP. This is sufficiently large enough to have a significant impact on growth rates, poverty levels and the fiscal position of the country. The challenge for the Government is to enhance its capacity to guarantee a rapid response to natural events through adequate contingent financing.

Results

The Philippines is taking a pro-active approach to disaster risk management (DRM), by focusing on three core areas: (i) strengthening the institutional capacity for DRM; (ii) mainstreaming disaster risk reduction into development planning; and (iii) managing its fiscal exposure to natural hazard impacts. As identified in the National Disaster Risk Reduction and Management Law (Republic Act No. 10121), the development of a comprehensive disaster risk financing and insurance strategy to strengthen its fiscal resilience is part of this holistic approach.

Highlights

Strengthening financial resilience towards natural hazards in the Philippines is part of a pro-active disaster risk management (DRM) approach.

Advisory and analytical services, technical assistance and investment lending from the World Bank and GFDRR supports the Government's efforts in developing a disaster risk financing strategy and relevant risk financing instruments.

The design of effective disaster risk financing mechanisms is based on catastrophic risk modeling and assessments, which identify the probable hazard, exposure, damage, and potential insured losses.

The Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO) provided the Philippine Government with rapid liquidity in the aftermath of Tropical Storm Sendong (Washi) on December 29, 2011.

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The World Bank is supporting the Government's DRM efforts through technical assistance, financial lending and mainstreaming of risk reduction measures into investments. Based on the recommendations of the Government-led Post Disaster Needs Assessment (PDNA) following the devastating 2009 typhoons, the World Bank with support from GFDRR extended analytical support to formulate a disaster risk financing analysis to reduce the fiscal burden arising from the increasing costs of disasters, including the use of an innovative financing mechanism providing contingency financing in case of a national catastrophe. Building upon these activities, the World Bank regional team assists the Government in conducting probabilistic risk modeling and assessment to inform the development of a national disaster risk financing and insurance strategy.

The Philippines became the first country in the East Asia and Pacific region to take advantage of the World Bank contingent credit facility, the CAT-DDO. The CAT-DDO, amounting to US$500 million, is the largest financing operation of this type provided by the World Bank thus far.

In the aftermath of Tropical Storm Sendong (Washi) which hit the country on December 29th 2011, the Philippines was able to immediately access the full amount of the CAT-DDO to reduce the fiscal burden following the disaster and, as a result, to rapidly finance relief, recovery and reconstruction efforts.

Partnership

Work on the Philippines risk financing strategy also benefitted from the support of the Indonesian National Disaster Management Agency (BNPB), the Australian Aid Agency (AusAID), the Australia-Indonesia Facility for Disaster Reduction (AIFDR) and the Humanitarian OpenStreetMap Team (HOT).

Next Steps

To improve its financial options and identify the different layers of risk, the Government is including the risk of national disasters as part of its 2013 fiscal risk statement. Building on the initial risk financing study and on the dialogue led during the development of the CAT-DDO instrument, the Government is preparing a comprehensive disaster risk financing and insurance strategy.

To strengthen Philippine's fiscal resilience towards sovereign risks, the World Bank is supporting the Government in the preparation of a catastrophe risk model and assessment. To increase transparency, the Government is also focusing on tracking budgets and expenditures related to DRM. With technical and financial assistance from GFDRR, a resource tracking system for financing and expenditures related to disaster risk reduction is currently being developed.

GLOSSARY

The CAT-DDO is a lending mechanism that allows governments to respond quickly to emergency needs following a natural disaster without having to divert resources from long-term development programs. Funds of up to US$500 million or 0.25 percent of GDP (whichever is less) are disbursed when a country suffers a natural disaster and declares a state of emergency.

LEARN MORE

Press Release: World Bank Releases US$500 million to Assist Philippine Government Address Impacts of Devastating Storm (See http://go.worldbank.org/E9MVG7TDT0)

Press Release: World Bank, Philippine Government Sign New Financing Agreement To Reduce Impact of Natural Disasters (See http://go.worldbank.org/5WSPOMKLZ0)

Report: World Bank (2012) Advancing Disaster Risk Financing and Insurance in ASEAN Member States: Framework and Options for Implementation (See http://go.worldbank.org/2T6XG2KGV0)

CONTACT

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Protecting a country financially also helps protect lives and livelihoods while building financial resilience.

"When a disaster strikes, we are often confronted with the urgent need to provide emergency assistance to victims and to rebuild roads, hospitals, schools, irrigation systems, electric power and water supply, and other important infrastructure. CAT-DDO provides us with resources to finance immediate relief, recovery and reconstruction, thus lessening social and economic dislocation in affected communities, especially on the poor who are the most vulnerable."

Cesar V. Purisima
Secretary of Finance
Government of the Philippines

Lessons Learned

Ex-ante disaster risk financing strategies help vulnerable countries to manage the risk of external shocks and facilitate a rapid response after a disaster occurs.

Contingent credit mechanisms, such as the CAT-DDO, provide low-cost and flexible instruments to support the comprehensive risk financing strategy that involves layering resources based on the frequency and impact of disasters.

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