COMPREHENSIVE FINANCIAL PROTECTION IN THE PHILIPPINES

Building a resilient future

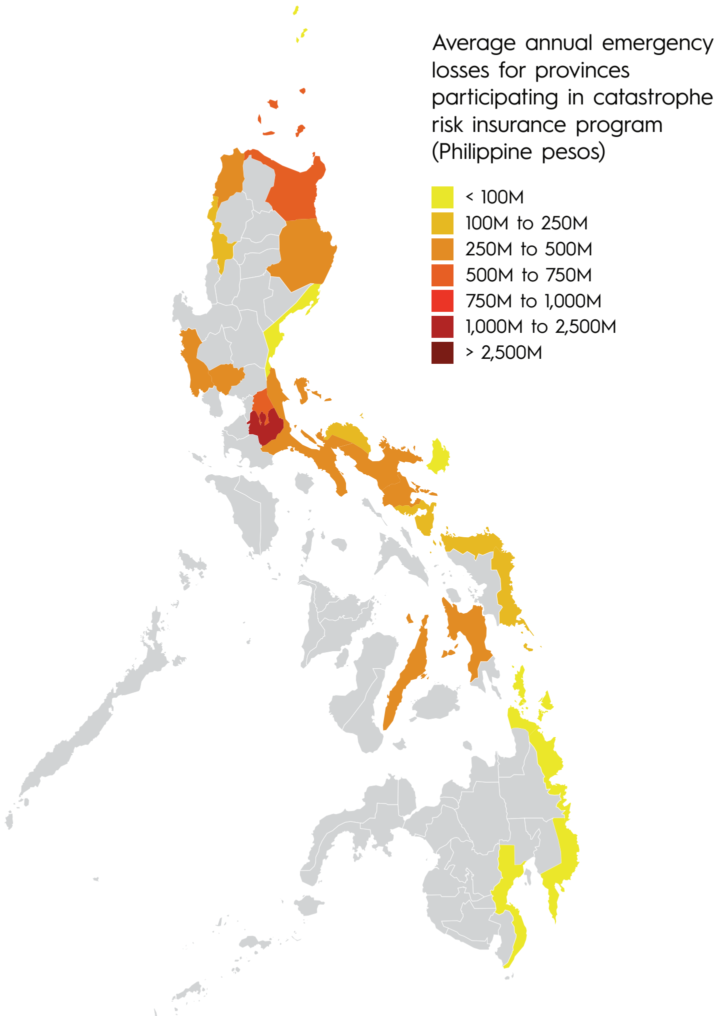
AT A GLANCE

Country The Philippines

Risks Reversal of development gains post-disaster; long term economic and fiscal impacts

Area of Engagement Deepening Financial Protection

In the Philippines, the government has prioritized risk reduction and financial protection to protect lives and communities, and minimize physical damage and economic losses from seismic and weather disasters.



$3.5 BILLION IN ANNUAL LOSSES

The Philippines is located in the Pacific Ring of Fire, and about 74% of its population is vulnerable to natural disasters, including typhoons and earthquakes. In 2013, Typhoon Haiyan, the deadliest Philippine typhoon on record and the strongest in terms of wind speed, killed 6,340 people.

Disasters like Haiyan have serious short- and long-term economic and fiscal impacts , with average annual asset losses that can be upwards of $3.5 billion. Over the past 20 years, economic losses to the agriculture and infrastructure sectors reached $500 million, equivalent to 0.5% of the country's GDP. Losses caused by two typhoons in 2009 amounted to $4.4 billion, about 2.7% of GDP.

After Typhoon Haiyan, the ramifications of these losses ran deeper. Faced with an estimated $12.9 billion in damage and losses, national economic activity slowed by nearly a full percentage point in 2013, and another 0.3% in 2014. As a result, around 2.3 million people were pushed into poverty. A probable M7.2 earthquake on the West Valley Fault is projected to have even greater impacts – 37,000 fatalities in the Greater Metro Manila area, and $48 billion in economic losses.

A COMPREHENSIVE PHYSICAL AND FINANCIAL RESILIENCE STRATEGY

Recognizing the high economic and fiscal risks associated with these vulnerabilities, the Philippine government has devoted considerable effort over the years to increasing its physical and financial resilience:

- Since 2009, the Philippines has worked with the Global Facility for Disaster Reduction and Recovery (GFDRR) and the World Bank, and other development partners to improve risk-informed development planning and risk reduction interventions.

- Over time, the government has enabled these actions with policy reforms, including a disaster risk financing strategy to help reduce the financial cost of disasters at all levels:
  - National level: Sovereign risk transfer and contingent credit mechanisms protect the government's fiscal balance
  - Subnational level: A risk insurance scheme provides local governments with emergency liquidity, private property catastrophe risk insurance for homeowners and small- and medium-size businesses
  - Local level: Immediate emergency funds protect the most poor and vulnerable
- To further strengthen the financial protection system, the Philippine government entered a first-of-its-kind reinsurance arrangement intermediated by the World Bank in July 2017. Under this new program, the government-owned insurance agency, Government Service Insurance System, will provide $206 million in aggregate coverage to the national government and 25 participating provinces.

LESSONS LEARNED

Involving the ministry of finance can lead to greater adoption and coordination of government agencies' DRM programs.

For example, the Department of Finance is actively convening the National Economic and Development Authority, Departments of Public Works and Highways, Education, Science & Technology, and other agencies to develop a comprehensive disaster risk reduction program to address the country's massive seismic risk.

Financial resilience mechanisms should be used to incentivize risk reduction action.

The design of property catastrophe insurance systems should seek to support the implementation and enforcement of strengthened building regulations by providing incentives for compliance with the updated Building Code.

> *"We are working...to improve the standards for construction of homes and buildings. We are working... to mitigate the effects of climate change"*
>
> — Carlos G. Dominguez III, Finance Secretary, the Philippines

Contact:
Artessa Saldivar-Sali
asaldivarsali@worldbank.org

October 2017
www.gfdrr.org

PUBLIC FINANCES PROTECTED

The Philippines is successfully implementing a robust financial protection strategy with innovative approaches and diverse financial instruments, including two contingent credit lines totaling US$1 billion and its US$206 million parametric insurance program. The associated policy reforms have helped strengthen investment planning and regulations to reduce disaster risks and help manage the financial impacts when disasters strike.

INSTITUTIONAL CAPACITY INCREASED

Over 90% of provinces have built resilience measures into their development plans, resulting in investments that help minimize community vulnerabilities. Local governments are also working to set up a joint disaster resilience insurance facility to provide immediate liquidity to provinces after disasters. This will help improve disaster response capacity and coordination at the local level.

RISK REDUCTION REFORMS IN PLACE

The two contingent credit loans have supported policy reforms to reduce the drivers of risk, including strengthening the building regulatory framework by revising the National Building Code of the Philippines to integrate disaster risk reduction.