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 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 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 through 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 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.
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 strengthenPhilippine’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.

**LESSON 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.

“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

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