PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

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Operation Name	Second Disaster Risk Management Development Policy Loan with a CAT-DDO
Region	EAST ASIA AND PACIFIC
Country	Philippines
Sector	General water, sanitation and flood protection sector (35%);General finance sector (35%);General public administration sector (30%)
Operation ID	P155656
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF THE PHILIPPINES
	Department of Finance Philippines
Implementing Agency	
Date PID Prepared	June 12, 2015
Estimated Date of Appraisal	July 1, 2015
Estimated Date of Board Approval	August 27, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

The Philippines' exposure and vulnerability to a wide range of hydro-meteorological and geological hazards pose major constraints to achieving the country's socio-economic development goals. Typhoon Yolanda (Haiyan), which struck the country in 2013, is considered to be the strongest typhoon ever to make landfall, with over 6,200 reported fatalities and over 1,700 people missing. The total damage and loss from this event was estimated at PHP571.1 billion (equivalent to US$12.9 billion) [1]. Catastrophe risk assessment and modelling for the Philippines[2] shows that while the strength of Yolanda was indeed very rare, the impacts in terms of damages and losses are not – losses of this magnitude have an annual occurrence likelihood of 3%. In other words, over the 25-year maturity of a typical World Bank loan, there is an over 50% likelihood that such a loss would occur again. With climate change impacts looming, the Philippines is facing a growing threat that requires new approaches to managing risk.

Disasters impact the country's objectives for poverty reduction. Together with damage and economic losses, Typhoon Yolanda had significant impact on the incidence of poverty. As a result of the disaster, an additional 2.3 million people live below the poverty line, resulting in an increase in the poverty rate from 41.2 percent to 55.7 percent in the worst-affected areas. In 2014, the GOP released the Philippine

[1] Government of the Philippines. 2013. *Reconstruction Assistance on Yolanda.*
[2] *The Philippines Catastrophe Risk Profile*; World Bank/AIR/ADPC on behalf of DOF-IFG, 2014. This analysis takes into account a 10,000-year catalogue of possible events to provide a more robust quantification of disaster risks in comparison to short-term historical records.

Development Plan (PDP) 2011-2016 Midterm Update[3], which lowered the official poverty reduction target. The original target was to reduce the poverty rate to 17.2% by 2015. In recognition of the adverse impact of disasters in 2013 on poverty reduction, the original target was revised to a poverty rate between 18% and 20% by 2016.

The GOP is managing the fiscal impacts of calamities through a comprehensive Disaster Risk Financing and Insurance (DRFI) strategy. Developed under the first DPL with a CAT-DDO, the Department of Finance's DRFI strategy provides for a combination of reserves, contingent credit, and market-based catastrophe risk transfer to efficiently protect against disasters of different frequency and severity. The strategy was presented by the Department of Finance (DOF) during the Third UN World Conference on Disaster Risk Reduction in March 2015 in Sendai, Japan, as an example of good practice in Disaster Risk Management (DRM) and its implementation is supported through a comprehensive program of advisory services by the World Bank Group.

II. Operation Objectives

The proposed Second DPL with a CAT-DDO is an integral part of the Government of the Philippines' (GOP) DRFI strategy. The proposed operation will provide the government with an emergency line of credit, increasing the Government's post-disaster financial response capacity. This contingent credit will complement other existing risk financing mechanisms at the national, local, and individual levels. A first DPL with a CAT-DDO (P125943) in the amount of US$500 million was fully drawn down after Typhoon Sendong (Washi) resulted in a Presidential declaration of a State of Calamity in the Philippines in December 2011 (closed[4] on October 31, 2014). The proposed operation builds on the successful achievement of the first CAT-DDO's development objective and the World Bank's ongoing Technical Assistance (TA) engagement in Disaster Risk Management (DRM) and Disaster Risk Financing and Insurance (DRFI) that began in 2008.

The development objective of the proposed project is to enhance the technical and financial capacity of the Government of the Philippines to reduce disaster risk and manage the socio-economic and fiscal impacts of natural disasters. This objective will be achieved by supporting policy actions that are aimed at: (a) improving risk-informed sectoral planning and implementation of resilience-enhancing programs, and (b) supporting the implementation of the GOP's DRFI strategy to strengthen financial resilience at the national, local and individual levels. These action areas are aligned with the Government's commitment to "Safer, adaptive and disaster resilient Filipino communities towards sustainable development" as stated in the National DRM Framework[5]. The operation will be an integral piece in the government's strategy to secure access to immediate post-disaster liquidity to finance response and relief efforts, ensuring that budget resources are not diverted from ongoing development programs.

The operation's Pillars are linked to the policy areas prioritized in the 2010 Philippine Disaster Risk Reduction and Management (DRRM) Act. The National DRRM Plan similarly prioritizes outcomes with which the operation's Policy framework is aligned, including: (i) DRRM and Climate Change Adaptation (CCA) mainstreamed and integrated in national, sectoral, regional and local

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[3] Government of the Philippines. The National Economic and Development Authority. The Philippine Development Plan 2011-2016 Midterm Update, http://www.neda.gov.ph/?p=3989.

[4] World Bank. 2015. *Philippines - Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO)*. Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/2015/05/24416824/philippines-disaster-risk-management-development-policy-loan-catastrophe-deferred-drawdown-option-cat-ddo.

[5] The Government of the Philippines. National Disaster Risk Reduction and Management Framework / Philippine Disaster Risk Reduction and Management (DRRM) Act (Republic Act 10121), http://www.ndrrmc.gov.ph/attachments/article/227/NDRRMFramework.pdf.

development policies, plans and budgets; (ii) increased disaster resilience of infrastructure systems; and (iii) access to effective and applicable disaster risk financing and insurance.

Pillar A: Strengthening risk reduction investment planning and regulations

Prior action #1. The National Economic and Development Authority has issued the midterm update to the Philippine Development Plan, revising the Borrower's investment programming strategy to prioritize disaster risk reduction and management according to levels of vulnerability to multiple hazards.

Prior action #2. The Borrower has provided specific allocations for Risk Resiliency Programs, through the 2015 General Appropriations Act.

Pillar B: Enhancing the financial capacity to manage natural disaster risks

Prior action #3. The Department of Finance has adopted the Disaster Risk Financing and Insurance Strategy, which provides a comprehensive framework for the implementation of financial solutions against natural disasters at national, local and individual level.

Prior action #4. The Borrower has included special provisions in the General Appropriations Act to allow four agencies (Department of Education, Department of Public Works and Highways, Department of Health and Department of Transportation and Communications) to use the National DRRM Fund to pay for insurance premiums.

III. Rationale for Bank Involvement

The GOP has made significant progress in enhancing its capacity for DRM in recent years. Since the passage of the Philippine DRRM Act in 2010, a substantial shift in emphasis has been made from emergency response to disaster preparedness, risk reduction and financial protection. The Bank has been supporting this agenda through the first DPL with a CAT-DDO and a broad program of technical assistance (TA), which supported the following major activities, among others: capacity building at the local government level for DRRM planning and preparedness including innovative decision support tools, development of prioritization methodologies for risk reduction for critical infrastructure, technical assistance for post-disaster recovery and reconstruction planning, catastrophe risk modeling and advisory services for the development of the DRFI Strategy.

The Midterm Update to the Philippine Development Plan (PDP) established disaster risk reduction as a cross-cutting strategy to achieve the PDP's stated outcome of "improved adaptive capacities of human communities". The PDP Midterm Update articulates the need for an annual increase in the level of investments for disaster risk reduction and climate change adaptation. This will entail promotion of disaster/climate resilient infrastructure, and sets the Government's policy to invest in developing and adopting more effective vulnerability assessment tools to identify highly susceptible communities and prevent and mitigate potential disaster impacts.

The proposed Second DPL with a CAT-DDO will support the government to advance and consolidate its ongoing initiatives in risk reduction and risk financing. The operation will provide support in the areas of: (i) enhancing the technical capacity for risk-informed cross-sectoral planning and risk reduction; and (ii) implementing actions to strengthen the Government's financial capacity to manage natural disaster risk.

The Philippines continues to exhibit strong macroeconomic fundamentals characterized by robust economic growth, low and stable inflation, healthy current account surplus, and a falling debt burden. Globally this high performance has been recognized by credit rating upgrades to investment grade and by a record US$6 billion in foreign direct investment (FDI) in 2014. With a solid macroeconomy that is projected to be resilient against shocks, the country has room to focus on reforms that will strengthen the management of natural disaster risk.

Despite the weaker global environment and the impact of recent natural disasters, growth prospects for the Philippines remain positive. In the near term, achieving growth of around 6.5 percent in both 2015 and 2016 is within reach if the government executes the budget as programmed. With private consumption growth steady at around five to six percent,[6] GDP growth of around 6.5 percent hinges primarily on the ability of the government to spend the budget as planned. A commitment to fully utilize the budget, in particular by reaching the five percent of GDP target for infrastructure spending by 2016 and fully implementing the Yolanda rehabilitation and reconstruction plan,[7] will not only raise the contribution of public spending to GDP growth, but it will also encourage the private sector to invest more, further boosting GDP growth.

IV. Tentative financing

Source:		($m.)
Borrower		0
International Bank for Reconstruction and Development		500
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	500

V. Tranches *(not applicable)*

VI. Institutional and Implementation Arrangements

DOF is the main liaison with the World Bank on budget support operations, as well as the implementing agency for the proposed DPL with a CAT-DDO. However, policy dialogue and monitoring and evaluation of the program supported by this DPL are shared with the relevant actors under the policy and results framework. The Government and the Bank will maintain a close policy dialogue during the program implementation period, through periodic implementation support missions that may take place at a frequency consistent with the information needs of the Bank, but no less than every 6 months.

Indicators selected to monitor progress toward achievement of the program development objective (PDO) reflect defined areas of action and correspond to the expected outcomes of the prior actions. They include an appropriate mix of specific qualitative and quantified targets, which are attributable, relevant, and time-bound, and are expected to be sufficient to enable effective monitoring of the project's achievement of the PDO. Moreover, the pillars and result indicators in the policy framework are aligned with government priorities. Since the policy targets are aligned with regular programs of the relevant agencies, their reporting mechanisms will be used. Activities under the programmatic technical assistance will support some action areas of this proposed CAT-DDO, and will enable regular monitoring and evaluation of the operation through progress reporting on TA activities.

[6] This is supported by positive consumer and business confidence indices for 2015 and beyond, as reported by the Central Bank of the Philippines.
[7] President Aquino recently approved an eight-volume, 8,000-page, PHP 170 billion (1.5 percent of 2013 GDP) rehabilitation plan for areas hit by Typhoon Yolanda. Around 80 percent of the projects under the plan are expected to be completed by the end of President Aquino's term in June 2016.

VII. Risks and Risk Mitigation

The overall program risk rating is Moderate. The Government has shown strong leadership in pursuing the DRM agenda, and the country has already achieved substantial results, with the support of the previous DPL with a CAT-DDO and a long and comprehensive programmatic engagement in DRM, which has reduced the risk of political and social resistance to reforms. This engagement and the strong legal foundation of the DRM framework also mitigates the risk of changing political priorities following general elections in 2016. The remaining risk of limited institutional capacity for disaster risk financing and insurance within sectoral agencies is moderate.

The principal challenge for the Philippines remains to be the effective implementation of reforms that will contribute to inclusive growth in this administration and beyond 2016. While the current Administration enjoys a relatively high degree of popularity even during the final year of the administration, reform implementation has historically faced challenges in the Philippines. Implementation is dependent on actions across levels of government and agencies. This risk is being mitigated through a strong legal foundation and public demand for reforms. The DRM sector strategies and policies are strongly anchored in Philippine law and development plans. This agenda also has strong support from Congress, and public pressure for better disaster risk management is significant due to the frequency and intensity of disasters in the Philippines.

Risks related to the technical design of the program are low as this operation builds on the World Bank Group's engagement in DRM and strong participation of counterparts in developing the activities. The policy areas supported under this program consolidate ongoing work and have been designed through a comprehensive TA program. The program also builds on the outcomes and lessons learned from the first DPL with a CAT-DDO.

Risks associated with limited technical capacity in the area of DRFI, especially in sectoral agencies and subnational governments, are being mitigated by substantial TA provided in parallel with this operation. In most of the areas covered by this program, parallel programmatic TA and capacity building are being supported by the World Bank through grant funding. Other development partners in the Philippines are also actively supporting the DRM agenda through grant or investment financing, and the Bank has been coordinating with them to ensure complementarity in the various forms of support. Through extensive and proactive engagement with the World Bank team, DOF is now conversant with the principles of Catastrophe Risk Modeling, and how these can be used as the analytical basis for DRFI applications and policies. GOP is also demonstrating increased capacity for engagement with international reinsurance and capital markets.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The disproportionate impact of natural disasters on the poor has been extensively documented globally, particularly in terms of health and productivity. The poor have limited labor skills, fewer assets, and little or no savings. They have little opportunity for risk diversification and restricted access to credit. Because of this, they are less able to cope with impacts on consumption or disruptions to income. Exogenous shocks like disasters can also increase poverty indirectly through the effects of lower economic growth, higher inflation (to which the poor are more vulnerable), and through resulting lower government spending for social services.

In the Philippines, it has been found that unearned income and excess infant mortality in the year after typhoon exposure outnumber immediate damages and death tolls roughly 15-to-1[8]. Typhoons destroy durable assets and depress incomes, leading to broad expenditure reductions achieved in part through disinvestments in health and human capital. Infant mortality mirrors these economic responses, and additional findings (that only female infants are at risk, that sibling competition elevates risk, and that infants conceived after a typhoon are also at risk) indicate that this excess mortality results from household decisions made while coping with post-disaster economic conditions.

As part of the Post-Disaster Needs Assessment (PDNA) conducted after Typhoon Yolanda, a Social Impact Assessment (SIA) was conducted. Typhoon Yolanda affected some of the poorest regions of the Philippines, and will have a long-term impact on households and communities. The social implications of Yolanda on food security, livelihoods, health, poverty, inequality and migration were experienced by all social classes, however, overcoming these effects is most difficult for poor households. The SIA recommended that the recovery and reconstruction in key sectors needs to take into account affected peoples' socio-economic vulnerabilities, including those related to gender, and that certain programs should be implemented through direct transfer of assistance to the people. Having an efficient, properly functioning disaster risk financing strategy that provides not only for financial protection at the sovereign level, but also at local and household levels (as supported by the reforms under this operation) will allow for faster post-disaster recovery of the poorest. Similarly, risk-informed development planning and risk reduction in public investments will decrease the vulnerability of communities to disasters.

The policy actions and results to be supported by this proposed operation are expected to have significant positive effects on poor and vulnerable groups. Poverty and vulnerability to natural hazards are strongly inter-related: poverty increases vulnerability to adverse natural events, and disasters cause capital and human losses, fostering poverty and leading to poverty traps. A well-functioning DRM system relies on a comprehensive framework defining roles, responsibilities, processes and implementation modalities for both ex-ante investments and post-disaster recovery and reconstruction. Coordinated efforts and efficient management of resources to ensure that interventions reach communities are likely to reduce the unmet needs of the poorest households and most vulnerable male and female population in the event of a disaster, and in this way contribute to poverty reduction and shared prosperity.

Environment Aspects

The GOP has adopted a comprehensive, multi-hazard approach that considers many types of geological and hydro-meteorological hazards to which the country is exposed. The existing vulnerability of communities is being evaluated through impact and risk assessments, including the Pre-Disaster Risk Assessments conducted in order to inform preparedness measures. The Government's approach is also informed by the implications of climate change, particularly since this has resulted in significant changes in baseline environmental conditions. These changes affect the underlying disaster risk factors, such as exposure to storms, floods, droughts and other weather-related hazards.

Climate change is increasing the variability and altering the magnitude and frequency of extreme weather events. It is, therefore, important to recognize that mitigation and preparedness measures need to build on both historical experience and on probabilistic assessments of the risk from hydro-meteorological hazards. The GOP, through its probabilistic Catastrophe Risk Model (developed through

[8] Anttila-Hughes, Jesse Keith and Hsiang, Solomon M., Destruction, Disinvestment, and Death: Economic and Human Losses Following Environmental Disaster (February 18, 2013).
http://ssrn.com/abstract=2220501 or http://dx.doi.org/10.2139/ssrn.2220501

World Bank technical assistance linked to the first DPL with a CAT-DDO), has a strong evidence base for planning interventions to build the country's resilience to weather-related events and earthquakes.

Through this proposed operation, the Government is addressing technical and financial barriers to enable the adoption of a risk-informed approach to development. Regarding country safeguard systems, the GOP has initiated integration of DRM and CCA issues with the Environmental Impact System, together with local development, DRM and climate action plans. Draft guidelines have been developed by the Department of Environment and Natural Resources, outlining the basic policy and operating principles to strengthen the incorporation of climate risk in the EIA System. This initiative will require development projects to include consideration of climate extremes and variability in the baseline assessment, analysis/management of impacts on and of the project, and environmental risk assessment.

IX. Contact point

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