PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: 97910

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	May 27, 2015
Estimated Date of Appraisal	
Estimated Date of Board Approval	August 27, 2015
Corporate Review Decision	.

I. Key development issues and rationale for Bank involvement

The Philippines' exposure to a wide range of hydro-meteorological and geological hazards poses a challenge to the achievement of the country's socio-economic development goals. Catastrophe risk assessment and modelling for the Philippines[1] shows that the country is expected to incur, on average, losses of about US$4.6 billion or 1.8 percent of Gross Domestic Product (GDP) every year, from asset damage due to earthquakes, typhoons and monsoons, and US$941 million or 3.6 percent of total government expenditure in emergency losses. In the next twenty-five years, the Philippines has a 40 percent chance of experiencing a loss in excess of US$18.8 billion (equivalent to 7 percent of GDP), and casualties exceeding 70,000 people in a single year. Typhoon Yolanda (international name: 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[2] at PHP571.1 billion (equivalent to US$12.9 billion).

Disaster risk management (DRM) is a cross-cutting strategy that underpins the Philippine Development Plan, which emphasizes disaster risk reduction (DRR) as a core country priority for achieving development outcomes.[3] The Philippine Disaster Risk Reduction and Management (DRRM) Act (Republic Act 10121), passed in 2010, sets the policy framework, and provides for

[1] *The Philippines Catastrophe Risk Profile*; World Bank/AIR/ADPC on behalf of DOF-IFG, 2014.
[2] Government of the Philippines. 2013. *Reconstruction Assistance on Yolanda.*
[3] Government of the Philippines. The National Economic and Development Authority. http://www.neda.gov.ph/?p=1128.

the adoption and implementation of a comprehensive, integrated disaster risk reduction program incorporated in development plans at various levels of government. The National DRRM Framework articulates an all-hazard, multi-sectoral, inter-agency and community-based approach to DRRM. The associated National DRRM Plan outlines the activities aimed at strengthening the capacity of the national government and Local Government Units (LGUs) to build the disaster resilience of communities and to institutionalize arrangements and measures for reducing disaster risks, including projected climate risks, and enhancing disaster preparedness and response capabilities at all levels

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.

The proposed operation will enhance the Government of the Philippines' (GOP) capacity to reduce and manage natural disaster risk. The GOP is managing the fiscal impacts of calamities through a comprehensive Disaster Risk Financing and Insurance (DRFI) strategy. Developed under the first Development Policy Loan (DPL) with a Catastrophe-Deferred Drawdown Option (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 first DPL with a CAT-DDO in the amount of US$500 million was fully drawn down after Typhoon Sendong (Washi) in December 2011, and closed on October 31, 2014.

The Second DRM DPL with a CAT-DDO forms 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 proposed operation builds on the achievement of the first CAT-DDO's development objective and the World Bank's ongoing technical assistance engagement in DRM and DRFI that began in 2008. This contingent credit will complement sovereign catastrophe risk transfer for more severe events, currently under development, including the fourth DPL to Foster More Inclusive Growth, and other existing risk financing mechanisms at the national, local, and individual levels.

II. Proposed Objective(s)

The development objective of the proposed project is to enhance the institutional, technical, and financial capacity of the GOP to 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 projects, 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.[4]

[4] The Government of the Philippines. National Disaster Risk Reduction and Management Framework / Philippine Disaster Risk Reduction and Management (DRRM) Act (Republic Act 10121).

III. Preliminary Description

The policy framework for this operation was developed in close coordination with the relevant agencies of the GOP. The development objective will be achieved through reforms under two pillars: *Pillar A. Supporting planning and investments in risk reduction*, and *Pillar B. Enhancing the financial capacity to manage natural disaster risk*. Carrying forward the result areas of the first DPL with a CAT-DDO, these Pillars will address the key disaster risk management policy areas prioritized in the 2010 Philippine DRRM Act. The DRRM Plan similarly prioritizes outcomes with which the proposed operation's policy framework is aligned. The key outcomes of the DRRM Plan include: (i) DRRM and Climate Change Adaptation (CCA) mainstreamed and integrated in national, sectoral, regional and local 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: Supporting planning and investments in risk reduction

Prior Action #1. The Borrower, through the Sendai Declaration of the 3rd United Nations World Conference on Disaster Risk Reduction, has adopted the Sendai Framework for Disaster Risk Reduction.

Prior Action #2. The National Disaster Risk Reduction and Management Council has convened its Technical Management Group to initiate the review of the Philippine Disaster Risk Reduction and Management Act (Republic Act No. 10121), in accordance with its sunset clause

Prior action #3. The National Economic and Development Authority has issued the Midterm Update to the Philippine Development Plan, identifying disaster risk reduction and management strategies to be implemented in provinces with high vulnerability to multiple hazards.

Prior action #4. The Borrower enacted the 2015 General Appropriations Act that, inter alia, provides for the Government's Risk Resiliency Programs (including the NAMRIA Unified Mapping Project to produce geospatial hazard information for risk-sensitive zoning and development).

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

Prior action #5. The Borrower has included special provisions in the General Appropriations Act to allow four agencies (DepEd, DPWH, DOH and DOTC) to use the National DRRM Fund to pay for insurance premiums.

Prior Action #6. The Department of Finance has adopted the Disaster Risk Financing and Insurance Strategy, providing for financial protection actions at the national, local, and individual level.

IV. 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. For example, 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 (nearly half a million households) live below the poverty line, resulting in an increase in the poverty rate from 41.2 percent to approximately 55.7 percent in the worst-affected areas.

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, which reduce expenses by cutting down on basic needs such as food, education and health services. 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. The SIA made also specific recommendations for addressing the situation of women in the aftermath of Typhoon Yolanda.

DRM interventions can significantly reduce the potential impacts of disasters and protect existing development gains. The policy actions and results to be supported by the proposed operation are expected to have significant positive effects on poor people 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. Social safeguards policies are generally not triggered for DPLs. For Pillar A, *Supporting planning and investments in risk reduction*, the environmental and social safeguards framework for the associated investment projects would apply.

Environment Aspects

The GOP has adopted a comprehensive, multi-hazard approach that considers the 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 Catastrophe

Risk Model, has a strong evidence base for planning interventions to build the country's resilience to climate change.

Through this proposed operation, the Government is addressing institutional, 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 is supported by a guidebook and a revised set of technical guidelines, as well as a training program. This initiative will require development projects to include mandatory consideration of climate extremes and variability in the baseline assessment, analysis/management of impacts on and of the project, and environmental risk assessment.

V. Tentative financing

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

VI. Contact point

World Bank

Contact: Jolanta Kryspin-Watson
Title: Lead Disaster Risk Management Specialist
Tel: (202) 458-0245
Fax:
Email: jkryspin@worldbank.org

Borrower

Contact: Stella Laureano
Title: Director, International Finance Group
Tel: (+632) 525.0244
Email: sclaureano@gmail.com

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop