



Republic of the Philippines  
**DEPARTMENT OF FINANCE**  
Palais de la Monnaie, Corner Poblacion, St. Street,  
Manila 1003

**Letter of Development Policy**

04 November 2015

**Dr. JIM YONG KIM**  
President of the World Bank Group  
Washington, DC

Dear **Dr. Kim**:

Located in the Pacific Ring of Fire, the Philippines is highly exposed to a wide range of natural hazards including earthquakes, volcanic eruptions, and other geological hazards, as well as typhoons and monsoon rains. The recurrent impacts of these natural disasters hurt efforts directed towards reducing poverty, and boosting inclusive economic growth in the country. This vulnerability has been made more evident by the onslaught of sizeable typhoons and earthquakes in the recent years. Among the most notable was super Typhoon Yolanda in 2013, which claimed 6,201 lives, and cost the economy approximately PHP571.1 billion (equivalent to USD12.9 billion in December 2013) in damages and economic losses, hampering economic growth by 0.9 percentage points (ppts) in 2013 and another 0.3 ppts in 2014. Considered as the "new normal", such disasters can greatly affect the poor and vulnerable. These can consequently push people further into poverty, as in the case during Typhoon Yolanda when national poverty incidence increased by about 2.0 ppts.

The passage of Republic Act (RA) 10121, otherwise known as the Philippine Disaster Risk Reduction and Management (DRRM) Act of 2010, has laid the basis for a paradigm shift from reactive to proactive DRRM. Although in place and fulfilled through the National DRRM Plan 2011-2028, much remains to be done in the DRRM area particularly in supporting planning and investments in risk reduction, and enhancing the financial capacity to manage natural disaster risk.

With this in mind and building on the gains from the first Disaster Risk Management Development Policy Loan (DPL) with a Catastrophe-Deferred Drawdown Option (CAT-DDO), which closed in October 2014, we would like to request financial assistance from the World Bank through a Second Disaster Risk Management DPL with a CAT-DDO, to sustain the continuing reforms that the Government is making under the Philippine DRRM Act, the National DRRM Plan and our international commitments adopted in the Sendai Framework for Disaster Risk Reduction.

**DRRM in the Philippine Development Plan (PDP) 2011-2016**

In recognition of the adverse effects and impacts of natural disasters, the Government reaffirmed DRRM as an important crosscutting theme in the PDP. Released in 2014, the PDP Midterm Update (with Revalidated Results Matrices) specifically identified disaster risk reduction and management strategies to be implemented in provinces that are vulnerable to multiple hazards.

### **National Disaster Risk Reduction and Management Framework (NDRRMF)**

Consistent with and supportive of the strategies under the Philippine Development Plan (PDP) 2011-2016, the NDRRMF envisions a country of "safer, adaptive and disaster-resilient Filipino communities toward sustainable development." This is sought to be achieved through the National DRRM Plan, which covers four distinct yet mutually reinforcing priority areas, namely: (i) Disaster Prevention and Mitigation; (ii) Disaster Preparedness; (iii) Disaster Response; and (iv) Disaster Recovery and Rehabilitation.

Disaster Prevention and Mitigation is supported by policies that prioritize hazard evaluation and mitigation, vulnerability analyses, identification of hazard-prone areas, and mainstreaming DRRM into development plans. Key programs include the Nationwide Operational Assessment of Hazards (Project NOAH) under the Department of Science and Technology that is developing flood hazard assessments for the country's 18 major river basins, providing early warning to vulnerable communities against impending floods, and using advanced technology to enhance current geo-hazard maps. A flood risk assessment study for the entire Metro Manila and surrounding basin area was undertaken from February 2011 to February 2012, to prepare a comprehensive flood risk management plan. This Master Plan details a set of priority structural and non-structural measures, for which individual feasibility studies are now being carried out, while short-term interventions are already being implemented. The Master Plan is serving as the roadmap/vision of the Government for flood management in Metro Manila until 2035. Special allocation has been made in the General Appropriations Act of 2015 to support the Government's Risk Resiliency Programs, in line with this policy priority.

Disaster Preparedness entails key strategic actions around community awareness and understanding, contingency planning, conduct of local drills, and the development of a national disaster response plan. Risk-related information coming from the prevention and mitigation aspect is necessary for the development of responsive preparedness activities that match the needs of people. As an example, a methodology for Pre-Disaster Risk Assessment (PDRA) has been developed, and successfully implemented prior to Typhoon Hagupit, as a disaster preparedness tool for "hazard specific, area focused, and time bound" risk assessment. Upon the forecast of an event, the PDRA provides inputs to inform appropriate preparedness actions to be taken by both national government agencies and local government units (LGUs). LGUs are then guided by the OplanListo program that provides mayors and Local DRRM Offices a checklist that enumerates what should be done before, during, and after disasters.

Disaster Response activities during the emergency and relief phases range from needs assessment to search and rescue to relief operations to early recovery. Minimizing the impacts of disasters on communities relies heavily on reducing vulnerability through prevention, mitigation and preparedness. The Government has established institutional mechanisms for disaster response, and the National DRRM Council conducts regular drills and capacity building for search, rescue and retrieval operations.

Rehabilitation and Recovery falls under the National Economic and Development Authority that, as Vice-Chair of the National DRRM Council for Rehabilitation and Recovery, developed the Reconstruction Assistance on Yolanda (RAY) Plan. This is operationalized through the Comprehensive Rehabilitation and Recovery Plan, which

enumerates the projects, programs and activities to be implemented in the 171 municipalities located in 14 provinces affected by Typhoon Yolanda.

#### **Review of the Philippine DRRM Act**

While the Act will continue in effect, the achievement of its intended results is being reviewed in accordance with its sunset clause, and subsequent legislation may be passed to increase its efficacy. The National DRRM Council is conducting this review based on the lessons learned from the past five years of implementation, and Typhoon Yolanda, the unprecedented scale of which has caused major challenges in post-disaster recovery. Any remedial legislation arising from the review will also be aligned with the country's commitments under the Sendai Framework for Disaster Risk Reduction.

#### **Disaster Risk Financing and Insurance Strategy of the Government**

To address the recurrent financial impact of natural disasters, the Government has adopted its Disaster Risk Financing and Insurance (DRFI) Strategy. The DRFI Strategy is aimed at achieving two overarching goals in managing the effects of natural disasters: (i) to sustain economic growth and protect development gains from natural disaster shocks; and (ii) to reduce impact on the poorest and most vulnerable and prevent them from falling into a cycle of poverty. The strategy has four priorities to support these development goals.

**National level: Improve the financing of post-disaster emergency response, recovery, and reconstruction needs.** The government is combining different risk financing instruments to protect against events of different frequency and severity. Such risk layering aims to minimize the cost of financing and optimize the timing of the same, and is being implemented by:

- (i) Acquiring contingent credit lines (such as the DPL with a CAT-DDO) to protect against moderate disasters, which provide rapid financing in the case where a disaster may exceed the capacity of calamity fund reserves; and
- (ii) Using risk transfer to access international private reinsurance and capital markets. Risk transfer instruments such as reinsurance, catastrophe bonds, or catastrophe swaps aim to improve the government's disaster response capacity in case of infrequent but potentially devastating disasters by providing access to immediate liquidity following such events.

**Local level: Provide local governments with funds for post-disaster recovery and reconstruction.** This will be achieved by:

- (i) Developing options to pilot a catastrophe risk insurance facility for local government units; and
- (ii) Supporting National Government Agencies and Local Government Units to improve their property insurance coverage, for example by providing standardized policies to be adopted by all public agencies.

**Individual level: Empower poor and vulnerable households and SMEs to quickly restore their livelihoods after a disaster.** This is being pursued to expand the capacity of domestic insurance markets to protect individuals and small businesses, strengthen micro-insurance, and set up disaster-linked social protection schemes

To strengthen post-disaster assistance to the poorest and most vulnerable, the Government is exploring options to institutionalize a system of emergency income support through post-disaster cash transfers utilizing the reach and payment

infrastructure of the Government's Conditional Cash Transfer program (Pantawid Pamilyang Pilipino Program, or 4Ps).

**Risk Analytics: Use risk data to support decision making about financial protection.** Initiatives in this strategic priority are geared towards building an improved asset exposure and historical loss database, and refining the catastrophe risk model to allow for catastrophe risk assessment below the provincial level.

**Conclusion**

The measures presented above comprise a key subset of the broader Disaster Risk Reduction and Management program that the Government is implementing in the context of the PDP Midterm Update, the Philippine DRRM Act and National DRRM Plan, as well as the Sendai Framework for Disaster Risk Reduction. They are underpinned by the Disaster Risk Financing and Insurance Strategy, and supported by the special provisions (enabling the use of the National DRRM Fund for line agencies to insure its assets against catastrophes) and allocations (for Risk Resiliency Programs) in the General Appropriations Act of 2015.

In conclusion, I would like to reiterate our strong commitment to the reform agenda presented in the aforementioned policies and outlined in this letter. We look forward to the Bank's continued support for our efforts ultimately aimed at building a more disaster-resilient nation.

Sincerely yours,

  
**CESAR V. PURISIMA**  
Secretary of Finance

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