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August 19, 2011

For meeting of
Board: Tuesday, September 13, 2011

FROM: The Acting Corporate Secretary

Philippines - Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO)

Program Document

Attached is the Program Document regarding a proposed Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO) to the Republic of the Philippines (R2011-0196). This operation will be discussed at a meeting of the Executive Directors on **Tuesday, September 13, 2011.**

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The World Bank

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Report No. 60950-PH

PROGRAM DOCUMENT

ON A PROPOSED LOAN

IN THE AMOUNT OF US$500 MILLION

TO

THE REPUBLIC OF THE PHILIPPINES

FOR A

DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A

CATASTROPHE DEFERRED DRAWDOWN OPTION (CAT-DDO)

August 15, 2011

Philippines Sustainable Development Unit
Sustainable Development Department
East Asia and Pacific Region

Philippines - GOVERNMENT FISCAL YEAR
January 1 to December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of May 25, 2011)
US$1 = 43.560 PHP (Philippine Peso)

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ARMM	Autonomous Region in Muslim Mindanao
ASEAN	Association of Southeast Asian Nations
ASFP	Autonomous Region in Muslim Mindanao Social Fund
AusAID	Australian Agency for International Development
BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CAS	Country Assistance Strategy
CAT-DDO	Catastrophe Risk Deferred Drawdown Option
CCA	Climate Change Adaptation
CCC	Climate Change Commission
CCT	Conditional Cash Transfer
CDD	Community Driven Development
CIDA	Canadian International Development Agency
CIDSS	Comprehensive and Integrated Delivery of Social Services
COA	Commission on Audit
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DENR-MGB	DENR-Mines and Geosciences Bureau
DepEd	Department of Education
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DOH	Department of Health
DOST	Department of Science and Technology
DPL	Development Policy Loan
DPWH	Department of Public Works and Highways
DRM	Disaster Risk Management
DRRM	Disaster Risk Reduction and Management
DSWD	Department of Social Welfare and Development
EAP	East Asia and the Pacific
EIA	Environmental Impact Assessment
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOCCs	Government-Owned and Controlled Corporations
GOP	Government of the Philippines
HFA	Hyogo Framework for Action
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
KALAHI	*Kapit Bisig Laban sa Kahirapan* (Hand in Hand Against Poverty)
JMC	Joint Memorandum Circular
LCCAP	Local Climate Change Action Plan
LDP	Letter of Development Policy
LDRRMC	Local Disaster Risk Reduction and Management Coordinating Council

LDRRMF	Local Disaster Risk Reduction and Management Fund
LDRRMP	Local Disaster Risk Reduction and Management Plan
LGUs	Local Government Units
MMEIRS	Metro Manila Earthquake Impact Reduction Study
NDCC	National Disaster Coordinating Council
NDRRM	National Disaster Risk Reduction and Management
NDRRMC	National Disaster Risk Reduction and Management Council
NDRRMF	National Disaster Risk Reduction and Management Fund
NEDA	National Economic and Development Authority
NAMRIA	National Mapping and Resource Information Authority
OCD	Office of the Civil Defense
PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
PDF	Philippines Development Forum
PDNA	Post-disaster Damage and Needs Assessment
PDP	Philippines Development Plan
PDPFP	Provincial Development and Physical Framework Plan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PHIVOLCS	Philippine Institute of Volcanology and Seismology
PMES	Project Monitoring and Evaluation System
PPFDPs	Provincial Development and Physical Framework Plans
PPP	Public-Private Partnership
QRF	Quick Response Fund
READY	Hazard Mapping and Assessment for Effective Community-Based Disaster Risk Management Project
REDAS	Rapid Earthquake Damage Assessment System
SIA	Social Impacts Analysis
SMEs	Small and Medium Enterprise
SNAP	Strategic National Action Plan for Disaster Risk Reduction
UNDP	United Nations Development Program
UNISDR	United Nations International Strategy for Disaster Reduction
USAID	United States Agency for International Development
WBI	World Bank Institute
WHO	World Health Organization
ZBB	Zero-Based Budgeting

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TABLE OF CONTENTS

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LOAN AND PROGRAM SUMMARY

PHILIPPINES

DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A CAT-DDO

Borrower	Republic of the Philippines
Implementing Agency	The Department of Finance
Financing Data	IBRD loan of US$500 million disbursement linked, US dollar denominated Loan with a variable spread, level repayment and default repayment terms with a maturity of 25 years, including a grace period of 9.5 years.
Operation Type	Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO)
Main Policy Areas	Disaster Risk Management
Key Outcome Indicators	• Provinces have mainstreamed climate change adaptation and disaster risk reduction measures into their Provincial Development and Physical Framework Plans (PDPFP). • NDRRMC develops a monitoring system to track disaster-related financing and guidelines on the use of LGU Local Disaster Risk Reduction and Management Funds (LDRRMF) are issued. • Disaster risk reduction measures are mainstreamed into at least three sectors: health, transport, and social development. • Department of the Interior and Local Governments supports the establishment of functional DRRM units or offices. • NDRRMC has rolled out training programs for national and regional government authorities to conduct post-disaster needs assessments and emergency preparedness drills. • Department of Finance has prepared its catastrophe risk financing strategy.
Program Development Objective(s) and Contribution to CAS	The development objective of the proposed operation is to enhance the capacity of the Government of the Philippines to manage the impacts of natural disasters. The establishment of an adequate ex-ante macroeconomic environment and the existence of a satisfactory disaster risk management framework make the Philippines eligible for this DPL. This operation is in line with CAS strategic objective 4 on reducing vulnerabilities, which aims to reduce natural hazards risks and vulnerability in the Philippines.
Risks and Risk Mitigation	While the prior actions for the operation have been completed, the proposed loan is considered to be **medium risk**, due to weaknesses in the public financial management system, the potential lack of availability of funding to support the policy action areas, ownership of the program among national and local government agencies, and coordination issues. There are also political risks linked to the local government units' opposition to the change in the local DRRM fund usage. The macroeconomic policy framework is considered strong and to be a low risk. To mitigate the risks, the NDRRMC and DOF will take the lead on coordinating policy actions, and parallel technical assistance will be provided.
Operation ID	P125943

**IBRD PROGRAM DOCUMENT FOR A
PROPOSED DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN
WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION (CAT-DDO)
TO THE REPUBLIC OF THE PHILIPPINES**

I. Introduction

1. With 268 recorded disaster events over the last three decades, the Philippines ranks ninth according to World Bank's Natural Disaster Hotspot list of countries most exposed to three or more natural hazards, based on Gross Domestic Product (GDP). Almost 30 percent of the disasters that occurred in Southeast Asia during the period 1990-2009 were in the Philippines. The National Disaster Risk Reduction and Management Council (NDRRMC) notes that between 1990 and 2008, the country incurred average annual direct damages to agriculture, infrastructure, and the private sector of around PHP28 billion, which is equivalent to about 0.7 percent of GDP. Damage to agriculture alone averaged PHP12.4 billion annually.

2. On average, more than 1,000 lives are lost every year, with typhoons accounting for 74 percent of the fatalities, 62 percent of the total damages, and 70 percent of agricultural damages, reflecting their high annual frequency and lack of adequate disaster preparedness and prevention measures in place. In the months of September and October 2009, Tropical Storm Ondoy (International Name: Ketsana) and Typhoon Pepeng (International Name: Parma) hit the Luzon islands, including Metro Manila, and these two weather events alone cost the Philippines' economy around 2.7 percent of its GDP and increased the number of poor people by about 500,000. In the medium-term, an estimated US$4.42 billion is needed for post-Ondoy and Pepeng recovery and reconstruction efforts.

3. This program document proposes a US$500 million Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO) as budget financing for the Government of the Philippines (GOP) for an initial period of three years.[1]

4. The development objective of the proposed operation is to enhance the capacity of the Government of the Philippines to manage the impacts of natural disasters. This objective will be achieved by supporting the following aspects of the Government's Disaster Risk Reduction and Management (DRRM) framework: (a) strengthen the institutional capacity for disaster risk management efforts; (b) mainstream disaster risk reduction measures into development planning; and (c) better manage the Government's fiscal exposure to natural disaster impacts.

5. In view of the country's high exposure to natural hazards and lessons learned from past events, the Government has begun to take a proactive approach to disaster risk management as opposed to focusing mainly on post-disaster response by approving the

[1] The standard drawdown period for the CAT-DDO is three years, renewable four times (for a total of 15 years). The maximum amount available under a CAT-DDO should be no more than the lesser of 0.25 percent of GDP or US$500 million. In the case of the Philippines, using 2010 GDP figures and end-2010 exchange rates, 0.25 percent of GDP equals US$513 million. Thus, the government may avail of the maximum loan amount.

DRRM Act in May 2010. The Act supersedes Presidential Decree No. 1566, which in 1978 established the National Disaster Coordinating Council (NDCC) and the disaster risk management system in the country, which was primarily focused on post-disaster response. To complement the DRRM Act, the Philippine Government has also formalized its Strategic National Action Plan (SNAP) for Disaster Risk Reduction (DRR), which translates the country's commitments to the Hyogo Framework for Action[2], in line with global good practice. This document describes the prior actions implemented by the GOP demonstrating progress in the country's overall DRRM framework.

6. The current administration, which was elected in May 2010, has noted disaster risk management as a key priority, which was mentioned as part of the President's State of the Nation Address. Disaster risk reduction and management issues were also broadly discussed during the Philippines Development Forum held on February 26, 2011; as per these discussions, disaster risk reduction and climate change adaptation measures have been integrated into key sector chapters of the 2011-2016 Philippine Development Plan (PDP) approved by the Government on March 28, 2011. In terms of international cooperation, the Philippines is a signatory country and an active member of the Association of Southeast Asian Nations (ASEAN) Agreement on Disaster Management and Emergency Response, coordinates programs with the UN International Strategy for Disaster Reduction (UNISDR), and supports other member countries in preparing for and responding to natural disasters.

7. This operation is complementary to other ongoing programs supporting disaster risk management. The policy actions place greater emphasis on risk reduction as opposed to emergency response.

II. Country Context

8. The Philippines is an archipelago of 7,107 islands located in Southeast Asia and divided into three island groups (Luzon, Visayas and Mindanao). It had an estimated population of about 94 million inhabitants in 2010, with a per-capita Gross National Income (Atlas method) of US$2,050 in 2010. The Philippines has strong potential for development in terms of abundant natural resources, a talented, English-speaking workforce, a dynamic private sector and an active civil society. However, overall development outcomes have fallen short of potential, as economic growth and job generation have tended to be more modest than in neighboring countries, leading many Filipinos to seek better opportunities abroad: an estimated 10 percent of the population resides abroad and is responsible for generating annual remittances equivalent to over 9.4 percent of the country's GDP. Since 2001, economic growth has picked up, but this has not translated into poverty reduction. Instead, official poverty estimates indicate that the overall incidence of poverty increased from 24.9 percent in 2003 to 26.5 percent in 2009 (the latest available figure), which suggests that growth has not been sufficiently inclusive.

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[2] The Hyogo Framework for Action (HFA) is a policy document adopted by 168 Member States of the United Nations in 2005. It provides the framework by which disaster reduction policy is approached globally. The HFA highlights five priority area of action: (a) ensure that disaster risk reduction is a national and a local priority with a strong institutional basis for implementation; (b) identify, assess and monitor disaster risks and enhance early warning; (c) use knowledge, innovation and education to build a culture of safety and resilience at all levels; (d) reduce the underlying risk factors; and (e) strengthen disaster preparedness for effective response at all levels.

9. ***Recent Political Developments***. The Philippines held its first automated nationwide elections on May 10, 2010, with President Benigno S. Aquino III winning by a comfortable margin as candidate for the Liberal Party on a platform focusing on anti-corruption and poverty reduction. President Aquino continues to maintain a high trust rating in recent surveys. Meanwhile, the leadership of the Lower House of Congress is predominantly from the Liberal party, which should facilitate implementation of the reform agenda. The President can also expect considerable support in the Senate, even though it exhibits greater party fragmentation and Senators traditionally have tended to be more independent in casting their votes on specific issues. These developments suggest that the Philippine Executive may count on more legislative support for its reform initiatives during its tenure than was available to the previous administration. The new Administration faces significant opportunities as well as considerable challenges: an opportunity for new policy directions and new coalitions to push the development agenda forward with renewed vigor, but at the same time significant long-standing challenges of weak governance and entrenched patronage politics.

A. Recent Economic Developments in the Philippines

10. After a sharp slow-down in 2009, the Philippine economy expanded vigorously in 2010, with an estimated growth rate of 7.6 percent that represents the highest annual rate in more than 30 years and puts the economy back on its pre-crisis growth trend.[3] This rapid recovery is largely attributable to the rebound in global trade and increased investor and consumer confidence, which has been driving similar growth resurgence in other East Asian countries. In addition, the economic expansion in the Philippines is reflecting temporary domestic stimulus policies that were held over from 2009 and election-related spending in early 2010.

11. The main sector responsible for rebounding growth in 2010 has been industrial production, especially manufacturing and construction. In services, trade, finance, private services and, to a lesser extent, the real estate sub-sectors were the top contributors to growth. Only agriculture has been lagging behind, in part on account of the negative influence of 'El Niño'. On the demand side, private consumption remains strong as remittance inflows remain steady, while exports and investment have revived in 2010 to yield a positive impact on growth. Merchandise exports rebounded 33.7 percent in 2010, thanks largely to the recovery of the global electronics market.

12. The headline inflation rate has been stable since 2009, with small variations reflecting developments in fuel, food and utility prices, and is well within the Bangko Sentral ng Pilipinas (BSP or Central Bank's) target zone. Monetary policy remains broadly accommodative: although the BSP withdrew some of the liquidity-enhancing measures introduced in the immediate aftermath of the global financial crisis, it has kept its key policy rates unchanged since August 2009. This policy has permitted bank lending to increase modestly (to an annual growth rate of almost 10 percent, or slightly below nominal GDP growth) and help close the output gap. Increases in foreign portfolio inflows in 2010 have

[3] Based on the revised and rebased National Income Accounts, real GDP growth averaged 5.7 percent during 2003-07.

helped strengthen the Peso, push up the stock market index and reduce interest rates. The stronger Peso has helped to contain inflation, but the associated short term capital inflows also have raised policymakers' concerns about the rising risk of economic and financial disruptions in the event of sudden reversals. The central bank intervened successfully in late 2010, using its forward foreign exchange swap portfolio, to stem the rapid appreciation of the Peso.

13. The labor market has been recovering from the global recession, but very slowly. The unemployment rate fell from 7.6 percent in mid-2009 to 7.1 percent in October 2010, while underemployment afflicts 19.4 percent of the labor force. Both indicators are very high by regional standards.

14. The impact of the economic recovery on poverty reduction has also been weak. Successive Family Income and Expenditure Surveys indicate that the poverty incidence indicators have hardly budged since 2003: the poverty incidence among families increased from 20 percent in 2003 to 21.1 percent in 2006 and then declined slightly to 20.9 percent in 2009. In terms of incidence among the population, poverty kept increasing from 24.9 percent in 2003 to 26.4 percent in 2006 and to 26.5 percent in 2009.[4] This inelastic poverty response is corroborated by recent Social Weather Station surveys, which indicate that self-rated poverty only declined slightly in 2010, while self-rated hunger incidence remains at record high levels. (See Box 1 on Poverty in the Philippines.)

15. The current account of the balance of payments yielded solid surpluses of 5.6 percent of GDP in 2009 and 4.2 percent in 2010. This robust performance reflects the strong contraction of imports in 2009, followed by a more modest recovery in 2010, and strong growth of goods and services exports, combined with steady remittance inflows. As a result, gross international reserves reached a record high of US$62.5 billion in December 2010, equivalent to more than 10 months' worth of imports and to almost six times the country's short-term external liabilities by residual maturity. Similarly, liquid reserves (as measured by the forward book of the BSP) exceeded US$17 billion in December 2010. Meanwhile, the external debt remained broadly stable at around 36 percent of GDP; see Table 1.

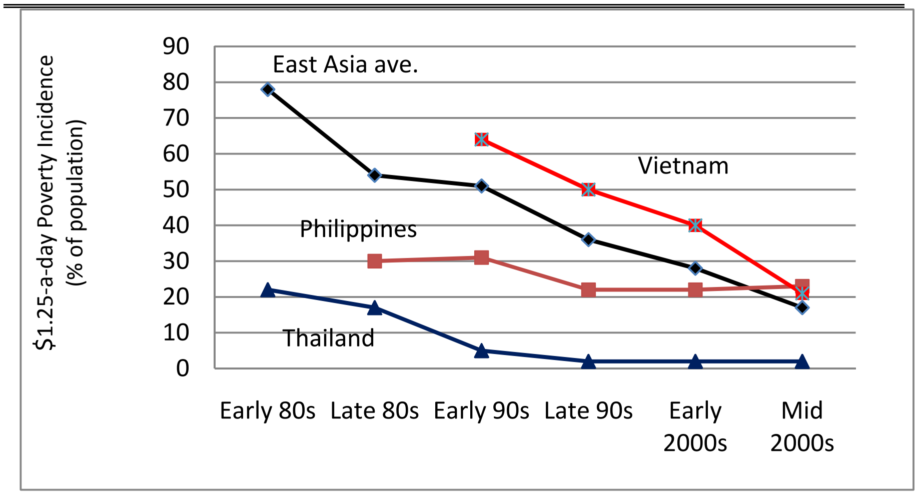
16. The fiscal deficit had widened significantly in 2009, as the Government implemented an expansionary fiscal policy in response to the global financial crisis. With the extension of the Economic Resiliency Plan into 2010, fiscal policy became strongly pro-cyclical and the fiscal deficit remained large at 3.6 percent of GDP (Government Finance Statistics definition). The increase in the fiscal deficit of the National Government by 2.1 percent of GDP between 2008 and 2010 reflects both a decline in tax revenues and increased expenditures in almost equal measure. Despite a surging economy in 2010, the tax effort remained largely unchanged from the previous year, as many of the cuts introduced in 2009 were permanent in nature and additional revenue-eroding measures were applied in 2010. Even so, the National Government debt ratio declined slightly in 2010, due to the rapid economic growth and depreciation of the Peso value of foreign debt obligations.

[4] The figures on extreme poverty (i.e., subsistence incidence) exhibit a similar pattern: in terms of family (population) incidence, extreme poverty first rose from 8.2% (11.1%) in 2003 to 8.7% (11.7%) in 2006, and then declined slightly to 7.9% (10.8%) in 2009. (These figures are based on the newly defined national poverty lines posted by the National Statistical Coordination Board on February 8, 2011.)

Box 1: Poverty in the Philippines

Low economic growth has been a long-standing problem in the Philippines, and largely accounts for the slow progress made in poverty reduction during the 1980s and 1990s, compared to the faster growing East Asian neighbors; see Box figure. So, when economic growth finally accelerated after 2001, expectations were raised that poverty would henceforth fall at a faster pace. These hopes were dashed by the 2006 household survey, which indicated that the improved economic performance had not translated into faster poverty reduction. Rather than declining, poverty ratios increased between 2003 and 2006, and remained broadly unchanged through 2009.

Evolution of Poverty in the Philippines and Other East Asian Countries



Source: World Bank, Development Data Platform.

Various factors explain the rise in poverty: one is the limited dynamism of economic growth, coupled with high degrees of inequality. Contrary to the evolution of GDP, real household incomes have been declining since 2000, which accounts for much of the higher poverty. In addition, considerable circumstantial evidence indicates that there also has been deterioration in the distribution of income. As noted in the 2010 World Bank report on "Fostering More Inclusive Growth" in the Philippines, various factors contributed to the worsening distribution: (a) an uneven sectoral and regional distribution of growth – where the most labor intensive sector (agriculture) and poorest regions have been exhibiting the least dynamic growth and the fastest growing sectors (manufacturing) have remained extremely capital-intensive; (b) intense demographic pressures from rapid population growth; (c) declines in the relative price of labor; and (d) an unequal distribution of human capital and in access to social services. These factors largely follow from the poverty profile of the Philippine poor, who tend to be concentrated in rural areas and engaged in agriculture, and to have significantly less access to basic services, lower education levels and larger families than the non-poor.

To render growth more inclusive, the 2010 World Bank report recommends a two-pronged strategy aimed at: (a) accelerating growth in a sustained manner to create better job opportunities; and (b) raising the ability of poor households to take better advantage of those improved opportunities. To implement the first program, the report recommends: (a) raising the tax ratio to anchor macroeconomic stability; (b) removing infrastructure bottlenecks; (c) improving governance; and (d) creating a better private investment climate by reducing 'behind the border constraints' that inhibit business development. In regard to the second prong, as greater opportunities for job creation are being generated, the report stresses the importance of enabling workers to move to the sectors and regions where the best opportunities emerge, as well as of assisting households to participate in markets through greater investment in their human capital. This last aspect requires greater investment in health and education (where the Philippines ranks far below other East Asian countries) and strengthening its systems of social protection to improve the lot of the extreme poor and prevent the near poor from falling into poverty whenever adverse economic shocks take place.

17. To satisfy its higher borrowing requirement, the government has benefited from easy access to domestic and external financing on favorable terms. The Philippines' financial markets surged to record highs thanks to improving domestic fundamentals, as well as strong foreign investor interest in Asian emerging markets in general. As noted by a joint IMF-World Bank mission that visited the Philippines in late 2009, the core Philippine financial system is sound and generally resilient to a wide range of risks. Other confidence-building factors have been the improving growth prospects, stable interest rates, strong corporate earnings, and the resolution of political uncertainty. Investors have shown a strong appetite for fixed income assets and sovereign spreads have narrowed sharply.[5] The Government has been taking advantage of these favorable conditions to reduce the risk profile of its debt stock by lengthening its debt maturity and raising its domestic-to-foreign debt ratio.

B. Macroeconomic Outlook and Debt Sustainability

18. Growth is projected to remain strong over the medium term, though slightly lower than in 2010, as monetary and fiscal policies are tightened to gradually wind down the stimulus package introduced earlier. Also, the rebound of exports is expected to taper off toward more modest growth rates. Domestic consumption is projected to remain firm, buoyed by the steady inflow of remittances, while total investment increases in response to rising investor confidence. In addition to benefitting from the overall surge of foreign interest in Asian emerging markets, investor confidence in the Philippines is also expected to improve with the new administration's strong focus on tackling corruption and reducing the costs of doing business. Even though fiscal space for additional investment spending by the public sector remains limited in the short run, the Aquino government is intent on kick-starting a new wave of public-private partnership projects to fill important gaps in infrastructure. To the extent that these gaps are filled, the cost of infrastructure services should gradually decline, leading to further improvements in investor confidence. Meanwhile, the balance of payments remains robust, even though the current account is projected to yield smaller surpluses in future years.

19. As the gap between actual and potential output is closed, the monetary authorities will be looking to gradually unwind their previous expansionary monetary policy stance. The new round of quantitative easing from certain central banks abroad may complicate these efforts, as foreign investors are eager to take advantage of yield differentials and buy up new bonds issued by the BSP. The BSP has stated its readiness to implement further prudential measures to deal with the effects of capital surges on domestic liquidity and asset price inflation.

20. On the fiscal front, the Aquino administration will be looking toward a gradual fiscal consolidation through higher tax revenues and improvements in the efficiency of public spending. Initial revenue measures have focused on improving tax compliance, such as the filing of a number of tax evasion cases, but these have only had a marginal impact in 2010. Revenues are projected to increase gradually after 2011, as further improvements in tax administration are implemented and other sources of leakages are plugged and tax policy measures are introduced. Meanwhile, total government spending contracted to 18 percent of

[5] From 261 basis points in June 2010 due to concerns regarding sovereign credit in some European countries to 155 basis points in mid-November, or within 17 bps of the country's record low of May 2007.

GDP in 2010, thanks to initial efforts undertaken since July 2010 to review and rationalize spending by applying a zero-based budgeting (ZBB) approach. This approach has also enabled the Department of Budget and Management (DBM) to rationalize, put on hold, or scale up key programs in its draft 2011 Budget, based on efficiency and equity considerations.[6] Looking ahead, DBM plans to strengthen its program evaluation capacity to make such spending reviews a regular feature of public sector expenditure programming.

Table 1: Philippines: Selected Economic Indicators, 2003-2013

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	----------------------- Actual						------------------	Prel. Act.	------ Projection ------		
Growth, inflation and unemployment											
Gross domestic product (% change)	5.0	6.7	4.8	5.2	6.6	4.2	1.1	7.6	5.0	5.4	5.5
Inflation (period average)	3.5	6.0	7.6	6.2	2.8	9.3	3.2	3.8	4.8	4.5	4.5
Savings and investment											
Gross national savings	23.3	23.4	23.5	18.3	19.6	16.7	22.1	24.8	24.2	24.6	25.1
Gross domestic investment	23.0	21.6	21.6	18.0	17.3	19.3	16.6	20.5	21.5	22.5	23.5
Public sector											
National government balance (GFS basis) 1/	-4.7	-3.9	-2.9	-1.3	-1.6	-1.5	-3.9	-3.6	-2.5	-2.0	-1.7
National government balance (Govt def)	-4.4	-3.7	-2.6	-1.0	-0.2	-0.9	-3.7	-3.5	-2.4	-1.9	-1.6
Total revenue (Govt def)	14.1	13.8	14.4	15.6	16.5	15.6	14.0	13.4	13.9	14.5	14.9
Tax revenue	12.1	11.8	12.4	13.7	13.5	13.6	12.2	12.1	12.3	12.9	13.3
Total spending (Govt def)	18.5	17.5	17.0	16.7	16.7	16.5	17.7	16.9	16.2	16.4	16.5
National government debt	73.8	74.4	68.5	61.4	53.9	54.7	54.8	52.4	50.1	47.3	44.2
Consolidated non-financial public sector debt	95.6	90.6	82.3	71.1	58.9	58.2	58.1	54.7	53.7	52.3	49.4
Balance of payments											
Merchandise exports (% change)	2.7	9.8	3.8	15.6	6.4	-2.5	-22.1	34.8	7.4	7.8	8.5
Merchandise imports (% change)	3.1	8.0	8.0	10.9	8.7	5.6	-24.0	31.5	12.9	8.0	8.6
Remittances (% change of US$ remittance)	10.1	12.8	25.0	19.4	13.2	13.7	5.6	8.2	8.5	9.0	9.0
Current account balance	0.3	1.8	1.9	4.4	4.8	2.1	5.6	4.2	2.7	2.1	1.6
FDI (billions of dollars)	0.2	0.1	1.7	2.8	-0.6	1.3	1.6	1.2	2.0	3.0	4.0
Portfolio Investment (billions of dollars)	0.6	-1.7	3.5	3.0	4.6	-3.6	-0.6	4.0	3.0	3.5	3.5
International reserves											
Gross official reserves 2/ (billions of dollars)	17.1	16.2	18.5	23.0	33.8	37.6	44.2	62.4	73.7	84.5	89.7
Gross official reserves (months of imports)	4.0	3.6	3.8	4.2	5.8	6.0	8.7	9.6	10.2	10.7	10.3
Real Effective Exchange Rate 3/	59.9	57.5	62.0	70	76.2	80.2	77.3	84.1	…	…	…
% change	-9.9	-4.1	7.9	12.9	8.9	5.2	-3.6	8.7	…	…	…
External debt											
Total 4/	74.6	66.7	59.8	49.3	44.1	37.4	37.3	36.1	33.0	32.5	31.5

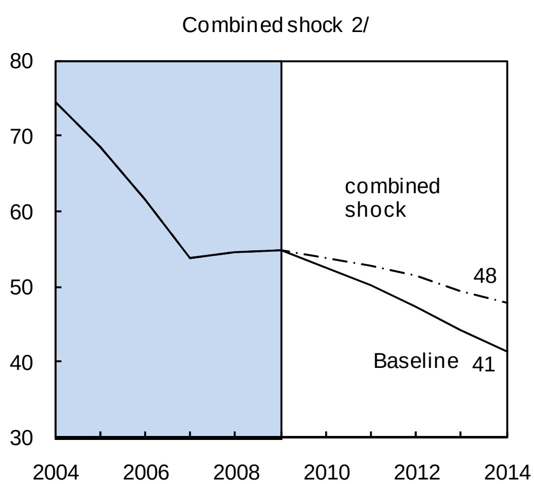
Source: Government of the Philippines, World Bank
1/ Excludes privatization receipts (these are treated as financing items, in accordance with GFSM) and includes CB-BOL restructuring revenues and expenditures
2/ Includes gold
3/ Against major trading partners (US, Japan, European Monetary Union, United Kingdom); data for 2010 is as of September;
4/ Worldbank definition; The difference with central bank data is that this includes the following:
a. Gross "Due to Head Office/Branches Abroad" of branches and offshore banking units of foreign banks operating in the Philippines, which are treated as quasi-equity in view of nil and/or token amounts of permanently assigned capital required of these banks
b. Long-term loans of non-banks obtained without BSP approval which can not be serviced using the foreign exchange resources of the Philippine banking system
c. Long-term obligations under capital lease agreements

[6] Rationalized programs include the Food for School Program – to be administered more efficiently by the Department of Social Welfare and Development (DSWD) using its national targeting system – and the agricultural Input Subsidies program, which was found to mainly benefit rich farmers. Several programs that exhibited weak project implementation ratings or procurement bottlenecks will have their funds held up in both 2010 and 2011, including DepEd's Textbooks, Teacher Deployment and School Building Construction, and TESDA's Training for Work Scholarship programs. Special Purpose Funds, especially the highly discretionary ones, have been trimmed down significantly. Support to government corporations that did not meet the ZBB criteria was also reduced, though measures to stop the underlying losses – mostly, but not solely, linked to quasi-fiscal operations – have yet to be announced and implemented.

21. ***Debt Sustainability***. The balance of payments projections in Table 1 show a strengthening reserve position and a gradually declining external debt; from 37.3 percent of GDP in 2009 to 31.5 percent in 2013. Similarly, the projected trajectory of the National Government debt exhibits an even more pronounced downward trend, with the debt ratio falling from 54.8 percent of GDP in 2009 to 44.2 percent in 2013. Barring any unexpected shocks, both trajectories are indicative of a sustainable macroeconomic policy setting. This is confirmed by Figure 1, which shows a gradually declining public debt ratio in the base case projection, as well as broad resiliency to a variety of standard shocks.

22. Aside from the historical volatility exhibited by several key economic variables, the main source of fiscal risks in the Philippines is the still high level of the fiscal debt, coupled with weaknesses in the public debt management framework that prevents quick responses. Another key source of fiscal risks stems from contingent liabilities, which have been and remain large, mainly on account of the GOCCs, increased reliance on PPPs, the financial sector and threat of natural disasters. In the power sector, in particular, the Government has amassed sizeable liabilities, which projected forward will run into billions of dollars over the decade or so. The Government's Power Sector Asset-Liability Management company has been able to re-finance its debt, in part by availing itself of sovereign guarantees, but as the country approaches its foreign borrowing limit, this cannot continue indefinitely as it is likely to affect the Government's overall credit rating. Even without considering borrowing limits, financing outcomes have not been efficient, and financing costs have been rising.

Figure 1: Philippines-National Government Debt Sustainability Analysis [1/]



Source: World Bank staff calculations
1/ The shaded areas represent actual data. 2/ The 'combined shock' consists of permanent 1/2 standard deviation adverse shocks applied to the real interest rate, growth rate, and primary balance.

23. ***Key Challenges***. The preceding account draws attention to the following macroeconomic challenges facing the Philippine authorities in the medium term:

- Bringing down poverty is the overriding challenge; while growth is necessary, it has clearly not been enough to reduce poverty in the Philippines. In addition to implementing growth-enhancing measures, it will also be important to develop the human capital of the poor, enabling them to take better advantage of growth opportunities, while strengthening social protection mechanisms to prevent them from backsliding further into poverty as a result of adverse shocks.

- Raising the tax effort: the Philippines exhibits important public expenditure gaps vis-à-vis other neighboring countries, notably in health and education, which partly explain why the Philippines has made relatively modest progress in poverty reduction since the 1980s.[7] While improvements in the efficiency of public expenditures can help reduce the public spending gap, it will not be enough. Total public spending levels also will have to increase. Such an increase can only be sustained if the Government is able to reverse the erosion of tax revenues that has taken place over the last decade.

- Raising and sustaining a higher-than-historical investment-to-GDP ratio: while there is a significant increase in investments this year, the challenge is sustaining a higher investment-to-GDP ratio to ensure that growth will continue in the medium/long-term.

- Improving the capacity to manage fiscal risk: although the projected evolution of the fiscal deficit points in a stable direction, the weak GOCC oversight capacity of the National Government and greater prospective emphasis on PPP arrangements represent significant contingent risks that could undermine the Government's fiscal consolidation efforts and ability to ensure a stable macroeconomic environment. In the power sector, the challenge for the Government will be to maintain the amount of debt at a level consistent with the projected revenue available for debt service.

24. ***Macroeconomic Impacts of Natural Disasters***. Various statistics identify the Philippines as among the most vulnerable in the world to natural hazards. It is ranked fourth in terms of exposure to at least three hazards, fourth in mortality risk, and ninth in economic impact to GDP, with an estimate 78.7 percent of GDP in areas at risk.[8] Studies also show that the Philippines is among the countries most likely to be affected by storm surge and sea level rise due to climate change, indicating that 52 percent of GDP could be at risk.[9] Government data indicate that the economic impacts of natural disasters are estimated at an average of PHP28 billion in direct damages, equivalent to 0.7 percent of GDP per annum from 1990 to 2008. Actual impacts could be greater since losses, particularly those borne by the private sector, have not been fully accounted for in the past (with the exception of the impact of Tropical storm Ondoy and Typhoon Pepeng, which, as detailed below, resulted in 2.7 percent of GDP in damages and losses for the economy).

[7] See World Bank, "Public Spending: Stepping up public spending for faster growth and poverty reduction", Philippines Discussion Note No. 4, Report No. 55655, July 2010.
[8] World Bank and Columbia University (2005). Natural Disaster Hotspots: A Global Risk Analysis. Washington, DC, USA.
[9] Dasgupta, Susmita, *et. al.* (2007). The Impact of Sea Level Rise on Developing Countries: A Comparative Analysis. World Bank Policy Research Working Paper No. 4136.

25. Typhoons, however, are the most frequent and the most damaging of all natural disasters in the Philippines. From 1990 to 2006, typhoons accounted for almost 62 percent of total economic damages due to natural disasters. Table 2 below provides a summary of the total adverse impacts of natural disasters on the Philippine economy.

Table 2: Average Annual Losses by Hazard Type in the Philippines, 1990-2006

Hazard Type	Total Economic Loss (Php M)*	Percent
Typhoons	12,166	61.9
Drought	2,237	11.4
Earthquake	2,235	11.4
Volcanic eruptions	1,915	9.7
Flooding/flash floods	888	4.5
Others	230	1.2

Source: Benson, 2009.
Notes: *Figures are presented in 2005 prices.

26. Major natural disasters can have severe impacts on the macroeconomic framework. For example, following Tropical Storm Ondoy and Typhoon Pepeng in 2009, the Post-disaster Damage and Needs Assessment (PDNA) analysis estimated damage and losses at 2.7 percent of GDP - as they directly affected regions accounting for over half of the Philippines' GDP. However, once projected public and private recovery and reconstruction spending are included, the net impact of the natural disasters on economic activity is mixed: 2009 was negatively impacted while 2010 was affected positively thanks to the recovery and reconstruction activity that took place that year. The adverse immediate impacts on the productive sectors were largely due to damaged inventories, raw materials, and crops. At the same time, business operations were interrupted by power and water shortages, damaged machinery, and employee absenteeism, which contributed to an overall reduction in production capacity.

27. ***Staff Assessment***. Based on the preceding considerations, the Bank task team believes that the macroeconomic framework currently in place in the Philippines is adequate. Even though the high public debt ratio continues to pose a risk to macroeconomic stability, the gradual pace of fiscal deficit and debt reduction represents a compromise between several trade-offs. In particular, the slower pace of deficit reduction contemplated in the Government's program helps facilitate the budgetary shift toward greater social sector spending begun with the 2011 budget, instead of forcing the Government to embark on a more austere spending program that could result in spending cuts in some priority sectors. Furthermore, even though a tighter fiscal stance would help to relieve some of the pressure that is currently appreciating the Peso and impairing competitiveness, there is also the danger that such a policy adjustment would reduce growth in the short term by reducing aggregate demand.

III. Disaster Risk Management in the Government's Development Agenda

28. The Philippines ranks among some of the most vulnerable countries exposed to meteorological and geological hazards, with adverse effects on its sustainable development and population. In addition to the economic impacts described above, on average, 1,009 lives

are lost each year, with typhoons responsible for 74 percent of the fatalities and 62 percent of the total damages. To date, the highest occurrence of typhoons causing deaths is in the Philippines.[10] Enormous losses can also be induced by low frequency, high impact hazards such as earthquakes, which are a threat to important urban areas, including Metro Manila. The impacts of frequent natural disasters in specific areas have hampered their development and rendered them highly dependent on assistance from the national government. The social impact of natural disasters has been similarly detrimental. According to the PDNA, following the 2009 Tropical Storm Ondoy and Typhoon Pepeng, 9.3 million people were "severely affected" by these events alone.

29. Table 3 presents an overview of the Philippines' standing in relation to other countries (as of 2009) in terms of number of reported disaster events, number of people killed by disasters, number of people affected, and as a percentage of GDP.

Table 3: Human and Economic Impacts of Disasters, 2009 events

Number of Reported Disaster Events	Human Impacts			Economic Impacts
	Number of People Killed	Number of People Affected	No. Affected/ 100,000 inhabitants	As percentage of GDP
Philippines	India	China	Guatemala	Samoa
China	Indonesia	Philippines	Namibia	El Salvador
United States	Philippines	India	Philippines	Tonga
India	Taiwan, China	Bangladesh	Taiwan, China	Lao PDR
Indonesia	China	Vietnam	China	Burkina Faso
Brazil	Australia	Guatemala	Zambia	Fiji
Australia	Peru	Taiwan, China	Vietnam	Vietnam
Mexico	Vietnam	Brazil	Honduras	Honduras
Bangladesh	Italy	Indonesia	American Samoa	Philippines
Vietnam	El Salvador	Zambia	Paraguay	Nepal

Source: Center for Research on the Epidemiology of Disasters, 2009.

30. The combination of multiple hazards and a fragmented land mass has led to a higher degree of exposure and greater difficulty in managing disaster risks. Climate change is likely to exacerbate these conditions over the medium and long term by increasing both the frequency and intensity of weather-related hazards. Dasgupta et al (2009) lists four Philippine cities (i.e., Roxas, San Jose, Metro Manila and Cotabato) among the top 10 East Asian Cities likely to be affected by storm surge and sea level rise due to climate change. The same report indicates that 52 percent of the country's coastal GDP could be at risk.

A. The Philippines' Strategy for a Disaster Risk Reduction and Management Framework

31. Prior to 2010, the Philippines' legal and institutional framework for DRRM focused on emergency response. Over the past 20 years, there have been efforts to update the now-outdated DRM legal bases (Presidential Decree Nos. 1 of 1972 and 1566 of 1978) with the objective to shift the emphasis from a reactive to a proactive mode that focuses on disaster prevention, preparedness, and mitigation necessary to reduce risk.

[10] Manila Observatory, Recent and Most Devastating Environmental Disasters in the Philippines, Mapping Philippine Vulnerability to Environmental Disasters and Philippines. http://www.cred.be/centre/publi/141e/ch06.htm.

32. In the absence of legal reforms, it has been difficult to encourage more widespread action. Several issues have posed particular challenges to the DRRM framework, including: lack of available funding and clarity on the roles and responsibilities of national and local governments for carrying out risk reduction programs; unclear policies on linkages at the local level between climate change adaptation (CCA) and risk reduction planning and budgeting; as well as capacity constraints at the national and local levels. In addition, conflicting policies and guidelines undermined proactive measures in the past; for example, the Joint Memorandum Circular (JMC) No. 2003 issued by the DBM and the Department of the Interior and Local Government (DILG) to allow the use of local calamity funds for disaster preparedness and mitigation activities conflicted with an already existing Commission on Audit (COA) circular.

33. The Tropical Storm Ondoy and Typhoon Pepeng disasters in 2009 highlighted these and other weaknesses in the preceding DRM framework and underscored the need to accelerate the mainstreaming of DRRM into policies and programs at the local and national levels as well as in different development sectors.

34. ***The 2010 DRRM Act.***[11] In the aftermath of these disasters, the Philippine Government has begun to take a more proactive approach to disaster risk management by passing the DRRM Act, enacted by President Macapagal-Arroyo into law on May 27, 2010. The new DRRM Act, or Republic Act No. 10121, supersedes Presidential Decree No. 1566, the former disaster risk management system in the country. The new law emphasizes the need for a coherent, comprehensive, integrated, and proactive approach to DRRM across levels and sectors of government, and among vulnerable communities.

35. The enactment of the DRRM Act in 2010 led to the replacement of the NDCC by the NDRRM Council, or the "National Council." Details on the National Council are provided in Annex 6. The National Council is expected to provide policies and services that facilitate the integration of DRRM into the operations of sectoral agencies and local governments. The National Council will take the lead in coordinating with the Climate Change Commission (CCC) to ensure related efforts on DRRM and CCA are harmonized. It is also mandated by the Act to advise the President of appropriate actions to be taken in the event of an emergency, including the declaration of a state of national calamity and the utilization of the National DRRM Fund (which replaced the National Calamity Fund).

36. As the Law allows risk reduction and mitigation efforts to be supported by the National DRRM Fund, the prioritization and authorization of such expenditures needs to be defined by the government. The Law retained the Quick Response Fund (QRF), which is a predetermined portion of the National DRRM Fund, allocated purely for emergency response, relief and rescue operations. Both national agencies and local governments may be supported by the QRF. Unlike the allocation for ex-ante actions, guidelines for the use of the QRF are clear and have been established by previous practice.

[11] http://www.ndcc.gov.ph/attachments/045_RA%2010121.pdf

37. There are also capacity constraints in addressing the mandates of the Act. The newly formed NDRRMC recognizes the need to shift its paradigm from disaster preparedness and response to disaster risk reduction strategies as well as engaging different sectors of society in this effort. However, a challenge in this regard is the need to reorganize its staffing structure, capacity and funding with the new Act. This process is underway and will likely take time to become fully operational.

38. ***The Strategic National Action Plan for DRRM.*** To complement the DRRM Act, GOP also formalized its SNAP[12] for DRR in June 2010, which is a product of several national consultations with stakeholders that included national and local governments, development partners, and civil society organizations. The SNAP translates the country's commitments to the HFA, in line with global good practice. The SNAP provides a basis for expanding government resources and for mobilizing support from development partners to accelerate and scale up implementation of a strategic DRRM program.

39. Key areas addressed through the SNAP include: (a) adopting a responsive policy and legal framework to create an enabling environment for all citizens toward reducing losses from disaster risks; (b) financial and economic soundness to offset socio-economic losses from disasters and to prepare for post-disaster recovery; (c) supportive decision making and an enlightened citizenry through the use of best available and practical tools and technologies to support risk reduction decisions; (d) safety and well-being enhancement; and (e) evaluation and monitoring of DRR actions.

40. The DRRM Act has helped achieve several milestones identified in the SNAP, primary of which are the institutional reforms and mechanisms for a more proactive approach to DRR. As such, plans are underway to review and update the SNAP to tighten convergence with the DRRM Act.

41. ***The 2011-2016 Philippine Development Plan.*** The Government has noted the importance of integrating disaster risk reduction into its development priorities. The recently approved PDP for 2011-2016 has integrated DRRM and climate change adaptation measures as an important priority with a focus on agriculture, transport, education, environment, energy, infrastructure, and social development.

42. ***Linkages with Climate Change Adaptation.*** The Philippines has also been active in undertaking legislative actions and in creating institutions to address climate change issues by passing the CCA of 2009.[13] This new law, signed on October 21 2009, mainstreams climate change into government policy formulations and establishes a framework strategy and program on climate change. The law calls for the creation of a CCC to address the current institutional set up and inadequate coordination as well as fragmentation of various actions, and includes references to the need for improved linkages between the DRRM and climate change agendas. It also requires the formulation of a National Climate Change Strategy which would be used as a basis for developing a well-coordinated and fully-funded action plan, both

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[12] http://www.ndcc.gov.ph/attachments/048_EO%20888%20SNAP.pdf ; http://www.adrc.asia/countryreport/PHL/2009/PHL_attachment.pdf (the original NDCC link seems to have been cut)

[13] http://www.gov.ph/2009/10/23/republic-act-no/

at the national and local levels. The implementing rules and regulations of the new law have already been promulgated, and the new Commission has been formed.

43. While both the CCA and the NDRRM Act have been approved by the Philippine legislature, enhancing coordination and harmonization of action plans in practice across climate change adaptation and disaster risk reduction efforts requires greater attention, including the translation of these plans into action at the local level.

44. To improve coordination, a Memorandum of Understanding[14] was signed between NDRRMC and the CCC on February 25, 2011. This memorandum advocates harmonization and coordination of the planning, development and implementation requirements of the Local Climate Change Action Plans (LCCAP) and Local DRRM Plans (LDRRMPs) by local government units, as well as a joint review and monitoring of progress in the implementation of the coordinated local action plans.

45. ***International Cooperation on Disaster Risk Management***. In addition to addressing disaster risks domestically, the government takes account regional and trans-boundary risks, with the aim of promoting regional cooperation on risk reduction. The Philippines is a signatory of the Agreement on Disaster Management and Emergency Response, established on July 26, 2005[15] by the ten member countries of ASEAN. The Agreement aims to provide mechanisms towards reducing disaster impacts among its members and facilitate concerted efforts in responding to disaster emergencies. ASEAN has established the ASEAN Coordinating Center for Humanitarian Assistance and adopted programs that would facilitate the achievement of the members' commitments to HFA. Capacity building interventions, standard operating procedures, information sharing, and communication networking are among the programs implemented under this Agreement.

46. ***Staff Assessment***. The prior actions of this operation are extremely thorough and comprehensive and underpin the Government's overarching DRRM program. The policy matrix for this proposed DPL with a CAT-DDO represents a snapshot of a sub-set of key activities related to the broader DRRM program that the Government would like to highlight and monitor over the course of this operation.

47. The policy actions taken as per the 2010 DRRM Act and the SNAP constitute a modernization and strengthening of the Philippines' disaster risk management policy framework, with a focus on mainstreaming risk reduction into development planning, enhancing institutional capacity, and reducing the government's fiscal exposure to natural disasters. The Bank has reviewed the policy framework and determined it to be adequate. The Government has selected the three policy areas, which correspond to the prior actions, to define the policy matrix under this DPL with a CAT-DDO.

[14]http://www.ndcc.gov.ph/attachments/article/190/Memorandum%20of%20Understanding%20Collaboration%20Programme%20on%20Philippine%20Climate%20Risk%20Reduction.pdf

[15] http://www.asean.org/17579.htm

IV. Bank Support to the Government's Program

A. Link to the Country Assistance Strategy (CAS)

48. The proposed CAT-DDO DPL is consistent with the Bank Group's Country Assistance Strategy (CAS) for the Philippines, which was discussed by the Board on April 30, 2009 and covers the period July 1, 2009 to June 30, 2012. The CAS update was discussed by the Board on May 19, 2011 and extended to June 30, 2013. The CAS is anchored in the Philippine Development Plan (PDP) for 2004-2010, and carries the theme of Making Growth Work for the Poor.

49. The CAS focuses on increased emphasis on direct poverty reduction, addressing governance concerns in operations, an expanded and re-focused knowledge agenda, and better linkages to global issues like climate change and disaster risk management. Under the CAS, the World Bank Group is contributing to achieving more inclusive growth by supporting the Philippines to:

- Maintain macroeconomic stability and cope with increased macroeconomic uncertainty through a stronger revenue base, improved expenditure efficiency and targeting, and responsive financing;

- Improve the investment climate through an enabling business environment that promotes competitiveness, productivity and employment, especially for sectors of particular importance to the poor, such as agriculture and fisheries, and developing better models of infrastructure finance and management;

- Increase access to better public services for the poor by deepening the reform agendas in key public service sectors and expanding basic service delivery directly to the poor;

- Reduce vulnerabilities by expanding and rationalizing the country's social safety net, improving disaster risk management, piloting climate change adaptation measures and expanding climate change mitigation programs; and

- Promote good governance as a cross-cutting theme by supporting more capable and accountable government at the national, local, and agency level to strengthen core governance systems in public financial management, procurement and decentralization.

50. This operation is directly related to strategic objective 4, Reduced Vulnerabilities, which includes promoting disaster risk reduction and management efforts. The Bank has extended a range of support, from emergency lending, reallocation of funding following natural disasters and technical assistance, as elaborated below in section C.

B. Collaboration with the IMF and Other Development Partners

51. The Bank and IMF country teams collaborate regularly in the review of macroeconomic developments and have been meeting for annual consultations under the

Bank-Fund Joint Management Action Plan. Collaboration with the Fund has been particularly intensive in the area of tax policy and administration, as well as in the financial sector area, where both teams participated in the preparation of a Financial Sector Assessment Program Update in 2009.

52. The Philippines Development Forum (PDF), which is co-chaired by Government with the Bank, and has eight thematic working groups, serves as the main vehicle of the Government for policy dialogue and aid coordination with development partners and other stakeholders, and represents an important partnership. The new administration has recognized the value of continuing the PDF and held its initial event on February 26, 2011. During this forum, disaster risk management was discussed as a cross-cutting policy issue.

53. The disaster risk reduction and management agenda in the Philippines is supported by several development partners, including AusAID, JICA, ADB, GIZ, CIDA, EU, WHO, USAID, UNISDR, and the Global Facility for Disaster Reduction and Recovery (GFDRR), which is a multi-donor trust fund administered by the Bank. During the preparation of this operation, a range of development partners, including AusAID, JICA, ADB, and WHO, were consulted.

54. To ensure close coordination among partners, a matrix of other ongoing donor activities that are complementary to this operation’s proposed policy areas is attached as Annex 5.

C. Relationship to Other Bank Operations

55. In the Philippines, the Bank is using both its lending and non-lending products to help build the DRRM capacity of the Philippine Government at the national and local levels. Technical assistance programs are providing analytical support to determine priority areas at local and national levels, such as risk financing, mitigation, preparedness and emergency response, which require additional support. This operation builds on existing DRRM work supported by the Bank and other development partners.

56. Economic and sector work was undertaken in 2004 to determine weaknesses related to DRRM, especially at the national level, and identify possible courses of action by stakeholders in the Philippines. Online training programs have also been extended by the World Bank Institute (WBI) to both public and private institutions to build local capacities on DRM.

57. The Global Facility for Disaster Reduction and Recovery (GFDRR) has an active portfolio in the Philippines to support post-disaster recovery and response as well as longer term risk reduction. Since 2008, a GFDRR technical assistance program has been ongoing; the objectives of the program are to identify the most vulnerable provinces in the Philippines, assess gaps in natural disaster recovery financing, and propose appropriate instruments and tools for local government units (LGUs) in order to improve their disaster management capacity.

58. In October 2009, following the devastating impacts of Tropical Storm Ondoy and Typhoon Pepeng, the Bank, jointly with the GOP and with support from GFDRR and several development partners, including ADB, AusAID, and JICA, undertook a comprehensive PDNA.[16] Total damage and losses reached US$4.38 billion, or about 2.7 percent of the Philippine's gross domestic product. The storms hit the regions that account for over 60 percent of the country's economy. The PDNA estimated that the Philippines would need US$4.42 billion for reconstruction and recovery of affected areas. The report recommended that key policy actions be taken in areas such as land use planning, housing, water management, environmental protection, and disaster risk management to prevent future negative impacts of natural disasters.

59. GFDRR is also supporting the establishment of a system that allows tracking of expenditures and physical monitoring for disaster mitigation and post-disaster reconstruction activities at the national and local levels in a transparent and accountable manner. This activity is included in the proposed policy matrix. Details of the tracking system are available in Annex 8.

60. The preparation of a Flood Management Master Plan for Metro Manila has recently been launched with GFDRR funding. This Master Plan was a key recommendation of the 2009 Tropical Storm Ondoy and Typhoon Pepeng PDNA and is being coordinated with on-going programs for flood management being supported by AusAID and JICA. The specific objectives of the study are to: (a) carry out a flood risk assessment study for the Metro Manila and surrounding areas; (b) prepare a comprehensive flood risk management plan; and (c) propose a set of priority structural and non-structural measures that will provide sustainable flood risk management up to a certain safety level. The Master Plan is anticipated to be completed by March 2012.

61. Lending operations have also been aligned to support DRRM efforts, including:

- Additional financing for KALAHI-CIDSS, a community-driven development (CDD) program implemented by DSWD, includes DRRM among eligible and priority expenditures supported at the community level.

- Additional financing for the Laguna de Bay Institutional Strengthening and Community Participation Project will assist LGUs in Laguna and Rizal provinces severely affected by Tropical Storm Ondoy and Typhoon Pepeng in the rehabilitation and climate-proofing of the damaged environment and local flood-control infrastructures.

- The Autonomous Region in Muslim Mindanao (ARMM) Social Fund, a CDD operation being implemented in the ARMM Region, includes similar provisions as the KALAHI-CIDSS.

- Training for community groups on disaster risk preparedness is being rolled out to beneficiaries of the *Pantawid Pamilyang Pilipino* Program, the Conditional Cash

[16] http://go.worldbank.org/56YRY70GV0

Transfer (CCT) project that is expected to reach 2.3 million households by the end of 2011.

- The Regional Infrastructure for Growth Project of the Development Bank of the Philippines, which is expected to be delivered in FY12, allows lending for DRRM priorities.

- The ongoing Participatory Irrigation Development Project finances the rehabilitation of some irrigation systems damaged by Tropical Storm Ondoy and Typhoon Pepeng, as well as the re-designing of some irrigation systems to make them more climate-resilient.

D. Lessons Learned from Previous DPLs and CAT DDOs

62. Experience from the earlier DPL series in the Philippines and other CAT-DDO operations points to the following lessons:

- **Align actions and activities in the policy framework with government priorities.** Indicators of the CAT-DDO are not additional conditionalities for disbursement but are targeted to on-going activities and priorities of the government that are directly linked to the prior actions.

- **Ex-ante risk financing instruments help limit the interruption of ongoing development programs**. The DPL with a CAT-DDO establishes the basis for an ex-ante approach that supplements existing government resources in the event of a catastrophic event and consequently allows for uninterrupted development progress.

- **Rapid and flexible financing is critical for early recovery**. On average, 50 percent of the economic losses associated with large disasters occur in the post-emergency phase. With increased access to untied liquidity, GOP will be able to accelerate recovery efforts, minimize business interruption, and secure the operation of critical public facilities (e.g., health services).

- **Disaster risks should be proactively managed rather than treated as an exogenous shock to development.** The Philippines has acknowledged that hazard risks are a manifestation of development that is not adequately adapted to the environment, and that managing disaster risk is good practice to achieve sustainable development. It has consequently included disaster risk management and climate change adaptation in key sectors of the Philippine Development Plan for 2011-2016.

- **Good coordination and open communication among development partners is critically important.** Several development partners are working with the Government to engage in different aspects of DRRM in the Philippines. The policy areas pursued in this DPL have been discussed with development partners and a matrix highlighting complementary activities being carried out is given in Annex 5.

E. Analytical Underpinnings

63. The general framework for the analysis and preparation of the DPL with a CAT-DDO operation is based on a number of key documents and publications, including the following:

- **Rapid Assessment of the Social Impacts of Tropical Storm Ondoy on Urban Poor Communities, Institute of Philippines Culture (2010).**[17] A rapid social impacts assessment (SIA) was carried out in affected communities as part of the PDNA, focusing on three main topics: (a) socio-economic impacts; (b) social relations and cohesion; and (c) local governance. The findings of the assessment were used to inform the development of a post-disaster reconstruction and recovery framework, which focused on: (a) meeting immediate needs and recovering key assets through the provision of a basic rehabilitation package; (b) ensuring that livelihood restoration and or relocation interventions are informed by a solid understanding of the specific needs of vulnerable groups; (c) capacity development of key agencies coordinating disaster response interventions; and (d) further monitoring the effectiveness of the disaster response.

- **Natural Hazards, Un-natural Disasters: The Economics of Effective Prevention (World Bank, 2010).**[18] This report aims to assess for the first time the economics of disaster prevention in a comprehensive manner, rather than solely focusing on damage and losses. The Philippines can benefit from the analysis presented on public-private partnerships, and structural and non-structural measures used to reduce risk.

- **The Global Assessment Report on Disaster Risk Reduction (UN/ISDR, 2009).**[19] This comprehensive review and analysis of natural hazards worldwide provides evidence on how, where and why disaster risks are increasing. This text places the Philippines in the larger context of disaster risk management.

- **Catastrophe Risk Financing in Developing Countries (Cummins, Mahul–The World Bank 2009).**[20] The book makes a compelling case for public intervention to enhance catastrophe risk financing strategies and also lays out steps on how to mitigate the economic and fiscal impacts of disasters. It provides the theoretical framework for the proposed operation.

- **Natural Disaster Hotspots: A Global Risk Analysis (World Bank, 2005).**[21] This publication provides an assessment of hazard frequency and exposure with regard to six natural hazard types: earthquakes, windstorms, drought, flooding, landslides and volcanoes. It found the Philippines to be fourth in exposure to at least three hazards and in mortality risk, as well as ninth in economic impact relative to GDP.

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[17] Institute for Philippine Culture. 2010. *Rapid Assessment of the Social Impacts of Tropical Storm Ondoy on Urban Poor Communities.* Ateneo de Manila University, Manila. An informal assessment was also prepared for Typhoon Pepeng based on field visits to communities in northern Luzon.
[18] http://www.gfdrr.org/gfdrr/nhud-home
[19] http://www.preventionweb.net/english/hyogo/gar/
[20] http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/CATRISKbook.pdf
[21] http://siteresources.worldbank.org/INTDISMGMT/Resources/0821363328.pdf

- **The Hyogo Framework for Action (HFA, 2005).**[22] This document, endorsed by the Government of the Philippines at the World Conference for Disaster Reduction in 2005, provides the guidelines for comprehensive disaster risk management actions. The Philippines used this framework as a basis to develop its 2010 SNAP.

- **Disaster Risk Management in the Philippines: Enhancing Poverty Alleviation through Disaster Reduction (Joint NDCC-World Bank report, 2004)**.[23] This report provided an overview of the hazard profile and exposure of the Philippines and recommended that GOP should develop and implement a national framework for comprehensive disaster risk management. This recommendation is in line with the government's current DRRM framework and the policy areas supported by this proposed DPL.

V. The Proposed Operation

A. Operation Description

64. The development objective of the proposed operation is to enhance the capacity of the Government of the Philippines to manage the impacts of natural disasters. The Government's establishment of an adequate ex-ante macroeconomic environment and the existence of a satisfactory disaster risk management framework make the Philippines eligible for this operation.

65. The DPL with a CAT-DDO instrument was approved by the Bank on March 5, 2008. To date, five CAT-DDOs have been approved by the World Bank: Costa Rica, Colombia, Peru, El Salvador, and Guatemala. This proposed operation would be the first CAT-DDO outside of the Latin America region.

66. The maximum amount of DPL with a CAT-DDO funding constitutes 0.25 percent of the national GDP of the country, or up to US$500 million, whichever is less; in the case of the Philippines, the maximum loan amount would be $500 million, based on 2010 nominal GDP figures reflected in the revised National Income Accounts released in May 2011.

67. The CAT-DDO will help reduce the GOP's fiscal vulnerability in the event of a catastrophic adverse natural event. Also, in line with the Bank's Catastrophe Risk Financing Framework, the GOP was advised that small-scale natural disasters are expected to be covered by the Government's own resources and reserve funds, while this instrument may cover less frequent, more severe disasters. The Government will be able to access funds upon a Presidential Proclamation of a State of Calamity as a result of the occurrence of an adverse natural event.

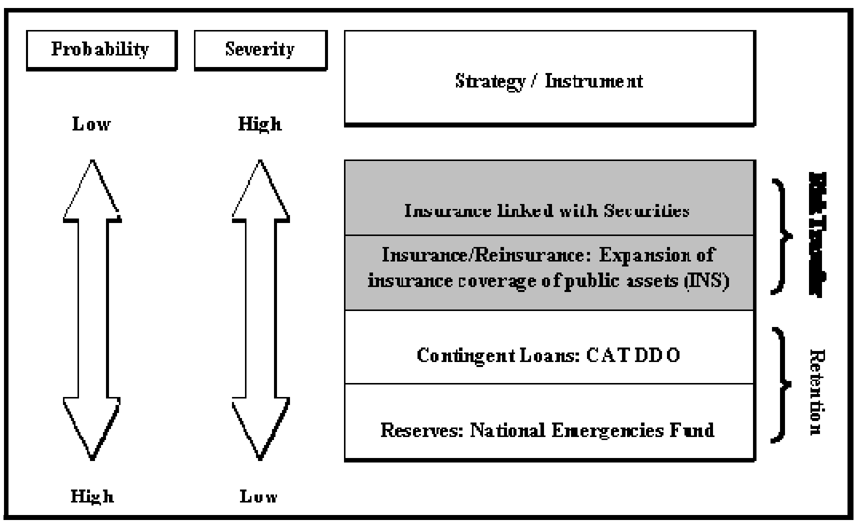
[22] http://www.preventionweb.net/english/hyogo/framework/?pid:73&pil:1
[23] http://siteresources.worldbank.org/INTEAPREGTOPENVIRONMENT/Resources/PH_Disaster_Risk_Mgmt.pdf

68. The signing of the DPL with a CAT-DDO is contingent upon the Philippines having a sound macroeconomic policy framework at entry and the existence of a satisfactory disaster risk management program. The disaster risk management framework, and progress achieved, would be reviewed at least once a year by the government and the Bank during implementation. At the time of renewal, the government and the Bank would jointly evaluate the program and update the indicators for the next three years. The adequacy of the macroeconomic framework would also be reconfirmed at renewal.

69. As a quick and flexible source of financing, the CAT-DDO is particularly well placed to provide bridge financing while other sources (for example, concessional funding, bilateral aid, and emergency reconstruction loans) are being mobilized following a major natural disaster (Box 2).

Box 2: Catastrophe Risk Financing Strategy

A risk financing strategy should differentiate between a range of higher-frequency/lower-cost events and lower-frequency/higher-cost events. Lower layers of risk (higher-frequency/lower-cost events) can generally be financed through reserve mechanisms, special budget appropriations, and budget reallocations. These sources of funds are rarely sufficient to face higher layers of risk for which other risk financing instruments are generally needed. This CAT-DDO operation has been designed to provide liquidity in case of medium-size (or cumulative) disasters that cannot be funded with the internal reserves and to provide bridge financing while other sources of funding are being mobilized in case of major disaster.



Source: World Bank, Financial and Private Sector Development - Global Capital Markets Development - Non-Bank Financial Institutions Unit (FPD-GCMNB), 2008.

70. **Drawdown conditions, financial features, and renewals are as follows**:[24]

- **Drawdown Triggers.** Funds may be drawn upon the declaration of a State of

[24] This section describes the conditions, financial features and renewals of the CAT-DDO as per the official Board paper entitled, "Memorandum from the President to the Executive Directors, Subject: Proposal to Enhance the IBRD DDO and to Introduce a DDO Option for Catastrophic Risk (CAT-DDO)," Document No. 42396, World Bank, January 29, 2008.

Calamity[25] by the President. The Proclamation of Calamity should be in accordance with the DRRM Act, and should also be duly published in the Official Gazette. The guidelines prescribe that the declaration remains effective for a period of one year; this timeframe may be extended or shortened by the President, as necessary.[26]

- **Definitions.** A "state of calamity" is defined in the 2010 DRRM Act as*: a condition involving mass casualty and/or major damages to property, disruption of means of livelihoods, roads and normal way of life of people in the affected areas as a result of the occurrence of natural or human-induced hazard*. Withdrawals from the CAT-DDO would only be eligible in the case of any type of natural disaster, including epidemics, according to the guidelines provided in NDCC memo No. 4, Series of 1998, dated March 4, 1998.

- **Financial Features**. Loan pricing is in line with standard IBRD terms, which include a 0.50 percentage point front-end fee. The DPL with a CAT-DDO also has a revolving feature, and amounts repaid prior to the closing date would be available for drawdown.

- **Drawdown Period and Renewals**. The drawdown period for this operation will be three years. It may be renewed up to four times for a total of 15 years. Renewals require that the original conditions remain largely in place, *i.e.,* the adequacy of the macroeconomic framework and the disaster risk management program will be reconfirmed and updated upon renewal. Renewal will be initiated no earlier than one year, and no later than six months, before the expiration date.

VI. Policy Areas

71. Two prior actions were identified during preparation, and the proposed operation seeks to address three key disaster risk reduction and management policy areas prioritized by the Government and the Bank (see Table 4 below).

72. The 2010 DRRM Act and the SNAP are extremely comprehensive and cover a range of policy mandates, ranging from: (a) capacity building, emergency preparedness and response – reflected in the first policy area of the proposed operation; (b) mainstreaming risk reduction into development planning and sectoral investments, integration with climate change adaptation efforts, and community participation – the second policy area; and (c) risk financing and transfer – the third policy area.

73. It is important to note that the DRRM law has been in place for less than a year and many of its requirements are new to government agencies. The next three years, which coincide with the effectiveness of the CAT-DDO, will entail adjustments among players and in terms of policies, guidelines and processes to ensure compliance with the new law.

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[25] According to the 2010 DRRM Act, the declaration of a State of Calamity can be national or in part of the territory in terms of clusters of barangays, municipalities, cities, provinces, and regions. From 2001 to 2010, the President has declared a state of calamity four times, two of which related to the 2009 Ondoy and Pepeng storms.

[26] Per NDCC memo No. 4, Series of 1998, dated March 4, 1998 entitled *"Amended Policies, Procedures and Criteria for the Declaration of a State of Calamity*."

Table 4: Prior Policy Actions and Indicators

Prior Policy Actions	Policy Action Areas	Key Output Indicators	Outcomes by 2014
Enactment of the 2010 Disaster Risk Reduction and Management Act (Republic Act No. 10121) of May 2010. This law seeks to mainstream risk reduction into development policies and processes. Focus has been expanded from ex-post actions and funding for emergency response, relief and recovery to include ex-ante actions and funding for risk reduction, preparedness, and prevention.	Strengthen the institutional capacity for disaster risk management efforts.	*DILG supports the establishment of functional DRRM units or offices.* Baseline: 4 provinces. Target: 14 provinces.	Local governments have increased capacity to manage the impacts of natural disasters in terms of preparedness, risk reduction and mitigation measures.
		NDRRMC develops a monitoring system to track disaster-related financing; updated guidelines on the use of LGU Local Disaster Risk Reduction and Management Funds (LDRRMF) are issued.	
		NDRRMC has rolled out training programs for government authorities to conduct post-disaster needs assessments and emergency preparedness drills.	
	Mainstream disaster risk reduction into development planning.	*Provinces have mainstreamed climate change adaptation and disaster risk reduction measures into their Provincial Development and Physical Framework Plans (PDPFP).* Baseline: 1 province. Target: At least 30 provinces.	Provincial level investments and key sectoral investments in health, transport and social development are more resilient to natural disasters.
Adoption of the Strategic National Action Plan for Disaster Risk Reduction (Executive Order No. 888) of June 2010.This is a 10-year plan to achieve commitments made under the Hyogo Framework of Action.		*Disaster risk reduction measures are mainstreamed into at least three sectors: health, transport, and social development.* HEALTH: DOH expands coverage of its Safe Hospitals Program in accordance with WHO guidelines by conducting audits of public and private health facilities in Metro Manila. Baseline: 25 health facilities. Target: At least 100 health facilities. TRANSPORT: The Department of Public Works and Highways (DPWH) retrofits and/or reconstructs bridges in Metro Manila, based on the results of structural audits. Baseline: 0 bridges. Target: At least 10 bridges. SOCIAL DEVELOPMENT: Government community development and social protection programs are enhanced to better address disaster risks.	

Prior Policy Actions	Policy Action Areas	Key Output Indicators	Outcomes by 2014
		Baseline: 0 Target: 1,000 communities receive DRR training under 4Ps and KALAHI-CIDSS; 4 Field Offices are covered by a community-based post-disaster response window.	
	Better manage the Government's fiscal exposure to natural hazard impacts.	*Department of Finance has prepared its catastrophe risk financing strategy.*	The Government reduces its fiscal exposure to natural disasters, as measured by increased investments for preventive measures and expanded options for risk financing.

A. First Policy Area – Strengthen the Institutional Capacity for Disaster Risk Management Efforts

74. ***National and Regional Capacity Issues.*** As the Philippines is highly disaster prone, it has developed a fairly effective system for emergency preparedness and post-disaster response. However, experience has shown that disasters can easily overwhelm the capacities of LGUs to effectively respond and provide the necessary relief services to their constituents. Technical, operational, and financial constraints affect LGUs, especially the municipalities, which constitute the largest number of LGUs in the country. Emergency preparedness and response activities are practiced, but not regularly or comprehensively. Reaching out to the next levels of governance – provincial, regional, national – has become a norm in the system of disaster response in the country. Improving the vertical linkage across levels of governance is a pivotal step to ensure that emergency and relief services become available to communities.

75. To address some of these issues, the 2010 DRRM Act includes the mandate to: (a) recognize the local risk patterns across the country and strengthen the capacity of LGUs for disaster risk reduction and management through decentralized powers, responsibilities, and resources at the regional and local levels; and (b) formulate a national institutional capability building program for disaster risk reduction and management to address the specific weaknesses of various government agencies and LGUs, based on the results of a biennial baseline assessment and studies. The target outcome of this policy area, and related indicators described below, is that local governments have increased capacity to manage the impacts of natural disasters in terms of preparedness, risk reduction and mitigation measures.

76. In order to promote a culture of preparedness, the National Council has collaborated with several partners to implement training programs and information campaigns across the country. Since 2006, the National Council instructed the regional offices of the Office of Civil Defense (OCD) to undertake earthquake preparedness drills on a quarterly basis. The drills are being expanded to cover not only government offices, but also local governments and the private sector. Various technical assistance programs with support from USAID, the International Red Cross Society, UN agencies, and civil society organizations are in place to build capacities related to emergency response.

77. The National Council plans to scale up its efforts to conduct quarterly preparedness drills and to consolidate training programs using a common methodology for government officials in conducting post-disaster damage and needs assessments to inform recovery planning, as reflected in the policy matrix for this operation.

78. ***Role of Local Governments and Related Financial and Capacity Issues.*** Local governments have the primary responsibility for dealing with natural disasters. Under the Local Government Code, the local governments serve as the first-line of defense. The DRRM Law reinforces the roles and responsibilities of LGUs to carry out DRRM efforts. Under the Law, LGUs are expected to prepare contingency plans, invest in prevention, preparedness and mitigation measures, establish a LDRRMC (with participation from civil society), and set aside a minimum of five percent of their total income as a local disaster risk reduction and management fund (LDRRMF), which may be rolled over up to a maximum of five years depending on the nature of identified priorities. They may also budget additional human and financial resources from their annual budget to disaster risk reduction actions and establish permanent in-house capacity to manage disaster risks on a full-time basis.

79. The challenge is the implementation of the Law, especially as many of the agencies' carrying strengthened mandates have capacity and funding constraints to meet the new requirements. While the implementing rules and regulations for the Act have been issued, they do not provide sufficient guidance to various agencies, especially LGUs.

80. To address the situation, DILG conducted institutional assessments of LGUs in 2010 via field based discussions and surveys with local government staff, as well as using criteria developed to determine the target levels of capacity of LGUs. DILG is also working with the Bank and GFDRR to carry out a capacity building program for high risk LGUs based on the results of the assessment. The objectives of the program are to identify the most vulnerable provinces in the Philippines and propose appropriate instruments and tools for LGUs to improve their disaster management capacity. The program is currently working with 23 municipalities and cities in seven provinces, and a Memorandum of Agreement was signed between the Bank and governors and mayors of the project areas in September 2010 to promote the mainstreaming of DRRM and CCA into local government systems and planning processes.

81. Based on the outcomes and lessons of this technical assistance, DILG is putting together operational guidelines that will enable LGUs to comply with and implement the provisions of the Law. As reflected in the policy matrix, in the next three years DILG plans to scale up its capacity building program to reach LGUs in at least 14 provinces to ensure that there is adequate capacity to manage disaster risks and respond to emergencies when they occur. DILG has allocated approximately PHP10.5 million for scaling up LGU capacity building programs.

82. ***Tracking and Monitoring of Resources for Natural Disasters***. Past attempts at tracking the use of post-disaster funding have revealed deficiencies in the system, including inconsistencies in allocation among recipients and a lack of transparency in allocation of funds. The LDRRMF reforms under the Law have elicited opposition from some LGUs that

view them as impinging on their autonomy and limiting their flexibility to use the funds. There are also reports suggesting that LGUs which did not use their full local DRRM fund allocation in the past were able to declare the unspent monies as "savings" and reallocate them for other purposes. The five year rollover provisions in the new law prevent this practice from occurring, generating resistance from some LGUs. Consultations are ongoing among LGUs, lawmakers, national government agencies, and civil society organizations to bring clarity on the issue of fiscal autonomy.

83. NDRRMC is planning to develop a tracking system to enhance the transparency and accountability of such funding, from the national to local levels, as one of the monitoring indicators for this operation. An overview of the planned system is provided in Annex 8 and support for this effort is being mobilized from GFDRR. The tracking system will enable NDRRMC to monitor and evaluate funding and implementation of programs and projects supported by government, non-government organizations, international organizations, and other donors. The system is expected to the enhance planning and coordination of resources for DRRM and is expected to build on existing procedures among relevant agencies, such as the DBM, NEDA, Government Service Insurance System, and others.

84. In line with this effort, and as reflected in the policy matrix for this operation, COA is planning to issue guidelines to LGUs on the use of the LDRRMF to ensure compliance with the mandates of the 2010 DRRM Act. COA has prepared a draft circular providing guidance to LGUs on the use of LDRRMFs, and plans to consult with NDRRMC, DILG and DBM prior to issuing the circular. Among the provisions of the circular is mandatory reporting on the use of LDRRMFs.

B. Second Policy Area - Mainstream DRRM into Development Planning

85. ***The Government has noted the importance of integrating disaster risk reduction in its development priorities.*** The 2010 DRRM Act includes the mandate "to mainstream disaster risk reduction and climate change in development processes such as policy formulation, socio-economic development planning, budgeting, and governance, particularly in the areas of environment, agriculture, water, energy, health, education, poverty reduction, land-use and urban planning, and public infrastructure and housing, among others." This provision in the Law is amplified in the PDP for 2011-2016, which calls for mainstreaming DRRM and climate change adaptation across all levels of government and key development sectors. The indicators described below inform the target outcome of this policy area, which is increased resilience to natural disasters of provincial level investments; and key sectoral investments in health, transport and social development.

86. ***Mainstreaming risk reduction and adaptation into provincial development planning.*** Development planning exercises have focused mainly on traditional sectors, such as infrastructure, agriculture, social, environment, and governance. Guidelines, both at the national and local levels, reflect this approach, resulting in fragmented results. For a country as vulnerable as the Philippines, risk reduction has not been incorporated into the development process, resulting in poor decisions related to safe locations of settlements and economic undertakings, adoption of structural designs and standards that are not up to par, and environmental degradation that contributes to increased vulnerability over time.

87. To improve the capacity to mitigate the impacts of natural disasters, especially at the regional and provincial levels, NEDA is actively building awareness and capacity to mainstream DRR into Provincial Development and Physical Framework Plans (PDPFP). NEDA is piloting new guidelines that incorporate DRRM and CCA considerations into the comprehensive land use, development and budget plans of provincial governments. This program has been included in the policy matrix as one of the monitoring indicators. The Memorandum of Understanding between NDRRMC and the Climate Change Commission is expected to significantly contribute to harmonizing and coordinating efforts related to disaster risk reduction and climate change adaptation, particularly at the local level.

88. PPFDPs represent the long-term spatial and socio-economic development plans of the provinces, which in turn, provide guidance to cities and municipalities on the overall development directions and strategies that need to be observed in their own plans and priorities. Regional and provincial levels are targeted given the role they play in coming up with regional development plans, which serve as a convergence framework for national and local initiatives; provinces also exercise administrative supervision over component cities and municipalities. To date, one province (Surigao del Norte) has prepared its resilient Provincial Physical Framework and Development Plan that integrates risk reduction as an important pillar. It is anticipated that these guidelines will be finalized and rolled out for implementation in additional provinces in 2012.[27]

89. ***Transportation – Roads and Bridges.*** To ensure that infrastructure is resilient and able to withstand the impacts of natural disasters, as well as to facilitate access via crucial transportation routes for emergency response in the aftermath of a disaster, the Department of Public Works and Highways (DPWH) has embarked on a nationwide program to review the integrity of its roads and bridges, and to undertake necessary works related to reconstruction, rehabilitation, and retrofitting of these structures. The vulnerability of the transport sector was highlighted during the 2009 storm season; national and local roads and bridges experienced damage from destructive water flows that caused flooding, rock falls, landslides and erosion. Beyond flood and typhoon risks, the Metro Manila Earthquake Impact Reduction Study (MMEIRS) created the worst case scenarios that the metropolis should prepare for, should the fault lines move. MMEIRS has assessed areas where transport networks would be crucial in response to this earthquake scenario.

90. To address these risks, DPWH is scaling up its bridges repair and retrofitting program and is planning to allocate around PHP1 billion from its own funds to implement improvement works in Metro Manila, based on structural audits it has undertaken. As reflected in the policy matrix, for Metro Manila DPWH has budgeted PHP30 million to

[27] NDRRMC is undertaking a multi-hazard mapping and assessment project in partnership with key government agencies, such as Philippine Institute of Volcanology and Seismology (PHIVOLCS), Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA), Department of Environment and Natural Resources – Mines and Geosciences Bureau (DENR-MGB), and National Mapping and Resources Information Authority (NAMRIA). This “Hazards Mapping and Assessment for Effective Community-Based Disaster Risk Management Project” (or READY) was launched in 2007. It will conduct multi-hazard mapping exercises across 27 provinces located along the eastern part of the Philippines. This is funded by a $1.9 million grant from the AusAID with technical assistance from UNDP. The project is helping to establish hazard maps and community-based early warning systems.

conduct detailed engineering works and retrofit/reconstruct at least ten selected bridges. There will be a roll-out program to determine evaluations and retrofitting requirements of bridges in other regions beyond Metro Manila starting in 2011. In addition, DPWH has already proposed a budget allocation for 2012 of PHP1.22 billion, which would include this program.

91. ***Health***. It is important to increase the resilience of investments to avoid massive losses and casualties in the event of a disaster. This is especially crucial for critical lifeline infrastructure like hospitals and other health facilities that must not only withstand the impacts, but also remain functional to serve those who may be in need of medical services, as proved to be the case during the last major flooding in 2009 during Tropical Storm Ondoy and Typhoon Pepeng. Based on results of the PDNA, the health sector suffered PHP1.16 billion in damages to public facilities, as well as technical equipment and medicines that were stored at ground level and consequently destroyed by flooding. Most damage and losses were concentrated in Metro Manila, and most public health facilities in Metro Manila were unable to provide any form of service during the disaster. The PDNA valued total damages and losses at US$123.8 million and the needs for recovery and reconstruction at US$110.5 million.

92. To increase the resilience of facilities to natural hazards, and as part of its commitment to the UNISDR Safe Hospitals Program, the Department of Health (DOH) has developed and adopted safe hospitals guidelines in consultation with WHO. As part of the program, it has undertaken structural audits of 25 public and private hospitals and health centers in Metro Manila. Funding has been mobilized for 2011 to continue the audit of hospitals in Metro Manila, eventually scaling up the program to reach 180 public and private facilities in the next three years; this has been included as an indicator in the policy matrix for this operation (see Annex 2). Additional government funding to implement the results of the 2011 audit for public hospitals is proposed for 2012.

93. Audits of LGU facilities and hospitals have not yet been carried out, but there are plans to scale up the Safe Hospitals Program to cover localities outside the capital region over time. WHO is providing ongoing technical assistance to DOH on its Safe Hospitals Program.

94. ***Social Development***. The new administration has been defined by a strong emphasis on social development policies and plans, especially as it seeks to reach targets under the Millennium Development Goals. The increases in the budgets of the Departments of Health (13 percent), Education (19 percent), and Social Welfare and Development (124 percent) in 2011 over the previous year clearly demonstrate this priority. Inclusive growth is the primary target of the current administration, articulated in the “President’s Social Contract with the Filipino People.” In order to achieve inclusive growth, the government plans to implement social safety nets and improve delivery of basic social services to the poor, many of which are vulnerable to natural disasters. The Conditional Cash Transfer (CCT) program, known locally as the *Pantawid Pamilyang Pilipino Program* (4Ps), serves as the centerpiece poverty reduction program of the Government. The program will be expanded from 1 million to 2.3 million households from the poorest communities nationwide.

95. The government is also trialing enhanced approaches to livelihood programs for the urban poor. These initiatives are expected, among other things, to build resilience against the

impact of major natural disasters. The 4Ps and the KALAHI-CIDSS and ARMM Social Fund (ASFP) community-driven development programs will also be used as a platform for community education on disaster preparedness. A revised training module will be rolled out for 4Ps, ASFP and KALAHI-CIDSS beneficiaries in locations across the country, as indicated in the policy matrix.

96. In line with community and informant feedback received as part of the Social Impacts Analysis (SIA) conducted following Tropical Storm Ondoy and Typhoon Pepeng, the use of block grants was highlighted as an effective and rapid means to re-establish services and fund public goods not supported by other sectors. Another key recommendation of the SIA included the use of cash transfers to reach vulnerable and marginalized groups. Thus, the proposed simplification and adaptation of KALAHI-CIDSS procedures to enable a more effective community-based response to disasters through block grants, which is included as an indicator in the policy matrix, is expected to have a significant positive impact on disaster-affected communities.

C. Third Policy Area - Better manage the Government's Fiscal Exposure to Natural Hazard Impacts

97. Historically, natural disasters have had grave social and economic consequences for the country. The two most recent powerful storms that struck the Luzon Island (including Metro Manila) in 2009 caused economic damage of 2.7 percent of GDP. Although the national and local government budgets are the main source of post-disaster funding in the Philippines, the fiscal capacity of the government at both the national and local levels is limited. Using direct damage and loss statistics[28] from the 2009 Tropical Storm Ondoy and Typhoon Pepeng incidents as a guide, this would amount to approximately 3 percent of total post-disaster recovery and reconstruction needs, and to about 5 percent of total public sector disaster recovery and reconstruction needs.[29]

98. Most of the residual economic loss gets absorbed by owners of destroyed assets – homeowners, small and medium enterprises (SMEs), farmers, and LGUs. The picture looks even bleaker if one considers the ability of governments at all levels to finance damages caused by extreme catastrophic events. Insurance coverage for natural disasters among homeowners, farmers, SMEs and local governments is at a very nascent stage. Although insurers do not keep track of issued individual catastrophe insurance covers, the number of catastrophe insurance policies across the whole country was estimated to be somewhere between 70,000 and 175,000 in 2007, which translates into a 0.3–1.0 percent insurance penetration for housing. Catastrophe insurance coverage among SMEs is even lower.

99. ***Funding Gap.*** Financial resources available from the national disaster risk financing system can currently cover only a small fraction of the annual expected economic loss from

[28] The term "damage" means direct property damage sustained by physical structures and their contents as a result of a catastrophic event, whereas the term "loss" means additional adverse effects of natural disasters on the economy that manifest themselves in the form of lost employment income and business earnings due to business interruption, as well as loss of government tax revenue and additional costs involved in restarting the economy in the aftermath of a natural disaster.

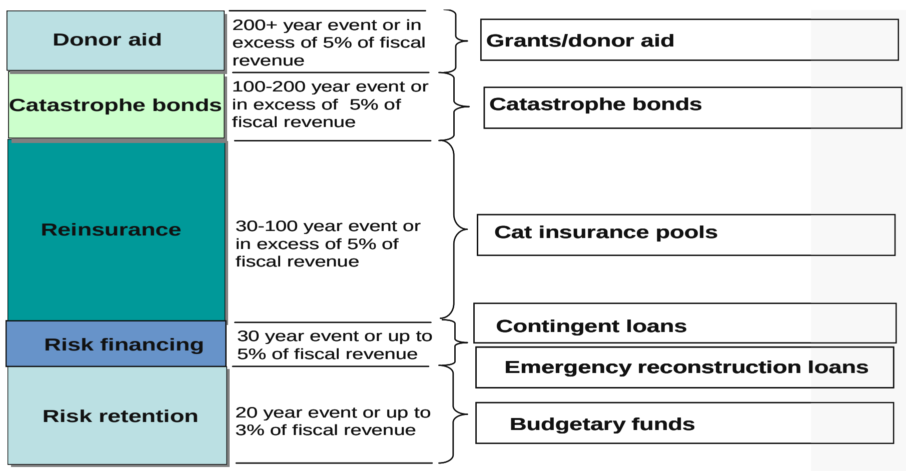
[29] In the case of Ondoy and Pepeng, direct property damages accounted for only about 30 percent of total economic losses caused by these events, while the public sector post disaster recovery and reconstruction needs accounted for 55 percent of total needs. See *Typhoons Ondoy and Pepeng: Post-Disaster Needs Assessment* (World Bank, 2009) for details.

natural disasters that occur across the country. To reduce vulnerability, the main government priority in disaster risk financing is to ensure the availability of financial resources for catastrophic events with a return period of up to 30 years (e.g., with an expected probability of 3.3 percent or higher), which falls within the lower layers of fiscal risk.

100. The fundamental principle of risk layering is that the selection of risk financing instruments should be based on the frequency and severity factors of underlying catastrophic events. In simple terms, risks with high frequency tend to be less severe, hence, can be retained or self-financed by the affected party. In contrast, risks with low frequency are likely to result in severe damages and therefore should be transferred to third parties best equipped to handle them, such as private capital markets.

101. An illustration of the risk layering pyramid is provided in Figure 1 below. The existing system of disaster risk financing in the Philippines relies mainly on the national annual budget regardless of the frequency and severity categorization of catastrophic events. As a result, the current system of disaster risk financing has been unable to effectively cope with even relatively small but frequent events, once the budgetary resources allocated for the task during the year have been depleted.

Figure 1: Catastrophe Risk Financing Pyramid



102. The DRRM Act and SNAP have the following provisions to support catastrophe risk financing and transfer reforms: (a) develop appropriate risk transfer mechanisms that guarantee social and economic protection and increase resiliency in the face of disaster; and (b) manage and mobilize resources for disaster risk reduction and management, including the National Disaster Risk Reduction and Management Fund.

103. Another key reform introduced by the new DRRM Act is to revamp the NDRMRF and the (LDRRMF, respectively. The budget for NDRMRF has been increased from PHP2 to 5 billion in the 2011 General Appropriations Act. Funding support is now permitted not just for ex-post (i.e., relief, recovery and reconstruction), but also for ex-ante actions (i.e., mitigation, preparedness, and prevention). It also allows any unspent funds to be rolled over at the end of the fiscal year and accrue for up to five years, as well as to be used by LGUs to

purchase insurance coverage at the local level. With the reform of the national disaster risk management funds and the approval of the CAT-DDO, the GOP will have successfully addressed the financing of lower levels of catastrophe risk.

104. A key monitoring indicator for this operation will be the preparation of a catastrophe risk financing strategy by GOP. This would support the target outcome of this policy area: the Government reduces its fiscal exposure to natural disasters, as measured by increased investments for preventive measures and expanded options for risk financing. It is expected that such a strategy would address some of the remaining key areas of catastrophe risk financing that need reform in the Philippines, particularly addressing the issue of risk transfer of the higher layers of risk (higher impact, lower frequency events). These could include:

- Ensuring that public assets are insured at replacement value;

- Linking mortgage lending with catastrophe insurance and introducing a requirement for condominium associations to add catastrophe insurance into the scope of their building coverage;

- Review of risk financing options targeting the private sector;

- Harmonizing the tax on insurance premiums to encourage the further development of the local insurance market;

- Setting up of a Catastrophe Recovery Financing Pool for LGUs; and,

- Encouraging further innovation in the micro-insurance sector for the poorer segments of society.

105. The prior actions agreed with GOP are consistent with the five good practice principles on conditionality, as identified by the Bank's 2005 review and its updates.[30] Box 3 describes how this operation is aligned with each of these principles.

VII. Operation Implementation

A. Poverty and Social Impacts

106. **The disproportionate impact from natural disasters on the poor has been extensively documented at the global level**, 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 can also increase poverty indirectly through the effects of lower economic growth, higher

[30] "Review of World Bank Conditionality: Good Practice Note for Development Policy Lending Results in Development Policy Lending." World Bank, 2005.

inflation (the poor are more vulnerable to inflation), and through consequential lower government spending for social services.[31]

Box 3: Good Practice in Development Policy Lending

Principle 1: Reinforce ownership

- This operation is driven by GOP and there is clear commitment and ownership to the policy actions among stakeholders. The CAT-DDO is aligned with the government's DRRM Act and SNAP.

Principle 2: Agree up front with the government and other financial partners on a coordinated accountability framework

- The proposed operation is based on a framework of previous actions and expected outcomes that build on the DRRM Act that is extremely comprehensive, covering risk reduction, capacity building, emergency preparedness and response, and risk financing and transfer; it also builds on the SNAP, which lays out the government's priorities for disaster risk reduction over the next 10 years, consistent with its commitments under the Hyogo Framework for Action.

Principle 3: Customize the accountability framework and modalities of Bank support to country circumstances

- The operation features the client's requests, and the policy matrix has been adopted to suit country circumstances and the CAT-DDO modalities.

Principle 4: Choose only actions critical for achieving results as conditions for disbursement

- As indicated, funds may be drawn down upon occurrence of a natural disaster resulting in a declaration of a state of calamity by the President.

Principle 5: Conduct transparent progress reviews conducive to predictable and performance-based financial support

- The policy matrix contains outcomes that are closely linked to the supported policy actions and indicates the main responsible entity.

107. **A Social Impacts Analysis (SIA)[32] carried out as part of the PDNA in the immediate aftermath of Ondoy/Pepeng** provides an overview of the impacts of natural disasters on poor and vulnerable groups. Additional details on the SIA methodology and next steps are provided in Annex 7. A follow-up Social Impacts Monitoring (SIM) exercise is currently under way. The SIM intends to assess the longer-term impacts of the disaster in affected communities and monitor the implementation and effectiveness of the disaster response. The analysis and recommendations in the report are expected to further inform reconstruction efforts in both urban and rural areas. Research is being implemented with the close involvement of government stakeholders, development partners and civil society organizations.

[31] "Fund Assistance for Countries Facing Exogenous Shocks," International Monetary Fund, Washington DC, 2003, http://www.imf.org/external/np/pdr/sustain/2003/080803.pdf).

[32] The SIA was implemented by the Institute of Philippine Culture and employed qualitative research methods, primarily focus group discussions with diverse groups of residents and key informant interviews with community leaders and highly vulnerable individuals (including the elderly and the sick). These were supplemented by the collection of secondary data, participant observation, and community walkthroughs. The initial findings were validated through feedback sessions with the residents and non-governmental organizations and partner organization research partners.

108. **In terms of socio-economic impacts,** the SIA highlighted a near total loss of crops and livestock across all sites visited, with land also becoming temporarily, and in some cases, permanently, unusable. In the coastal areas visited, yields from fishing dropped significantly. More diversified livelihood strategies in urban areas indicated a greater potential for households to recover, particularly in cases where families had varied sources of income. The most severely affected households in urban areas were those that relied on a single home-based business, since both equipment and inventory were often lost. The main coping strategy adopted after the disasters was to take on temporary work. However, this was particularly challenging in rural areas where the research team found few opportunities to earn off-farm income. Migration to another barangay, to Manila and other urban areas, or another country, was very rarely considered. Sources of credit regularly used prior to the storms often became unavailable. Where households were able to borrow, they frequently used loans to cover basic expenditures and to pay back other loans. Households had to reduce expenses further by cutting down on food, and there were reports of children being taken out of school and of older children working. With few assets and no land to sell, many of the most vulnerable households feared that they would not be able to recover.

109. **The SIA indicated that readiness of local governments to respond to the flooding varied significantly.** Emergency preparedness plans were not systematically implemented. Relief was provided in all areas visited,[33] but with variable quality and promptness.[34] This was linked to the fact that relief was provided through a number of sources with no minimum standards adhered to across sites. While there were no reports of groups excluded from assistance, there were a number of unmet needs (including non-food items, hygiene products, shelter as well as basic health services, education, water and sanitation, and psycho-social support). While livelihoods were severely disrupted, the assessment found that limited government assistance was being provided to re-establish households and micro-businesses.[35]

110. **Communities in the LGUs visited reported that they had not been consulted on their needs for relocation and restoration of livelihoods at the time of the research**. This may have been the result of LGUs still having to deal with the immediate relief efforts. Consequently, there was a sense of confusion among communities as they had little information about specific plans for relocation and other recovery measures. Responses to the idea of relocation were mixed, with communities in urban areas, those highly dependent on their place of residence for income, and indigenous groups being the most reluctant to move. Rural communities were more open to relocation. Communities visited in Metro Manila indicated that their knowledge of the poor conditions in relocation areas further lessened their desire to move. All stressed the importance of being able to pursue viable livelihood strategies in any new area of residence. Capital was consistently considered to be the key input needed to resume income-generating activities. Where livelihoods were particularly precarious, even

[33] The municipalities and Barangays visited for Metro Manila and Rizal were: Kasiglahan Village 1 (San Jose, Montalban), Doña Imelda (Quezon City), Camacho (Nangka) and Marikina Heights (Marikina City), Maybunga (Pasig City), Southville, Caingin (Sta Rosa City) and Malaban, Santa Cruz (Laguna). In Northern and Southern Luzon they were: Botolan, (Zambales), Rosales and San Fabian (Pangasinan), Santa (Ilocos Sur), Naguilian (La Union), Baliwag, Bustos, San Ildefonso (Bulacan), Cabanatuan City and Palayan City (Nueva Ecija), Puguis, La Trinidad (Benguet)

[34] Handicap International's Rapid Assessment Report, October 2009.

[35] Self-Employment Assistance – Kaunlaran was the only government scheme communities referred to (in two peri-urban/urban sites).

severely affected families were willing to take considerable risks to return to their previous locations. This was also true in the areas where local government had issued an order to prevent households from returning to river-banks.[36]

111. **Improvements in national disaster risk management and vulnerability reduction strategies are expected to benefit the poor.** The disaster risk management policy framework supported by this DPL is unlikely to harm the poor, and several of the proposed programs have the potential to deliver poverty-reducing impacts over the medium term. This operation is expected to have a significant positive impact on communities recurrently hit by natural disasters. The proposed operation will not address all of the weaknesses identified in the SIA, but it is expected to have a positive impact on the poor and marginalized by: supporting strengthened national and local mechanisms and capacity for coordination and preparedness; building resilience into development planning with a focus on the health and infrastructure sectors; enhancing financial monitoring and accountability systems; employing the conditional cash transfer and community-driven development platforms for broad-based community risk reduction and preparedness training; and improved catastrophe risk financing.

112. **Consultation.** The Government's DRRM program, which comprises the 2010 DRRM Act and the SNAP, were developed through a series of consultations with government, civil society and development partners. This operation builds on the Government program and reflects key sectors and priority areas which were determined based on the Bank's analytical work and on a comprehensive series of consultations led by the Department of Finance with inputs and participation of various government sectors to ensure coordination and support the program. The sectors and themes supported by this operation were selected based on: (a) the level of readiness based on actions taken and/or planned in order to achieve compliance with the new DRRM law; (b) the level of priority for the Government; (c) supplemental support from other donors; and (d) and overall sectoral support and commitment to the program.

B. Environmental Aspects

113. **The specific actions supported by this DPL are not expected to have significant negative effects on the environment, forests or other natural resources.** They would instead strengthen and complement existing laws and regulations on environmental management, e.g., the environmental impact assessment (EIA) law, particularly in ensuring that investments take into account DRRM and CCA. The country has extensive laws on environmental management, one of which is the Philippine EIA System which requires the conduct of Environmental Assessment and securing an Environmental Compliance Certificate for projects that are located in environmentally-critical areas and projects considered environmentally-critical. The Bank has recently conducted a country safeguards systems diagnostic review, which indicates that country's policies on Environmental Assessment and Indigenous Peoples' are comprehensive and reasonable compared to internationally-accepted standards, including the Bank's operational policies on safeguards.

114. The implementation of existing safeguards laws and regulations could be strengthened. Both the Bank and the ADB are assisting the Government to improve the

[36] This was the case in Naguilian with households who make their living from collecting and loading sand from the river bed. They had returned to the area immediately after the flooding to continue working.

implementation of the EIA Law. The Bank, through a recent Institutional Development Fund grant, has also assisted the National Commission on Indigenous Peoples in strengthening the implementation of the Indigenous Peoples Rights Act.

115. The Bank, the Government and other stakeholders are continuing a dialog to enhance the resettlement policies of the country. Specifically, the Bank, ADB, NEDA, and other concerned agencies and civil society organizations have drafted harmonized guidelines on involuntary resettlement to better align them with internationally-accepted principles and practices. This work is a follow up to the Bank's country safeguard systems diagnostic review. In addition, the Bank is currently assisting the Government in developing a National Slum Upgrading Strategy that seeks to promote a more participatory and sustainable approach in dealing with informal settlers, particularly in urban areas.

C. Implementation, Monitoring and Evaluation

116. The Department of Finance is the main counterpart of the World Bank on budget support operations, but policy dialogue, monitoring and evaluation of the program is shared with NDRRMC, which comprises several key government agencies. The full list of members and the organizational diagram is available in Annex 6.

117. The Government and the Bank will maintain a close policy dialogue during the implementation of the program throughout the drawdown period. The Bank will conduct implementation support missions periodically to monitor the program. Periodic monitoring may take place at a frequency consistent with the information needs of the Bank, but no less than every 12 months, and could be initiated by either the Bank or the Borrower.

118. If at any time during the drawdown period the Bank concludes that the DRRM program is not being implemented in a manner satisfactory to the Bank, the Bank would promptly advise the Borrower of the need for improvement and that a subsequent review would be necessary to confirm that the DRRM program is being implemented satisfactorily before it would be able to grant any request for drawdown. In this case, follow-up monitoring would be more frequent until a review confirms that the program is back on track. Once the Bank is satisfied that drawdown conditions are again in place, the Bank would inform the Borrower that its eligibility to submit disbursement requests has been restored.

D. Fiduciary Aspects

119. In general, the public financial management system is considered acceptable for this operation. The Public Financial Management (PFM) system has a number of strong points which have been identified in the Public Expenditure and Financial Accountability (PEFA) assessment. These include a comprehensive budget, reasonable comprehensiveness of information included in budget documentation[37], and adequate cash and debt management and monitoring of guarantees. In addition, the Philippines has a strong record of aggregate fiscal controls and, since 2001, of maintaining aggregate fiscal discipline.

[37] The Philippine Government publicly publishes the General Appropriations Act in its official Gazette and on the Department of Budget and Management Website. The 2011 GAA is available online at: http://www.dbm.gov.ph/index.php?pid=8&xid=28&id=1364.

120. While it is difficult to fully assess PFM improvements since the 2007 PEFA assessment, the trend appears positive, given the development of a comprehensive PFM reform road map. This includes compliance with the International Public Sector Accounting Standards, which will ultimately lead to a consolidation of the national accounts. There is also renewed commitment to a uniform account code structure and a government integrated financial information system. However this has yet to be implemented.

121. Overall, progress has been made in implementing the public financial management (PFM) reform agenda, and the current administration has indicated its willingness to pursue further PFM reforms. The new President is perceived as genuinely wishing to address corruption issues and improve transparency and accountability which were major components of his electoral program. However, Congress has yet to confirm its interest in PFM improvements.

122. Regarding financial sector risk, the 2010 Article IV Consultations mission of the IMF found that the financial sector withstood the recent global financial crisis well and that developments in recent quarters continue to support the January 2010 Financial System Stability Assessment, based on the findings of the November 2009 Financial Sector Assessment Program Update mission, that it remains sound.[38]

E. IMF Safeguard Assessment of the Central Bank

123. There is no IMF Safeguard Assessment of the Central Bank. The Annual Financial Statements of Bangko Sentral ng Pilipinas (BSP) is audited by COA. Based on a review of the audit reports, and the experience with prior budgetary support operations in the Philippines, nothing came to the attention of the Bank that would indicate that the banking control environment into which the loan proceeds would flow is other than adequate under the proposed arrangements.

F. Disbursement and Auditing

124. The Government has elected the deferred drawdown option (DDO) as the disbursement mode for this operation. The DDO feature gives an IBRD Borrower the option of drawing down the DPL during a three-year period, which can be extended up to four additional three-year periods during which the DPL with the DDO can be disbursed. Each extension will require the approval of the Regional Vice President of the Bank.

125. The CAT-DDO may be drawn down at any time subsequent to a natural disaster resulting in a declaration of a State of Calamity by the President in accordance with the DRRM Act, or as it may be amended by the Government at the time of disbursement.

126. Following a request for withdrawal, the Bank will disburse the loan proceeds into a deposit account at the BSP denominated in US dollars. After the deposit of CAT-DDO proceeds, BSP will immediately credit the equivalent in Pesos in the Borrower's budget

[38] The IMF team found that banks' non-performing loan ratios have stayed low and capital adequacy ratios high, and welcomed the authorities' careful monitoring of two sources of vulnerability, namely interest rate and concentration risk. Though asset bubbles have not been a concern so far, asset price movements warrant careful attention in an environment of rising external inflows.

system in the General Fund, and thereby be available to finance budget expenditures. The legal agreement will include a clause for the provision, upon the Bank's request, of an audit of the deposit account and a written confirmation that the amount of the disbursement has been credited to an account that is available to finance budgeted expenditures. Due to the described conditions, no additional fiduciary arrangements are deemed necessary for this operation.

G. Risks and Risk Mitigation

127. While the prior actions for the operation have been completed, the proposed loan is considered to be **medium risk**, due to the weaknesses in the PFM system, potential lack of availability of funding to support the policy action areas, ownership of the program among national and local government agencies, coordination issues among agencies responsible for following up on the progress made in terms of the proposed DRRM framework, and the lack of independent assurance due to the absence of the IMF Safeguards Assessment.

128. The first risk is **weaknesses in the Philippine PFM system**, particularly in internal controls/internal audit, the accounting/integrated financial management information system and limited responses to COA recommendations. However given the comprehensive PFM reform program which has been endorsed by the major players, implementation of which is about to commence, and the apparent commitment of the new President to improve governance, it seems reasonable to now assess fiduciary risk as only "substantial". This will need to be kept under review as the reform program proceeds.

129. It seems particularly important that this reform program make discernable progress in two key areas that have been continuing themes in all PFM diagnostics of the Philippines: (a) improving internal controls, including internal audit; and (b) improving information on budget execution, including the integration of the current diverse financial management information systems. The Bank maintains a strong dialogue with the Government and other development partners to accelerate implementation of the PFM reform agenda. Over time this will have an impact on the fiduciary risk, with a tendency to move gradually to moderate in the medium term.

130. **Political risks** include a provision in the DRRM Act that allows for congressional review of the law after five years of implementation. The law may be altered by congress, and depending on the scope of the revisions, the prior actions would need to be reviewed to ensure that they are in compliance with the program.

131. In terms of other political risks, while the central and local governments are in favor of disaster risk reduction, a current point of contention by LGUs is related to the LDRRMF, as it prevents them from generating annual savings for other expenses. The tracking and verifying of the NDRRMF allocations have also been very challenging and historically have not been done in a transparent manner, especially in terms of how LGUs were designated as recipients of post-disaster funds. It is anticipated that the proposed financial tracking system, as well as the issuance of guidelines for LGUs in terms of the use of LDRRMFs, will help mitigate these risks.

132. **Capacity risks** are prevalent, as the expansion of the mandate of the NDRRMC and the correlated staffing and budgeting structure still need to be clarified. In addition, there are

capacity constraints at the local level among LGUs that are mandated to address DRRM issues, but do not have adequate guidance on how to develop and carry out appropriate programs that are legally binding under the Act. For example, funds could be drawn down from the CAT-DDO but would not be as relevant if there is inadequate capacity at the national/local levels to carry out the post-disaster response, relief and recovery programs.

133. There are **implementation risks**, as many of the guidelines related to the implementation rules and regulations of the NDRRM Act need to be updated. In addition, the monitoring of progress of the Act across sectors is complex and requires the participation and coordination of several agencies. This may be difficult, given the financial and capacity constraints of the existing NDRRMC described above. In addition, a delay in the preparation and implementation of a catastrophe risk financing strategy could affect the mobilization of other funds, resulting in a negative shock to the country, if a large-scale natural disaster were to affect the Philippines.

134. In terms of the macroeconomic framework, **fiscal risks** are mainly centered on the ambitious revenue mobilization agenda of the Aquino administration. Increasing the tax effort through improved compliance and better tax administration might be a more protracted effort than is currently envisaged by the authorities. The adoption of tax policy measures would require approval from Congress, which in the recent past has proved difficult. This could delay or reduce the overall increase in the tax effort planned by the government.

135. In addition, it is anticipated there could be **reputational risks** for the Bank related to unintended second-order consequences as a result of the actions of sub-national entities based on their interpretation of the country's environmental and social policies for local development planning. It is expected this risk would be minimal due to the ongoing dialogue between the Government, the Bank and other partners on enhancing the country's involuntary resettlement policies, strong buy-in from counterparts, expected environmental and social benefits from the proposed programs, and ongoing technical assistance for implementation by several other donors and development partners.

136. The Bank will seek to minimize the political risk of this operation by focusing on actions that do not require legislative actions. The risks posed by limited institutional capacities are being addressed directly through the actions intended to strengthen disaster risk reduction and management capacities at the national and local levels and through parallel technical assistance through GFDRR and other donor programs. The reputational risks associated with this operation are being addressed by incorporating the lessons from previous DPLs with a CAT-DDO into the design of this operation, as well as through the preparation of a communication strategy to ensure that the public is aware of the purpose, benefits, and limitations of the proposed operation.

VIII. ANNEXES

ANNEX 1: Letter of Development Policy

Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

Letter of Development policy

July 01, 2011

Mr. Robert B. Zoellick
President
World Bank
Washington, DC

Dear Mr. Zoellick,

The Philippines is very vulnerable to the impacts of natural disasters, as such the Government is continuously implementing measures to mitigate the damage such calamities cause to the country. In response to one of the costliest typhoons in the history of the nation, the Government passed into law the Disaster Risk Reduction and Management (DRRM) Act (Republic Act No. 10121) on May 27, 2010, and adopted its Strategic National Action Plan for DRRM (SNAP) in June 2010. These two actions sought to institutionalize a coherent, comprehensive, and integrated approach to DRRM.

Crucial to a good disaster risk management strategy is the availability of financing options which the Government can access to pay for post-disaster reconstruction and rehabilitation efforts. In this regard, we request the support of the World Bank through a Disaster Risk Management Development Policy loan with a CAT-DDO (Catastrophe Deferred Drawdown Option), in the amount of US$500 million.

A. Recent Macroeconomic Performance and Outlook

After slowing down during the global financial crisis, economic growth in the Philippines recovered strongly to reach 7.6 percent in 2010, helped by supportive macroeconomic policies and boosted by a rebound in world trade. On the demand side, remittance-driven consumption and the pick-up of investment and net exports contributed most to the recovery. In this regard, the smooth transition to a new Administration in July 2010 and the government's focus on improving governance played an important role in strengthening investor confidence. On the supply side, the surge of industrial production and the services sector were the drivers of growth, while the agriculture sector was adversely affected by the onset of El Niño.

The external surplus continued to grow in 2010, underpinned by both the current and capital accounts. Financial conditions remained accommodative, partly reflecting external inflows. In response to these inflows, our monetary authority applied various macro-prudential measures and further liberalized controls on capital outflows in October 2010, while trying to repay external public debts ahead of schedule. The exchange rate nonetheless appreciated, but by less than in neighboring economies and reserves have continued to accumulate, reaching record levels.

Monetary policy responded well to the crisis and helped foster the recovery, while annual inflation has remained under 4 percent. Policy rates were cut during December 2008 – July 2009 and additional crisis-related liquidity support measures were introduced, which helped to cushion the economy against the global downturn.

While cognizant of a number of risks, we see the near term outlook to be generally positive for the Philippines. While inflation expectations appear to be on the high end of the 3 to 5 percent range targeted by the BSP, economic growth is projected to remain robust in 2011. The balance of payments is projected to remain in surplus, as remittances remain strong and the export sector diversifies, while the growth on investor confidence under the new Administration encourages further capital inflows.

B. Reforms Associated with the Disaster Risk Reduction and Management Program

The Declaration of Policy enunciated in the DRRM Act, specifically mentions, amongst others, the aim to:

(i) Strengthen the country's institutional capacity for DRRM and build the resilience of local communities to disasters including climate change impacts;

(ii) Include internationally accepted principles of disaster risk management in the creation and implementation of national, regional and local sustainable development and poverty reduction strategies;

(iii) Institutionalize the policies, structures, coordination mechanisms and programs with continuing budget appropriation for disaster risk reduction efforts from national down to local levels; and

(iv) Mainstream disaster risk reduction and climate change in development processes such as policy formulation, socio-economic development planning, budgeting, and governance.

To complement the DRRM Act, the Philippine Government has formalized the SNAP, which is a long-term plan to achieve commitments made under the Hyogo Framework of Action. The SNAP lists 18 programs and projects on disaster risk reduction that will be given priority over the next ten years. A key area addressed by the SNAP is the creation of an enabling environment conducive to disaster risk reduction.

C. Initiatives Supported by the Development Policy Operation

Strengthening institutional capacity for disaster risk management efforts

The DRRM Act and the SNAP are new, thus line agencies as well as local governments are in the process of determining their strategies to comply with the mandates of these policies. In this context, the 2011 budget allocation for the National Disaster Risk Reduction and Management Council (NDRRMC) submitted to Congress has been increased to factor in the new responsibilities of the Council under the law.

In the coming years, the government plans to support the establishment of DRRM units and/or teams within local government units (LGUs). Efforts to improve capacity for conducting post-disaster damage and needs assessments and preparedness drills are being pursued with donor support. In addition, the NDRRMC is in the process of developing a financial tracking system to enhance the transparency and accountability of disaster-related funding.

Mainstreaming disaster risk reduction into development planning

DRRM and climate change adaptation have been mainstreamed into the recently approved Philippine Development Plan (PDP) for 2011-2016. The government is undertaking a multi-hazard mapping and assessment project to inform land use planning and investment decisions. Below are some of our efforts to increase the resilience of the health, infrastructure and social development sectors:

Health: Ini tiatives such as the Hospital Preparedness for Emergencies have been organized by the NDRRMC, along with other concerned government agencies. Awareness-campaign programs are being implemented and DRRM-relevant courses have been introduced. In addition, as part of its commitment to the UNISDR Safe Schools and Hospitals Program, the Department of Health (DOH) has undertaken structural audits of 25 hospitals in Metro Manila and has plans to complete this process for the rest of the 180 health facilities in the area.

Infrastructure: The government has begun preparations for the Flood Management Master Plan for Metro Manila with World Bank support in January 2011. The Master Plan is a key recommendation of the 2009 Ondoy-Pepeng Post-disaster Needs Assessment and is being coordinated with ongoing programs for flood management. In Metro Manila, the Department of Public Works and Highways (DPWH) has conducted structural assessments of bridges that have been damaged or are in disrepair due to impacts of natural disasters and other factors.

Social development: The Department of Social Welfare and Development (DSWD) plans to enhance its Pantawid Pamilyang Pilipino Program (4Ps) and the Kapit-Bisig Laban sa Kahirapan – Comprehensive Integrated Delivery of Social Services (KALAHI-CIDSS) program by rolling out training modules on disaster preparedness and developing a mechanism to provide block grants for poor communities in the event of a disaster.

The National Economic Development Authority (NEDA) is also piloting guidelines for mainstreaming DRRM into provincial development and physical framework plans, with the goal of developing resilient provincial development plans and budgets.

Finally, we would like to note that in addition to the activities described above, the Philippine Government will also work to reduce the vulnerability of other sectors such as education, agriculture, environment, housing, urban development with the intention to strengthen these policies in the medium to longer term.

Better manage the Government's fiscal exposure to natural hazard impacts

The Philippines has in the past required immediate liquidity in the aftermath of a disaster event to quickly reestablish critical services, such as the case following Tropical Storm Ondoy and Typhoon Pepeng in 2009. Our request for support therefore focuses on this urgent need.

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The DRRM Act and the SNAP both have provisions to support catastrophe risk financing and transfer reforms. One of the key reforms being introduced by the new DRRM Act is to revamp the national and local calamity funds, which have been renamed the National Disaster Risk Management and Recovery Fund (NDRMRF) and the Local DRRM Fund (LDRRMF). The budget for the NDRMRF has been increased from Php 2 to Php 5 billion in the 2011 General Appropriations Act. Funding support is now permitted not just for ex-post, but also for ex-ante related actions and allows any unspent funds to be rolled over at the end of the fiscal year and accrue for up to five years.

Although the national and local government budgets are the main source of post disaster funding in the Philippines, our fiscal capacity at both the national and local levels is limited. The challenge remains to create a comprehensive financial protection strategy which would update the current regulatory framework and strengthen the institutional set up in order to improve our capacity to access resources and use them efficiently for disaster mitigation and post-disaster recovery situations. We plan to work closely with the World Bank and other partners to develop a catastrophe risk financing strategy to limit our fiscal exposure to natural calamities.

Conclusion

As outlined above, the Republic of the Philippines is committed to moving ahead in strengthening disaster risk management institutional capacity, mainstreaming disaster risk reduction into development planning, and reducing the Government's fiscal exposure to natural hazard impacts. Aware of the importance of strengthening the national capacity for carrying out the national disaster risk reduction and management program, the Government reaffirms its request to the World Bank to implement the DPL with a Catastrophe Deferred Drawdown Option (CAT-DDO), as well as our commitment to proceed with our Disaster Risk Reduction and Management Program.

Yours sincerely,

Cesar V. Purisima
Secretary
002605

ANNEX 2: DPL Policy Matrix

Development Objective: Enhance the capacity of the Government of the Philippines to manage the impacts of natural disasters				
Prior Policy Actions	**Action Areas**	**Progress as of April 1, 2011**	**Key Output Indicators**	**Outcomes by 2014**
Enactment of the 2010 Disaster Risk Reduction and Management Act (Republic Act No. 10121) of May 2010. This law seeks to mainstream risk reduction into development policies and processes. Focus has been expanded from ex-post actions and funding for emergency response, relief and recovery to include ex-ante actions and funding for risk reduction, preparedness, and prevention.	Strengthen the institutional capacity for disaster risk management efforts.	DILG is implementing various programs enabling the local governments to comply with the DRRM Law. These programs are supported by GIZ, World Food Programme, UN-Habitat. UNDP, AusAID, GFDRR, and other donors. DILG has also allocated PHP 10.5 million of its own funds for these programs. Capacity building activities include integration of DRRM and CCA in local governance, vulnerability and adaptation assessment, multi-hazard mapping, early warning system, and structural audit of local infrastructure, among others.	*DILG supports the establishment of functional local DRRM units or offices.* Baseline: 4 provinces. Target: 14 provinces.	Local governments have increased capacity to manage the impacts of natural disasters in terms of preparedness, risk reduction and mitigation measures.
Adoption of the Strategic National Action Plan for Disaster Risk Reduction (Executive Order No. 888) of June 2010.This is a 10-year plan to achieve commitments made under the Hyogo Framework of Action.		NDRRMC is mobilizing grant resources from GFDRR to support the establishment of the financial tracking system. The terms of reference for the tracking system have been prepared. Drafting of the guidelines on the use of LDRRMFs is ongoing, based on initial discussions between COA, NDRRMC, DILG and DBM.	*NDRRMC develops a monitoring system to track disaster-related financing and guidelines on the use of LGU Local Disaster Risk Reduction and Management Funds (LDRRMF) are issued.* Baseline: No financial tracking system is in place and new guidelines to LGUs on the use of the LDRRMFs have not been issued.	

Development Objective: Enhance the capacity of the Government of the Philippines to manage the impacts of natural disasters				
Prior Policy Actions	**Action Areas**	**Progress as of April 1, 2011**	**Key Output Indicators**	**Outcomes by 2014**
		NDRRMC is mobilizing grant resources from GFDRR to develop a training program for conducting post-disaster damage and needs assessment and to capacitate agencies on its use. A budget increase for the Office of Civil Defense, the mandated Secretariat of NDDRMC, is planned in 2012 to support various programs, including capacity building.	*NDRRMC has rolled out training programs for national and regional government authorities to conduct post-disaster needs assessments and emergency preparedness drills.*	
	Mainstream disaster risk reduction into development planning.	DRRM and CCA are included as specific and prominent elements of the Philippine Development Plan for 2011-2016, approved by the NEDA Board on March 28, 2011. A Memorandum of Understanding was signed on February 25, 2011between NDRRMC and the Climate Change Commission to harmonize and coordinate efforts related to disaster risk reduction and climate change adaptation, especially at the local level. NEDA has organized and trained regional core teams and forged partnership agreements with provinces to support DRR and CCA enhancements in their PDPFPs.	*Provinces have mainstreamed climate change adaptation and disaster risk reduction measures into their Provincial Development and Physical Framework Plans (PDPFP).* Baseline: 1 province. Target: At least 30 provinces.	Provincial level investments and key sectoral investments in health, transport and social development are more resilient to natural disasters.
		The Department of Health (DOH) has developed and adopted safe hospitals guidelines in consultation with the WHO. A series of training programs has been conducted for hospital administrators on the	*Disaster risk reduction measures are mainstreamed into at least three sectors: health, transport, and social development.*	

Development Objective: Enhance the capacity of the Government of the Philippines to manage the impacts of natural disasters				
Prior Policy Actions	**Action Areas**	**Progress as of April 1, 2011**	**Key Output Indicators**	**Outcomes by 2014**
		Safe Hospitals Program of DOH. DOH has allocated PHP300 million (2011) for improvements in public facilities. Contracting process has started, with PHP5 million allocated to hire a firm to conduct additional audits.	HEALTH: DOH expands coverage of its Safe Hospitals Program, in accordance with WHO guidelines, by conducting audits of health facilities in Metro Manila. Baseline: 25 health facilities. Target: At least 100 health facilities.	
		DPWH has conducted audits of 331 bridges in Metro Manila. PHP 30 million has been allocated for 2011 to prepare engineering designs. The proposed budget for bridges in 2012 is PHP 1, 212,655 million, including this program.	TRANSPORT: The Department of Public Works and Highways (DPWH) retrofits and/or reconstructs bridges in Metro Manila, based on the results of structural audits. Baseline: 0 bridges. Target: 10 bridges.	
		The DSWD Family Development Sessions (FDS) training modules are being revised to include disaster preparedness and risk reduction measures and will be rolled out in 4Ps and KALAHI-CIDSS communities. KALAHI-CIDSS is being adapted to support a “quick response” facility for post-disaster situations in DSWD Field Office 2.	SOCIAL DEVELOPMENT: Government community development and social protection programs are enhanced to better manage disaster impacts on communities and vulnerable households. Baseline: 0 Target: 1,000 communities receive DRR training under 4Ps and KALAHI-CIDSS; 4 Field Offices are covered by a community-based post-disaster response window.	

Development Objective: Enhance the capacity of the Government of the Philippines to manage the impacts of natural disasters				
Prior Policy Actions	**Action Areas**	**Progress as of April 1, 2011**	**Key Output Indicators**	**Outcomes by 2014**
	Better manage the Government's fiscal exposure to natural hazard impacts.	Draft catastrophe risk financing paper prepared with support from GFDRR/WB. The budget appropriation for the 2011 NDRRMF is secured, with an increase from PHP2 billion (2010) to 5 billion.	*Department of Finance has prepared its catastrophe risk financing strategy*.	The Government reduces its fiscal exposure to natural disasters, measured by increased investments for preventive measures and expanded options for risk financing.

ANNEX 3: Fund Relations Note

IMF Executive Board Concludes 2010 Article IV Consultation with the Philippines
Public Information Notice (PIN) No. 11/28
March 1, 2011

On February 18, 2011 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with the Philippines.[1]

Background

1. After slowing during the global financial crisis, economic growth recovered strongly during 2010. The recovery has been helped by supportive macroeconomic policies as well as strong private demand. The smooth transition to a new Administration in July 2010 and the government's focus on improving governance have strengthened investor confidence. The external surplus continued to grow in 2010, underpinned by both the current and financial account. Financial conditions remain accommodative, partly reflecting external inflows, although asset bubbles have not been a concern so far. Notwithstanding the strong recovery, fiscal revenue fell short of budget targets in January–September.

2. The near-term outlook is generally positive. Growth reached 7.3 percent in 2010 and is projected to moderate in 2011 to a still robust 5 percent. Inflation has been moderate and inflation expectations well anchored, although pressures may start to build during the coming quarters as demand closes in on the economy's supply potential. The balance of payments is projected to remain in surplus as remittances and export diversification support the current account balance and the Philippines continues to attract capital inflows, which may be largely structural in nature.

3. Risks to the outlook are broadly balanced. The positive economic sentiment in the country may boost private investment more than expected. However, renewed shocks to global growth and financial markets would affect Philippine exports and remittances.

4. Monetary policy responded well to the crisis and has helped foster the recovery. A 200-basis-point cut in policy rates during December 2008–July 2009, and additional crisis-related liquidity support measures, helped to cushion the economy against the downturn. With the recovery underway, the Bangko Sentral ng Pilipinas (BSP) appropriately started to unwind its liquidity support measures since early 2010. In July, it extended through 2014 the 3-5 percent inflation target for 2011.

5. The authorities have relied on the traditional toolkit for managing external inflows in recent years. They have sought to strike a balance between the various elements in the toolkit. The authorities further liberalized controls on capital outflows in October have had in place for some years macro-prudential measures that have worked well, tried to repay external debt ahead of schedule, and have avoided capital controls. The exchange rate has appreciated, although by somewhat less than in neighboring economies, and reserves have risen to high levels.

6. Fiscal consolidation is needed in order to create more fiscal space for the budget to be able to respond effectively to future shocks. Consolidation would improve medium-term growth prospects by lowering sovereign risk and enhancing investment and it would reduce the share of debt service in government expenditure. It would also help in managing the macroeconomic impact of external inflows. Against this background, the authorities intend to reduce the national government deficit to 2 percent of GDP from 2013. The main elements of the authorities' fiscal strategy are a greater tax effort, a reorientation of expenditure towards social sectors and infrastructure, and a debt management strategy that reduces the reliance on external debt and lengthens the maturity structure.

7. The Philippine financial sector withstood the crisis well, and has been sound and stable in recent quarters. The sector was relatively unaffected by the global market turbulence last year.

Executive Board Assessment

8. Executive Directors commended the authorities for skillful macroeconomic management, leading to a robust economic recovery and improved consumer and investor confidence. The economic outlook is generally favorable, with sustained growth and a strong external position. A key policy challenge is to preserve macroeconomic stability while enhancing medium-term growth. Meeting this challenge will require a careful exit from stimulus policies in a complicated external environment, and further reforms to promote investment.

9. Directors noted that monetary policy had succeeded in keeping inflation low while fostering the recovery, and welcomed the gradual unwinding of liquidity support. Given a potential buildup of price pressures in the near term, they encouraged the authorities to stand ready to tighten the monetary stance to head off inflation risks.

10. Directors underscored the need for an appropriate mix of policy tools to manage capital inflows, while facilitating productive use of these inflows. They supported the central bank's policy of allowing the exchange rate to adjust to market pressures and limiting intervention to smoothing operations. With the exchange rate broadly in line with fundamentals and reserves comfortable, greater exchange rate flexibility could be considered in response to additional inflows. Directors took note of the authorities' intention to further liberalize foreign exchange regulations and avoid capital controls.

11. Directors welcomed the planned gradual withdrawal of fiscal stimulus and the focus on medium-term consolidation, which would create space for priority investment. Noting the relatively high public debt, they encouraged the authorities to consider accelerating the pace of debt reduction. Directors noted that achieving the deficit targets and increasing social and infrastructure spending will require substantial revenue efforts, including broadening the tax base and strengthening tax administration. They recommended early actions to reform excise taxes, rationalize fiscal incentives, and address gaps in the value added tax, complemented by reforms to strengthen the budgetary framework and control of the civil service wage bill.

12. Directors noted that the financial sector withstood the crisis well, with high banks' capital adequacy ratios and improving profitability. Going forward, they emphasized the need to monitor key sources of vulnerability closely, particularly concentration and interest rate risks. While asset prices have not been a concern so far, they warrant attention in an environment of rising capital inflows. Directors looked forward to an early approval of the amendments to the central bank law, increasing legal powers and protection for the supervisory authorities, and further progress in strengthening the AML/CFT (anti-money laundering and combating the financing of terrorism) framework.

13. Directors stressed that promoting private investment and addressing impediments to job creation and productivity are crucial for raising potential growth. They agreed that the public-private partnership program can play an important part in this regard, and encouraged careful evaluation of projects that takes appropriate account of fiscal risks. Directors also welcomed the preparation of the Medium-Term Philippine Development Plan, and ongoing efforts to improve the business climate and infrastructure, and to deepen capital markets.

Philippines: Selected Economic Indicators, 2007–11

	2007	2008	2009	2010		
Growth and prices (percent change)						
Real GDP	7.1	3.7	1.1	7.0		
CPI (annual average)	2.8	9.3	3.2	3.8		
Public finances (percent of GDP)						
National government balance (authorities' definition)	-0.2	-0.9	-3.9	-3.8		
National government balance (IMF definition) 2/	-1.7	-1.5	-4.0	-3.8		
Total revenue and grants	15.8	15.8	14.6	14.5		
Total expenditure	17.4	17.3	18.6	18.4		
Non-financial public sector balance 3/	0.2	-0.3	-3.4	-2.6		
Non-financial public sector debt	61.0	60.7	60.7	58.0		
Monetary sector (percent change, end of period)						
Broad money (M3)	10.6	15.6	8.3	7.7	4/	
Interest rate (91-day treasury bill, end of period, in percent) 5/	4.2	5.8	4.3	1.8	6/	
Credit to the private sector	8.5	16.8	8.1	10.1	4/	
External sector						
Current account (percent of GDP)	4.9	2.2	5.5	5.4		
Reserves, adjusted (US$ billions) 7/	33.8	35.9	44.2	62.9		
Reserves/short-term liabilities, adjusted 8/	240.5	284.4	389.1	498.6		
Pesos per U.S. dollar	46.1	44.5	47.6	45.2	9/	

Sources: Philippine authorities; IMF staff projections.
1/ Public finance projections reflect the 2011 budget.
2/ Excludes privatization receipts and includes deficit from restructuring of the central bank (Central Bank Board of Liquidators).
3/ Includes the national government, Central Bank-Board of Liquidators, 14 monitored government-owned enterprises, social security institutions, and local governments.
4/ October 2010 (year-on-year).
5/Secondary market rate.
6/ November 2010.
7/Adjusted for gold and securities pledged as collateral against short-term liabilities.
8/Short-term liabilities include medium- and long-term debt due in the following year.
9/ Average for January to November 2010.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

ANNEX 4: Donor Supported DRRM Programs in the Philippines

Existing Projects with Donors and International Financial Institutions	Funding Agency/Local and International Partners
Policy Area 1: Strengthen the Institutional Capacity for Disaster Risk management Efforts	
Case Study on the Institutionalization of Albay Provincial Safety and Emergency Management Office	OXFAM-GB, Development Academy of the Philippines (DAP) and PDCC-Albay
Hazard Mapping and Assessment for Effective Community-Based Disaster Risk Management (READY)	AusAID; UNDP; PHIVOLCS, PAG-ASA; Mines and Geosciences Bureau-DENR, NAMRIA and OCD.
Improvement of Methodologies for Assessing the Socio-economic Impact of Hydro-meteorological Disasters	UN-ESCAP, UN-ECLAC, and UNDP
Emergency Response Network (ERN)	IBM International Foundational (ERN Sahana Philippines)
Web-based Event Database (CALAMIDAT.PH)	ADRC
Simultaneous Nationwide Earthquake Drills and the Nationwide Water Search and Rescue (WASAR) Training and the Program for Enhancement of Emergency Response (PEER)	Miami Dade Fire Rescue Department, USAID, and ADPC
Contingency Planning Manual	UN High Commissioner for Refugees
Online Natural Disaster Risk Management Program	World Bank Institute (WBI)
National Geohazards Mapping and Assessment	DENR; PHIVOLCS, and PAG-ASA
Enhancing the capabilities of local chief executives and their DCCs	LGUs
Upgrading the forecasting capability of the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA) and the Philippine Institute of Volcanology and Seismology (PHIVOLCS)	Japanese Grant Aid Program, JICA, MMDA
Housing and Livelihood Support to Disaster Victims	DSWD
Search for Excellence in Disaster Management (Gawad KALASAG) 2007	NDCC
Development of the Surveillance in Post Extreme Emergencies and Disasters (SPEED) System, and Capacity-building for DOH and LGUs on SPEED	AusAID, Government of Finland, USAID, MDG-F, WHO, and DOH
Strengthening Preparedness of Metro Manila Hospitals for Response to Earthquakes	WHO, DOH
Strengthening Surveillance and Early Warning System, Developing Vulnerability Assessment Tools, Building Capacity of Health Workers on Climate Change and Health, Providing Orientation and Training on Safe Hospitals in NCR and Albay, and Developing Health Promotion Plan and IEC Materials for Climate Change and Health	MDG-F, WHO and DOH
Training Courses related to Health Emergency	WHO and DOH

Management: Inter-regional and National Public Health Emergency Management in Asia and the Pacific (PHEMAP) Courses; Health Emergency Response Operations (HERO); Disaster Risk Communication	
Capability Building in Disaster Preparedness and Response	WFP, DSWD, DILG, and OCD
Building Community Resilience and Strengthening Local Government Capacities for Recovery and Disaster Risk Management	NDRRMC, UNDP, and CIDA
Enhancing Risk Analysis Capacities for Flood, Typhoon, Severe Wind and Earthquake for Greater Metro Manila Area (GMMA) or Risk Analysis Project (Metro Manila Post-Ketsana Recovery and Reconstruction Program Component 5	AusAID and OCD-CSCAND agencies
Policy Area 2: Mainstream Disaster Risk Reduction into Development Planning	
ASEAN Agreement on Disaster and Emergency Response (AADMER)	
Initiatives Towards Making Hospitals Safe from Disasters	DIPECHO, WHO, and DOH
Mainstreaming Disaster Risk Reduction in the Education Sector	ADPC
Metro Manila Flood Management Master Plan	GFDRR, WB, DPWH, MMDA and other government agencies
Disaster Preparedness through Educational Multi-Media	DEPED
2nd Phase of the Mainstreaming Disaster Risk Reduction into the Infrastructure Sector	ADPC and DPWH
Construction of Hazard Resilient School Buildings	DEPED
Community-based Disaster Preparedness: Development of Information and Education Campaign Materials (2nd component of the READY project)	AusAID, UNDP, PHIVOLCS, PAG-ASA; Mines and Geosciences Bureau-DENR, NAMRIA, and OCD.
Construction of Innovative Buildings	United Architects Philippines and Private Sector Disaster Management Network
Mainstreaming DRR and CCA into the Provincial Physical Framework and Development Plans	AusAID, NEDA, UNDP, and EC
Integrating DRR and CCA into Local Government Systems and Processes	GFDRR/WB, DILG, and LGUs
Policy Area 3: Better Manage the Government's Fiscal Exposure to Natural Hazard Impacts	
Mitigating the Adverse Impacts of Natural Disasters on the Philippines Economy: A Study of Disaster Risk Financing Options	GFDRR, WB, and OCD
Technical Assistance on DRR for Highly Urbanized Cities (title to be confirmed)	Asian Development Bank
Project Monitoring and Evaluation System	GFDRR, WB, OCD, DBM, NEDA, DOF, and COA

ANNEX 5: Members of the NDRRMC

1. The National Council is headed by the Secretary of the Department of National Defense as Chairperson with the Secretary of the Department of the Interior and Local Government as Vice Chairperson for Disaster Preparedness, the Secretary of the Department of Social Welfare and Development as Vice Chairperson for Disaster Response, the Secretary of the Department of Science and Technology as Vice Chairperson for Disaster Prevention and Mitigation, and the Director-General of the National Economic and Development Authority as Vice-Chairperson for Disaster Rehabilitation and Recovery.

2. The new Council is headed still by the Secretary of National Defense and its chairmanship is shared with four other agencies, focusing on specific dimensions of DRRM: the Department of Interior and Local Government (disaster preparedness); Department of Science and Technology (disaster prevention and mitigation); Department of Social Welfare and Development (post-disaster response); and the National Economic and Development Authority (post-disaster rehabilitation and recovery).

3. From an original set of 18 members, the new Council comprises over 30 members, including representatives from the national and local governments, the private sector, and civil society. The Act, including the institutional arrangements it has established, is subject to review by the Philippine Congress after five years of implementation.

The members of the National Council include the following:

a. Secretary of the Department of Health
b. Secretary of the Department of Environment and Natural Resources
c. Secretary of the Department of Agriculture
d. Secretary of the Department of Education
e. Secretary of the Department of Energy
f. Secretary of the Department of Finance
g. Secretary of the Department of Trade and Industry
h. Secretary of the Department of Transportation and Communication
i. Secretary of the Department of Budget and Management
j. Secretary of the Department of Public Works and Highways
k. Secretary of the Department of Foreign Affairs
l. Secretary of the Department of Justice
m. Secretary of the Department of Labor and Employment
n. Secretary of the Department of Tourism
o. The Executive Secretary
p. Secretary of the Office of the Presidential Adviser on the Peace Process
q. Chairman, Commission on Higher Education
r. Chief of Staff, Armed Forces of the Philippines
s. Chief, Philippine National Police
t. The Press Secretary
u. Secretary-General of the Philippine National Red Cross
v. Commissioner of the National Anti-Poverty Commission-Victims of Disasters and Calamities Sector
w. Chairperson, National Commission on the Role of Filipino Women;
x. Chairman, Housing and Urban Development Coordinating Council

y. Executive-Director of the Climate Change Office of the Climate Change Commission;
z. President, Government Service Insurance System;
aa. President, Social Security System;
bb. President, Philippine Health Insurance Corporation;
cc. President of the Union of Local Authorities of the Philippines
dd. President of the League of Provinces in the Philippines
ee. President of the League of Cities in the Philippines
ff. President of the League of Municipalities in the Philippines
gg. President of the Liga ng Mga Barangay
hh. Four (4) representatives from Civil Society Organizations
ii. One (1) representative from the Private Sector
jj. Administrator of the Office of Civil Defense

4. The enhanced mandates of the National Council include policy-making, coordination, integration, supervision, monitoring and evaluation. It is tasked to formulate a national DRRM Framework and Plan every five years that will guide DRRM efforts in the country. As in the past, the National Council does not implement activities, but acts through its members. Daily operations are carried out by the Office of Civil Defense, which functions as its secretariat.

5. At each level of Government - regional, provincial, city, municipal, and barangay - NDRRMC operates through a network of Local Disaster Risk Reduction and Management Coordinating Councils (LDRRMCs). In the aftermath of a disaster, the NDRRMC collects data on direct damages (but does not track losses) through the LDRRMCs and compiles requirements for support from the National DRRM Fund. In response to needs identified at both the national and local levels, the NDRRMC mobilizes its member-agencies to strategize a coordinated response; deploys civil and military defense personnel and equipment needed for immediate rescue operations to assist affected local governments; and prioritizes the allocation of the NDRRMF to affected local governments.

DRRMC ORGANIZATIONAL NETWORK

NATIONAL DISASTER RISK REDUCTION AND MANAGEMENT COUNCIL (NDDRMC)

17 REGIONAL DISASTER RISK REDUCTION AND MANAGEMENT COUNCILS (RDDRMC) – headed by the OCD Regional Directors

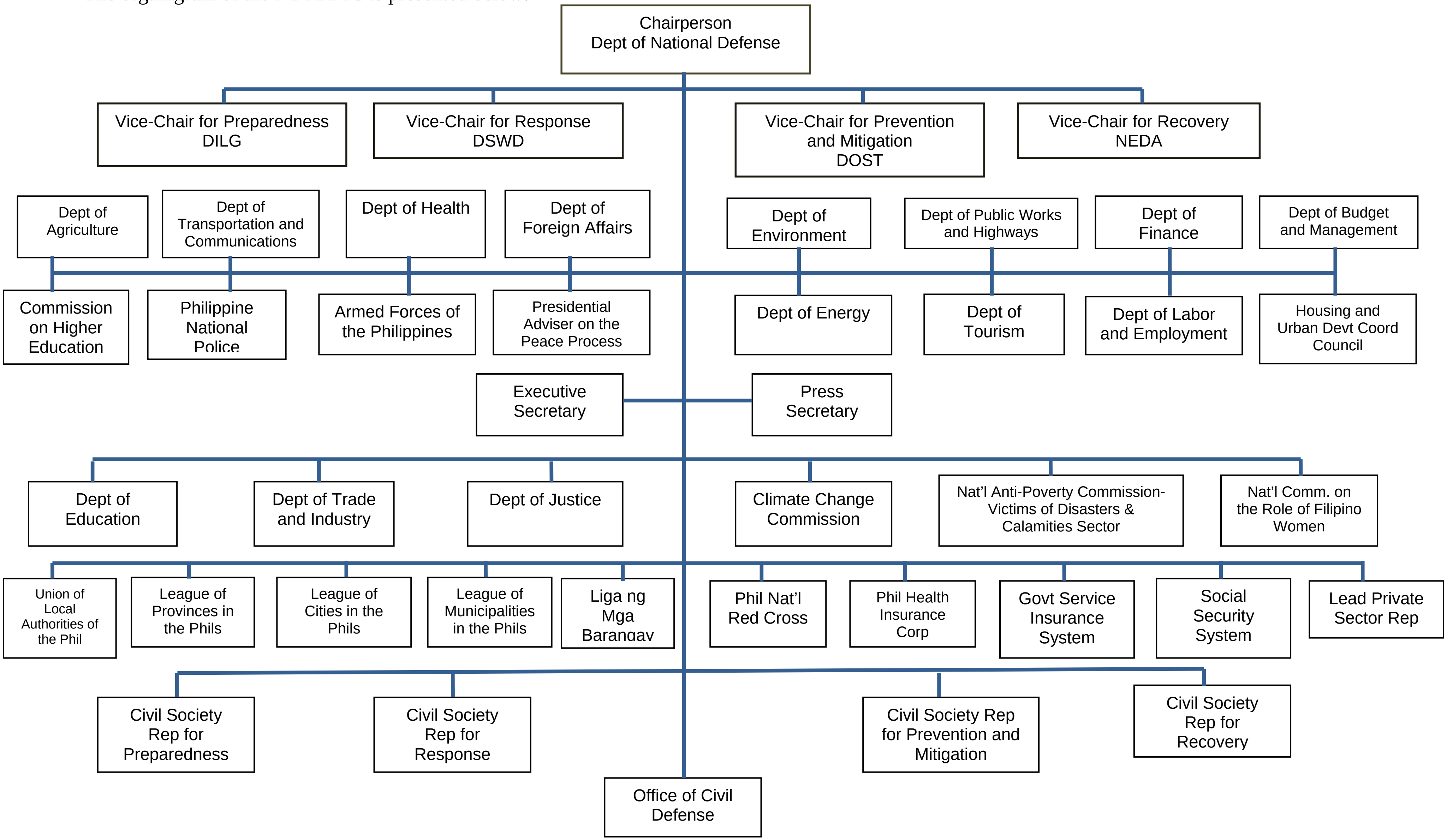
81 PROVINCIAL DISASTER RISK REDUCTION AND MANAGEMENT COUNCILS (PDDRMC)

113 CITY DISASTER RISK REDUCTION AND MANAGEMENT COUNCILS (CDDRMC)

1,496 MUNICIPAL DISASTER RISK REDUCTION AND MANAGEMENT COUNCILS (MDDRMC)

41,956 BARANGAY DISASTER RISK REDUCTION AND MANAGEMENT COMMITTEE (BDDRMC) – assumed by the existing Barangay Development Council (BDC)

The organigram of the NDRRMC is presented below.



ANNEX 6: Social Impact Analysis – Tropical Storm Ondoy and Typhoon Pepeng

A. Assessing the Immediate Social Impacts of Tropical Storm Ondoy and Typhoon Pepeng

1. ***Research on the social impacts of Tropical Storm Ondoy and Typhoon Pepeng was carried out as part of the Post-Disaster Needs Assessment (PDNA) implemented in 2009.*** In Metro Manila it was conducted by the Institute of Philippine Culture (IPC) with the support of civil society organizations active in the barangays visited.[39] Research in other affected areas of Luzon[40] was carried out by a joint Department of Social Welfare and Development (DSWD), World Bank and UN team.[41] The team used qualitative methods of data collection to carry out the assessment including participant observation, in-depth interviews and Focus Group Discussions.

2. ***Key informant interviews***. A total of twenty-five face-to-face interviews were conducted with representatives of the barangay local government unit (LGU), community associations, and highly vulnerable groups (as determined by the community) to provide depth to the FGD data. Among those who agreed to be interviewed were barangay captains and kagawad (council members), and partner organization leaders.

3. ***Focus group discussions (FGD)***. A total of twenty-eight FGD sessions, or four in each site, were held with four different groups representing various livelihoods, women, youth, and community leaders. Discussions had an average of seven participants, with women greatly outnumbering men. Inviting male participants proved difficult given the timing of the sessions.

4. ***Feedback sessions with the community and NGO-PO research partners.*** To validate the initial conclusions, the researchers facilitated on-site feedback sessions before leaving the communities. Attendance ranged from 34 (Doña Imelda) to 310 (Malaban) participants. Sessions in non-Metro Manila sites registered a relatively higher attendance (average of 237) than Metro Manila sites (average of 49).

5. The analysis focused on three key areas of enquiry: (a) socio economic impact with specific emphasis on the livelihood and coping strategies of vulnerable groups; (b) social relations and cohesion; and (c) governance.[42]

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[39] These included PhilSSA, JJCICSI, CO-Multiversity, Urban Poor Associates, Community Organization of the Philippines Enterprise, Community Mortgage Program, church parishes, PBSP and Homeless People's Federation.

[40] In addition, the findings include some preliminary information collected by various IASC Clusters, during their assessments (including National Capital Region, Regions I, III, IV-A).

[41] The municipalities and Barangays visited for Metro Manila and Rizal were: Kasiglahan Village 1 (San Jose, Montalban), Doña Imelda (Quezon City), Camacho (Nangka) and Marikina Heights (Marikina City), Maybunga (Pasig City), Southville, Caingin (Sta Rosa City) and Malaban, Santa Cruz (Laguna). In Northern and Southern Luzon they were: Botolan, (Zambales), Rosales and San Fabian (Pangasinan), Santa (Illocos Sur), Naguilian (La Union), Baliwag, Bustos, San Ildefonso (Bulacan), Cabanatuan City and Palayan City (Nueva Ecija), Puguis, La Trinidad (Benguet).

[42] Where possible, comparative analysis of informant responses in Metro Manila is expected to enable some quantitative tabulation and analysis of results.

B. Socio-Economic Impacts

6. ***The social impact assessment found that Tropical Storm Ondoy and Typhoon Pepeng severely disrupted livelihoods, particularly for farmers and agricultural laborers.*** A near total loss of crops and livestock was reported across all sites visited, and land became temporarily - and in some cases, permanently - unusable. In the coastal areas visited, yields from fishing dropped significantly. More diversified livelihood strategies in urban areas indicated a greater potential for households to recover, particularly in cases where families had varied sources of income. The most severely affected households in urban areas were those that relied on a single home-based business, since both equipment and inventory were often lost.

7. The main coping strategy adopted after the disasters was to take on temporary work. However, this is particularly challenging in rural areas where the research team found few opportunities to earn off-farm income. Migration to another barangay, to Manila, or abroad was very rarely considered. Sources of credit regularly used prior to the storms often became unavailable. Where households were able to borrow, they frequently used loans to cover basic expenditures and to pay back other loans. Households have had to reduce expenses further by cutting down on food, and there were reports of children being taken out of school and of older children working. With few assets and no land to sell, many of the most vulnerable households feared not being able to recover.

C. Impacts on Social Relations and Cohesion

8. ***The family was been the main source of support.*** In the majority of cases, the immediate family remained together, with no instances reported of dependents being sent to stay with relatives. Families played a key role in providing cash, accommodation, and food. The financial support provided was used for basic household expenditures but was insufficient to re-establish livelihoods. Remittances from overseas were not a viable coping strategy for the poor and vulnerable households in the community.

9. Ondoy and Pepeng did not have a significant impact on intra-household relations or social cohesion. Both gender and intergenerational roles remained unchanged. While women took on additional work outside the home, there was no evidence that gender roles within the household changed as a result. This was equally true of rural areas, where women often seemed to have more temporary work opportunities than men. For example, where women were found to be working away from home (as domestic workers) child-care responsibilities were handed over to older siblings or to female neighbors, even though the fathers might not have had a job at the time. Women continued to be the ones taking out and managing loans from informal lenders and micro-finance institutions. Where support networks (female family members, neighbors for example) were not available this could result in an increased work-load for women. During the rescue and immediate aftermath of the floods, men tended to take more risks, staying behind to secure the house and returning sooner to determine damage and

start repairs. Women and children were evacuated first. They were also the last to return home from temporary accommodation centers, which could place them at increased risk.[43]

10. **There were relatively few instances of collaborative behavior in rural areas, in contrast to the situation in urban areas.** The exception was indigenous communities where resources were pooled to carry out rituals to re-establish a sense of normalcy after the disaster. Formal homeowners and neighborhood associations in metropolitan Manila played an important role in the distribution of relief goods. There were no significant reports of increased insecurity in the areas visited.

D. Emergency Preparedness

11. Previous experience of moderate flooding resulted in households being reluctant to leave despite warnings in some areas, and the readiness of local governments to respond to the flooding varied significantly. In some areas, the respective roles of the municipality and the barangay were clearly defined, and emergency response plans were followed effectively. Overall, however, emergency preparedness plans were not implemented systematically.

12. In Northern and Southern Luzon, the range of responses can be illustrated by the examples from Santa, Ilocos Sur, and Naguilian, in San Fernando, La Union. In Santa, the respective roles of the municipality and of the barangay were clearly defined. A public warning was issued three days before the typhoon. Frequent rounds were also made by emergency teams the day before the typhoon hit to evacuate the more reluctant community members. In the case of Naguilian, no emergency preparedness plan was in place. The lack of a flood warning/monitoring of the rising river water meant that a significant number of families were caught unaware. This partly explains the large number of casualties reported in this area.[44] Rescue assistance was provided by the municipalities in all areas visited. There were consistent reports of the emergency services being overwhelmed. Rescue capacity was limited, with a number of reports of affected people being stranded up to a few days waiting for the water to subside. Basic relief assistance (food) was provided in all evacuation centers. Food assistance received was considered sufficient and adequate in the vast majority of cases outside Metro Manila. Where food had been insufficient, there tended to be consensus among groups interviewed that it had been provided on a “first come first served basis”. While it was not enough for everyone, there was no sense that distribution had been inequitable.

13. While there were no reports of groups excluded from assistance, a number of needs (including non-food items, hygiene products, shelter as well as basic health services, education, water and sanitation, and psycho-social support) were unmet. In most sites visited, people expressed general satisfaction with how relief goods were distributed. However, in three of the sites visited, there were concerns expressed about the undue involvement of

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[43] There were no reports of gender-based violence or violence/abuse of children in the sites visited during the PDNA exercise. The IASC Protection Cluster assessment has collected some reports of incidents of gender-based violence in evacuation centers, relocation sites and areas at risk.

[44] In Metro Manila, some of the participants in the discussions indicated that they had received no early evacuation notice from Barangay officials. There were contradictory accounts from Barangay officials in some of the areas (KV I and Maybunga for example), with reports of households refusing to leave in spite of the warnings

elected local officials in the distribution of relief. The standard of support to affected households varied depending on the municipality's capacity to respond and the individual donations received. It ranged from individual family tents in a well maintained site with public lighting (Tent City 1, Zambales), to the provision of damaged roofing sheets in Naguilian.

14. Where temporary relocation centers were established, there were delays reported in the assistance provided to affected families. The longest time-lag observed was in Rosales, where families whose houses had been destroyed stayed approximately two weeks in makeshift housing built from scrap material, before they were moved to evacuation sites. IASC Cluster assessments reported that in the majority of evacuation centers and communities, vulnerable individuals and those who have specific needs (e.g., children, women, persons with disabilities, older persons or persons with serious/chronic medical conditions) had not been systematically identified, which may have rendered the provision of special assistance more difficult. Also, not all relocation sites were found to have infrastructure accessible to persons with specific needs which may have made it difficult for these groups to access water, sanitation and other public facilities, as well as relief distribution.[45] In Metro Manila, there were reports of assistance not reaching the "interior" areas of neighborhoods for several days. The varying standards of support was linked to the fact that relief was provided by a number of sources - government (DSWD), civil society organizations, UN agencies, private sector, individual donors and faith based organizations – resulting in significant coordination challenges.

E. Recovery and Reconstruction

15. ***Communities in the LGUs visited reported that they had not been consulted on their needs for relocation and restoration of livelihoods at the time of the research.*** This may have been the result of LGUs still having to deal with the immediate relief efforts. Consequently, there was a sense of confusion among communities as they had little information about specific plans for relocation and other recovery measures. Responses to the idea of relocation were mixed, with communities in urban areas, those highly dependent on their place of residence for income, and indigenous groups being the most reluctant to move. Rural communities were more open to relocation. Communities visited in Metro Manila indicated that their knowledge of the poor conditions in relocation areas further lessened their desire to move. All stressed the importance of being able to pursue viable livelihood strategies in any new area of residence. Capital was consistently considered to be the key input needed to resume income-generating activities. Where livelihoods were particularly precarious, even severely affected families were willing to take considerable risks to return to their previous locations. This was also true in the areas where local government has issued an order to prevent households from returning to river-banks.[46]

[46] This was the case in Naguilian with households who make their living from collecting and loading sand from the river bed. They had returned to the area immediately after the flooding to continue working.

F. Recommendations

16. The SIA led to the inclusion of the following recommendations in the recovery and reconstruction activities proposed in the PDNA:

- **The vast majority of relief was provided in kind, leaving a number of unmet basic needs among affected groups.** In addition, household needs varied significantly across sites and family circumstances. In a number of already highly indebted areas, households were borrowing to purchase food, medicine and to pay for utilities. The most vulnerable households (and those unable to participate in other income generation activities, such as unskilled reconstruction related jobs) were considered to greatly benefit from targeted cash transfers to meet their most pressing household expenses.

- **There was widespread uncertainty regarding the relocation process.** Where they could, households were keeping a presence in the relocation site while already starting to rebuild makeshift housing, often in locations at risk. There were budget shortfalls observed for the implementation of relocation programs in all sites visited. In addition to an expansion of core shelter programs, the team recommended that the processes of consultation with affected communities be strengthened and systematized. In addition to the cash transfers mentioned above for households most pressing needs, it was proposed that reconstruction and relocation be further supported through community block grants to establish basic services in new sites and support livelihood restoration with a focus on highly vulnerable groups.

G. Ongoing Analysis to Monitor Longer Term Impacts

17. To obtain an updated assessment of the lives and livelihoods of people affected by Ondoy and Pepeng, a follow-up Social Impacts Monitoring (SIM) study is currently on-going. The SIM intends to: (a) assess the longer-term impacts of the disaster in affected communities; and (b) monitor the implementation and effectiveness of the disaster response. The analysis and recommendations in the report are expected to further inform reconstruction efforts in both urban and rural areas. Research is being implemented with the close involvement of government stakeholders, development partners and civil society organizations.

ANNEX 7: Financial Tracking System for Disaster-Related Funding

A. Overview

1. The proposed disaster Project Monitoring and Evaluation System (PMES) is intended to equip the government with the necessary information to manage pre- and post- disaster-related planning. It also aims to assisting financial and physical monitoring of disaster risk and prevention programs and activities for recovery, reconstruction and rehabilitation. The system will be housed in the Office of Civil Defense- National Disaster Risk Reduction and Management Council (NDRRMC-OCD) and established with financial and technical support from the Global Facility for Disaster Reduction and Recovery (GFDRR), through the World Bank.[47]

2. Data collection and analysis efforts will focus on tracking the movement of funds against identified needs on the ground. Commitments, allocations and disbursements will be tracked and reported so government and partners in the private sector and the development community can transparently manage funds and respond to gaps as they emerge. Overall, the analytical and management systems will promote evidence-based planning and decisions, and a more transparent and accountable delivery of services especially vulnerable communities. It will also provide a system to verify requests for disaster risk reduction or response funding, physical monitoring of activities on the ground, and a mechanism for community feedback.

Objectives

- <u>Provide a comprehensive system</u> for monitoring the funding, expenditure and progress of pre- and post- disaster programs and projects, including performance and results.

- <u>Involve project/program/project stakeholders</u>, including government implementing agencies at the national and local government levels, non-governmental organizations, private sector companies, funding agencies, beneficiary communities and sectors, and other interested groups.

- <u>Regularly report</u> performance and results to the President, key stakeholders and the public.

- <u>Provide a mechanism</u> to receive, process, and respond to feedback from third party groups.

3. PMES combines financial tracking and physical monitoring towards ensuring transparent and accountable pre- and post- disaster-related projects and programs. It will: (a) monitor activities; (b) track the release and disbursement of funds; (c) assist in the evaluation of projects and programs; (d) generate reports on funding sources and disbursements; (e) provide online tracking and reporting of progress to the stakeholders by sector, agency and

[47] See www.gfdrr.org. Through a grant to NDRRMC-OCD, the GFDRR funding will support technical assistance and selected maintenance and operating expenses and capital outlay to establish the PMES.

geographical location; and (f) provide online processing of feedback from stakeholders and the general public.

Timeline

4. It is estimated that it will take 18 months to get the system fully functional, however, this includes an 8 month pilot phase during which time the system will be operating on a trial basis. The project timeline is as follows:

- mobilization of project team (Months 1-2);
- procurement (Months 2-4);
- design and establishment of tracking system (Months 4 - 15);
- demonstration and feedback (Months 7-15);
- training and capacity-building (Months 7-15); and
- published guidelines and manuals (Months 16-17)

B. Methodology

5. PMES will monitor the following stages: (a) submission of reports on damages and losses and/or request for funding assistance for pre-disaster needs; (b) validation of these requests, especially of location and nature of expenditure; (c) initial assessment of funding availability from national and local governments and insurance schemes; (d) mobilization of donor support; (e) approval of request by the Office of the President; (f) budget appropriations, fund disbursements, project implementation, and auditing; and (g) and feedback from the public or recipient communities. Data will be taken from a number of government agencies and other institutions, based on reports submitted to NDRRMC.

- **Assessment of Loss and Damages.** In case of a major disaster, a post-disaster damage and needs assessment (PDNA) will be conducted to identify damage incurred and needs for recovery and reconstruction.

- **Tracking Expenditure and Physical Progress.** Implementing agencies will be required to submit to NDRRMC-OCD a Project Information and Progress Sheet, with information on specific projects, programs and activities (PPAs), outputs, duration, location, and value. The same form will be also submitted in electronic spreadsheet format to NDRRMC to report on progress of the PPAs on a quarterly basis. NDRRMC-OCD will receive and manually review the data submissions to ensure data completeness, accuracy and integrity, and aggregate project information at sectoral and geographical levels. The system aims to be comprehensive – it will seek to track expenditures under the National DRRM Fund and other budget sources used for disaster prevention and response from national government agencies, selected LGUs, the private sector, NGOs and development partners.

- **Data Analysis.** NDRRMC-OCD will aggregate data into agreed allocations and disbursement tables. Classification of projects by sector facilitates the identification of gaps between funding needs and funding allocations. NDRRMC-OCD will create a "Master Table" to conduct a gap assessment.

- **Monitoring and Evaluation of Pre- and Post-Disaster Related Projects and Programs.** Implementation of approved government pre and post disaster-related projects and programs is the responsibility of the proponent agencies. Implementation monitoring will be done by NDRRMC-OCD and NEDA. OCD, through NDRRMC regional and local units, will monitor locally funded programs and projects at the regional and local levels. NEDA-Project Monitoring Staff (PMS), on the other hand, will monitor and assess ODA-funded projects. Individual reports produced by DBM, NEDA-PMS, and NDRRMC on projects specific to pre- and post- disaster-related activities will be compiled, assessed, evaluated, and reported by the latter as part of its mandate to monitor and evaluate the projects. NDRRMC will produce a consolidated report and COA will conduct an audit of the investments monitored by the system, the findings of which will be communicated to the agencies and to NDRRMC. Both NDRRMC and COA reports will be publicly available.

- **Communication.** A dedicated section on the NDRRMC website will be constructed to serve as the primary communication tool for information dissemination and feedback collection.

C. Implementation and Coordination

6. Executive Order No. 870 provides the legal basis for the establishment of the system. NDRRMC, through the OCD, shall execute the project in line with its mandate under the DRRM Act. It will serve as the overall coordinator of the project and the administrator of resources, aiming to:

- Establish standard operating procedures on the communication system among provincial, city, municipal, and barangay risk reduction and management councils, for warnings and alerts, and for gathering information on disaster areas before, during, and after disasters.
- Create an enabling environment for substantial and sustainable participation of civil society organizations, private groups, volunteers and communities, and recognize their contributions in the government's disaster risk reduction efforts.
- Conduct early recovery and post-disaster needs assessment (PDNA).

7. Implementing agencies and LGUs requesting funding support for disaster related actions shall provide information prescribed by NDRRMC. The National Council will compile, assess, evaluate, and report the results to key decision-makers in government, including the President. All reports emanating from the system will be publicly available at a dedicated section on the NDRRMC website, which will serve as the primary communication tool for information dissemination and feedback collection. For issues linked to policy and broad directions, NDRRMC will organize the Technical Management Team, composed of key members of the National Council. The Bank will provide overall supervision to ensure that targets are met.

8. The PDNA process for Ondoy-Pepeng facilitated consensus-building among the Philippine Government, private sector and civil society representatives, and development partners to identify priority actions to promote disaster resilience and sustainable reconstruction. Drawing on this experience, under this program NDRRMC- OCD will coordinate with other government agencies, such as the Department of Budget and Management (DBM), Commission on Audit (COA), Social Security System (SSS), Government Service Insurance System (GSIS), and Philippine Crop Insurance Corporation on matters under functional responsibility. It is also expected to engage private sector partners, such as the Philippine Disaster Recovery Foundation and the Corporate Networks for Disaster Response; LGUs, the community, private companies, development partners, and civil society organizations on disaster-related expenditures, acting as third party monitors.

D. Monitoring and Evaluation

9. The following arrangements will apply for monitoring and evaluation of the PMES:

- **Monitoring** includes: (a) GOP management levels to provide overall direction and policy guidance; (b) technical review by NDRRMC and the Bank on outputs; (c) participatory workshops undertaken to engage stakeholders during project implementation; (d) regular progress reporting and monitoring by government agencies; and (e) World Bank supervision missions.

- **Quality**. For policy and broad directions, key members of NDRRMC will be consulted. For technical review, the TORs and the outputs of the project will be agreed between NDRRMC and the Bank.

- **Sustainability**. NDRRMC will absorb the project team hired under the program to ensure continuity and sustainability. The Government will also allocate budget for the continued operation of the system, beyond GFDRR support.

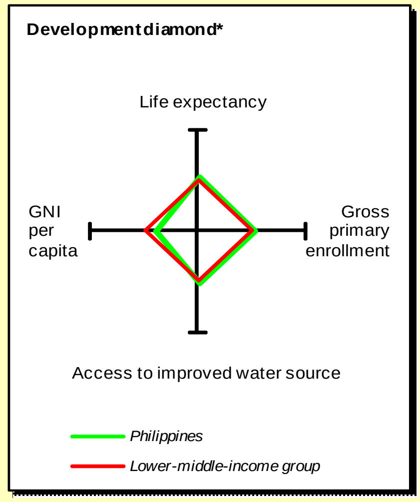
- **Performance Indicators** include: (a) transparent and accountable reporting of receipts and expenditures related to DRRM; (b) consultations, focused group discussions, and participatory assessments conducted; (c) methodologies for social assessments are designed and adopted by government and civil society; (d) technical notes and guidelines are developed and adopted by relevant agencies; and, (e) capacities of crucial stakeholders built.

ANNEX 8: Philippines at a Glance

Philippines at a glance

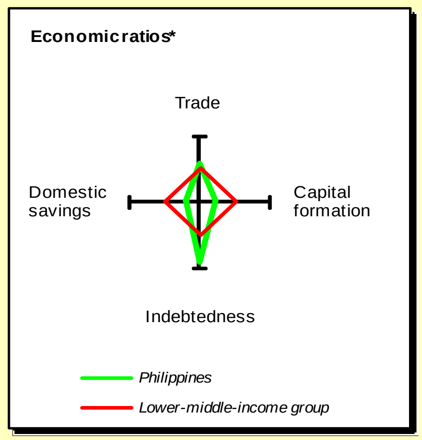
2/21/11

POVERTY and SOCIAL	Philippines	East Asia & Pacific	Lower-middle-income
2009			
Population, mid-year *(millions)*	92.0	1,944	3,811
GNI per capita *(Atlas method, US$)* a/	1,790	3,143	2,298
GNI *(Atlas method, US$ billions)*	164.7	6,110	8,758
Average annual growth, 2003-09			
Population *(%)*	1.8	0.8	1.2
Labor force *(%)* b/	2.2	1.0	1.5
Most recent estimate (latest year available, 2003-09)			
Poverty *(% of population below national poverty line)* c/	27	..	..
Urban population *(% of total population)*	66	45	41
Life expectancy at birth *(years)*	72	72	68
Infant mortality *(per 1,000 live births)*	26	21	43
Child malnutrition *(% of children under 5)*	26	12	25
Access to an improved water source *(% of population)*	91	88	87
Literacy *(% of population age 15+)*	94	93	80
Gross primary enrollment *(% of school-age population)*	110	111	107
Male	111	111	109
Female	109	112	105

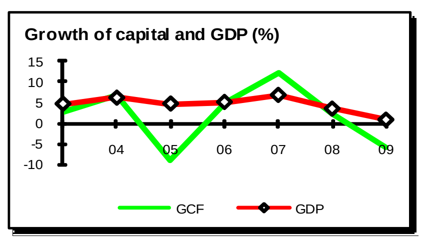


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1989	1999	2008	2009
GDP *(US$ billions)*	42.6	76.2	166.6	161.2
Gross capital formation/GDP	21.6	18.8	15.3	14.6
Exports of goods and services/GDP	28.1	51.5	36.9	31.7
Gross domestic savings/GDP	19.4	18.9	13.9	15.5
Gross national savings/GDP	17.9	25.1	23.1	25.5
Current account balance/GDP	-3.4	-3.8	2.2	5.5
Interest payments/GDP	5.1	3.2	2.4	2.2
Total debt/GDP	67.3	76.6	38.9	39.0
Total debt service/exports	25.4	14.1	15.5	14.4
Present value of debt/GDP	..	..	..	34.0
Present value of debt/exports	..	..	..	79.8

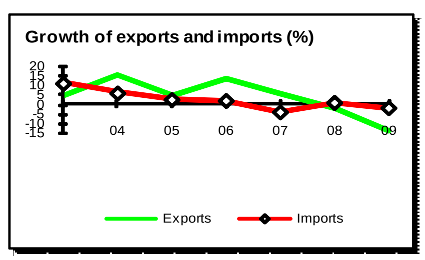
	1989-99	1999-09	2008	2009	2009-13
(average annual growth)					
GDP	3.0	4.9	3.7	1.1	4.2
GDP per capita	0.8	2.9	1.9	-0.7	2.7
Exports of goods and services	7.9	5.5	-1.9	-13.4	8.9



STRUCTURE of the ECONOMY	1989	1999	2008	2009
(% of GDP)				
Agriculture	22.7	17.1	14.9	14.8
Industry	34.9	30.6	31.7	30.2
Manufacturing	24.9	21.6	22.3	20.4
Services	42.4	52.2	53.4	55.0
Household final consumption expenditure	71.0	68.0	76.7	73.9
General gov't final consumption expenditure	9.5	13.1	9.4	10.5
Imports of goods and services	30.3	51.3	38.4	30.8

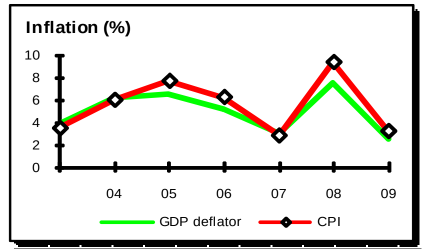


	1989-99	1999-09	2008	2009
(average annual growth)				
Agriculture	1.5	3.7	3.1	0.0
Industry	3.0	4.0	4.9	-0.9
Manufacturing	2.7	3.9	4.2	-4.4
Services	3.8	6.0	3.2	2.8
Household final consumption expenditure	3.8	4.5	6.4	9.3
General gov't final consumption expenditure	3.5	2.7	0.4	10.9
Gross capital formation	3.7	1.8	2.3	-5.7
Imports of goods and services	8.8	3.3	0.8	-1.9



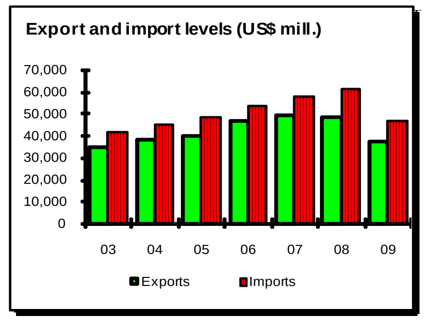
PRICES and GOVERNMENT FINANCE

	1989	1999	2008	2009
Domestic prices				
(% change)				
Consumer prices	12.2	5.9	9.3	3.2
Implicit GDP deflator	9.0	8.0	7.4	2.6
Government finance d/				
(% of GDP, includes current grants)				
Current revenue	16.0	15.9	15.8	14.6
Current budget balance	0.6	0.1	19	-0.3
Overall surplus/deficit	-2.1	-3.8	-0.9	-3.9



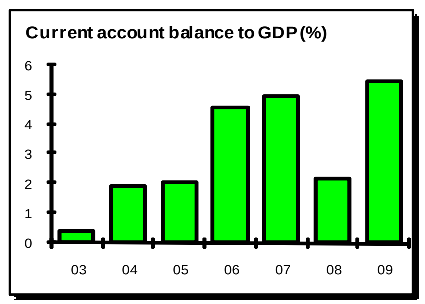
TRADE

	1989	1999	2008	2009
(US$ millions)				
Total exports (fob)	7,821	34,243	48,253	37,610
Electronics/Telecom	1,751	25,965	29,927	23,590
Garments	1,575	2,267	1,952	1,536
Manufactures	5,192	31,741	40,999	33,525
Total imports (cif)	10,419	40,220	61,138	46,473
Food	492	1,435	4,062	2,936
Fuel and energy	1,397	2,432	12,394	7,334
Capital goods	2,424	6,805	9,310	7,637
Export price index *(2000=100)*	..	..	..	..
Import price index *(2000=100)*	..	..	..	..
Terms of trade *(2000=100)*	..	..	..	..



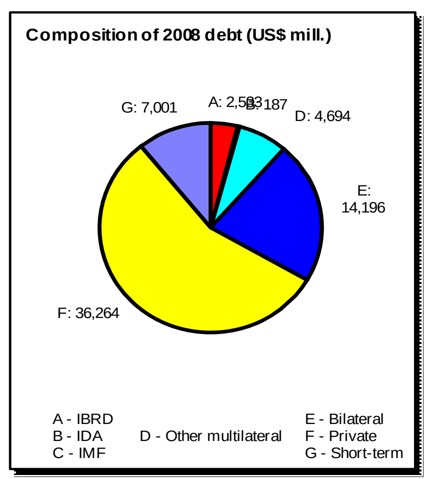
BALANCE of PAYMENTS

	1989	1999	2008	2009
(US$ millions)				
Exports of goods and services	11,046	37,711	57,970	47,858
Imports of goods and services	11,845	45,308	69,695	55,171
Resource balance	-799	-7,597	-11,725	-7,313
Net income	-1,487	-1,062	105	28
Net current transfers	830	5,784	15,247	16,073
Current account balance	-1,456	-2,875	3,627	8,788
Financing items (net)	1,907	6,466	-3,538	-2,367
Changes in net reserves	-451	-3,591	-89	-6,421
Memo:				
Reserves including gold *(US$ millions)*	2,324	15,147	37,551	44,243
Conversion rate *(DEC, local/US$)*	217	39.1	44.5	47.6



EXTERNAL DEBT and RESOURCE FLOWS

	1989	1999	2008	2009
(US$ millions)				
Total debt outstanding and disbursed	28,653	58,321	64,875	62,911
IBRD	3,492	4,040	2,533	2,488
IDA	102	206	187	181
Total debt service	3,244	6,439	12,199	9,881
IBRD	536	641	614	505
IDA	2	4	9	8
Composition of net resource flows				
Official grants	380	176	271	..
Official creditors	874	-87	-868	625
Private creditors	-275	4,372	-2,177	2,744
Foreign direct investment (net inflows)	563	1,247	1,544	1,948
Portfolio equity (net inflows)	0	489	-1,289	-1,096
World Bank program				
Commitments	..	208	445	120
Disbursements	465	163	192	361
Principal repayments	269	387	478	401
Net flows	196	-224	-287	-40
Interest payments	269	258	144	113
Net transfers	-73	-482	-431	-153



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MAY 2009