

Financing postdisaster reconstruction in the Philippines

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Jn the last decade, natural disasters in the Philippines have resulted in significant damage of physical assets. For instance, recent Typhoons Lawin (Haima) and Nina (Nock-ten) and the Surigao earthquake, all of which occurred within just five months, recorded postdisaster reconstruction needs¹ of about PHP 32 billion (OCD 2017). Meanwhile, Typhoon Yolanda (Haiyan) alone in 2013 has total estimated damages of PHP 571 billion, of which PHP 214 billion was needed for postdisaster reconstruction (NEDA 2013). This amount can be higher because the reconstruction has to incorporate quality improvements and the adoption of disaster-resilient standards. If not effectively managed, such financial requirement can have adverse impact on government fiscal position and consequently to development planning and economic growth.

This *Policy Note* examines the government schemes for financing postdisaster reconstruction in the country. It also presents recommendations that policymakers

should consider in improving postdisaster reconstruction financing.

Principles of postdisaster financing

The postdisaster risk financing and insurance (DRFI) is guided by a risk-layering framework, where relief, recovery, and reconstruction activities occur in different phases (Ghesquiere and Mahul 2010). Under the same principles, the financial requirements for these phases will not be the same and not be needed at the same time. For instance, the activities under the relief phase, such as rescue and provision of temporary shelters, will not be the largest component of postdisaster spending. Instead, they must be accomplished immediately. Same goes with the recovery and reconstruction phase, where activities such as provision of livelihood opportunities to affected populations as well as detailed planning will need greater

¹ Postdisaster reconstruction needs represent the level of resources required to repair, build, and retrofit the physical assets destroyed by the disaster.

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expenses relative to the relief phase although their funding will not be required until several weeks have already lapsed. An underlying assumption of this framework is that at lower risk layers, events occur more frequently but are less costly relative to higher risk layers where the opposite is true. This difference in timelines and costs for the said phases raises the issue whether it is more efficient for the government to retain the risk (through calamity funds, for instance) or transfer the risk to the private sector (e.g., insurance). The solution is usually the use of a combination of different risk retention or risk transfer instruments compatible with the financing requirements of each phase. For lower risk layers, risk retention instruments are more cost efficient while risk transfer instruments are more appropriate for higher risk layers.

These financing instruments, such as government savings, foreign aid, insurance, and external credit, can be compared using three key factors, namely, (1) the cost of capital, (2) the rate of disbursement, and (3) the amount of funds that each instrument can provide (Ghesquiere and Mahul 2010). For instance, foreign aid may be cheap capital but its disbursement to the government can take several months. On the other hand, although government savings is cheap and its disbursement rates can be swift as its funds are readily available, it is usually limited. Meanwhile, insurance and external credit also have their respective advantages and disadvantages.

² The contingent credit facility is through the Second Disaster Risk Management Development Policy Loan with a deferred drawdown option.

In the Philippines, the government has various financial instruments identified at different risk layers. For the lower risk layer, it mainly taps the National Disaster Risk Reduction Management Fund (NDRRMF) and the Local Disaster Risk Reduction and Management Fund (LDRRMF). A portion of the NDRRMF is used as Quick Response Fund (QRF), a standby fund directly released to government agencies involved in postdisaster activities specifically relief and rehabilitation. Meanwhile, the LDRRMF is the calamity fund of the local government units (LGUs). Republic Act 10121 sanctions the LGUs to set aside at least 5 percent of their estimated revenue to support disaster risk management activities. Of this amount, 30 percent is being earmarked as their QRF.

For the middle risk layers, the government uses contingent credit lines, which can provide immediate liquidity after a disaster. Currently, it has in place a contingent credit line with the World Bank for USD 500 million, which can be triggered upon a declaration of a national state of calamity.²

Meanwhile, the indemnity-based insurance of the Government Service Insurance System (GSIS) is the main instrument for risk transfer and can be an effective instrument to meet reconstruction needs. The Property Insurance Law requires every government unit, except municipal governments below the first class, to insure its properties with the Property Insurance Fund. However, this insurance scheme still needs to be improved for the following reasons: (1) lack of coverage of key public assets, (2) underinsurance issues, and (3) lengthy claims process, mainly due to loss adjustment needs (e.g., lack of claims adjusters).

However, to meet relief and early recovery needs for large-scale disasters, the government has recently piloted a parametric catastrophe risk insurance transaction³ that can provide immediate liquidity to national government agencies and selected high-risk provinces.

While donations are also a source of funding, no central authority currently collates the data, which makes it hard to determine its impacts on postdisaster financing.

Applying postdisaster financing principles in the Philippine setting

The DRFI environment in developing countries is characterized by (1) insufficient funding to meet postdisaster needs, (2) reliance on *ex post* rather than *ex ante* instruments, (3) underdeveloped insurance markets implying reliance mostly on government that retains the risk, and (4) need to improve existing mechanisms to hasten service delivery.

Focusing on reconstruction to highlight the Philippine DRFI context, the case studies presented here are based on two recent disasters, Typhoon Pablo that occurred in 2012 and Typhoon Yolanda in 2013.

Roads and bridges

The Department of Public Works and Highways (DPWH) has the mandate for repair and reconstruction of roads and bridges and may implement other reconstruction works such as school buildings. However, based on experience, inadequate funding has been a major issue behind the delay of the full rehabilitation from a disaster. The said problem has resulted in delays and buildup of backlog in the

implementation of reconstruction projects under the DPWH.

This issue can be partly explained by analyzing the current financing schemes of the DPWH. At present, the internal sources of financing for DPWH are mainly its QRF allocation and its immediate response fund, an amount set aside by the agency for the purpose of meeting funding needs for emergencies in general, not only calamities. Meanwhile, the NDRRMF, supplementary budgets, and additional appropriations for reconstruction-specific projects form the bulk of its funding, which is often inadequate. Its projects, such as roads and bridges, are currently not covered by insurance due to budget constraints for premiums. Only its Bureau of Equipment has insurance coverage for its assets. This lack of insurance coverage for public assets under the DPWH implies that the government fully retains the risk.

Aside from inadequate funding, this study also noted delays in the processing of budget requests and issues in the budget execution. For instance, the process for DPWH in accessing the NDRRMF, from submission of request to release of budget, can take more than one year on the average (DPWH interview, November 2016). On budget execution, project implementation can be hampered by procurement issues and lack of absorptive capacity, especially at the local level. With respect to procurement issues, the

³ The government launched in July 2017 an innovative insurance program which provides PHP 10.4 billion in coverage from large-scale typhoons and earthquakes for national government assets as well as 25 high-risk provinces. Payouts from this type of insurance is based on agreed-upon triggers, thus, allowing for immediate payouts (e.g., 3–4 weeks after an eligible event occurs) (WB 2017).

emergency procurement guidelines need clarity as its current version is subject to different interpretations, for instance, by the local representatives of the Commission on Audit. On absorptive capacity, massive disasters such as Typhoon Yolanda can drain the DPWH regional offices in terms of materials available and skilled personnel, thus delaying the capacity to implement reconstruction projects.

School buildings

Damages to public schools are estimated to represent around 12 percent of the total annual average losses of all government assets due to natural disasters.⁴ The high-risk regions in descending order based on average annual losses are Bicol, Eastern Visayas, Cagayan Valley, Central Luzon, Ilocos, and CALABARZON.

Currently, the main sources of financing for repairs and reconstruction of school buildings are the QRF, the Basic Education Facilities Fund (BEFF), and the New Construction and Repairs Fund (NCRF). While the NCRF falls under the regular budget of the Department of Education (DepEd), only the DPWH can implement projects funded from it. Nonetheless, the DepEd is not restricted to implement projects funded from the QRF and BEFF.

The utilization of the QRF within DepEd makes the title of the fund a misnomer and, in fact, has caused misunderstandings in its classification. Before, the agency's QRF was a separate line item in the DepEd budget intended for repair and reconstruction of school buildings. However, during the streamlining of

QRF accounts, it was categorized together with other QRFs intended for quick response needs. It has also been grouped with the QRFs of other "nonfirst responder agencies" starting fiscal year 2017, forcing DepEd to compete for their access to QRF. Clearly, this can lead to uncertainty to fund access and lengthy delays in downloading of funds.

Donations coming from private entities and nongovernmental organizations are another source of funding for school building reconstruction. However, their actual amount cannot be determined due to the lack of an institutionalized mechanism to monitor fund flows from donors. In several instances, this lack of monitoring system has created confusion in the budgeting and implementation of projects. For example, there have been instances when a certain school building reconstruction project of DepEd turned out to be already completed because donors coordinated directly with the LGU where the reconstruction site was located.

Unlike roads and bridges, school buildings are not covered by indemnity-based insurance. The GSIS used to have a fund for the payouts to claims from the DepEd on damages to school buildings replenished annually by the national government. However, due to delays in claims processing, the budget allocation was later transferred from GSIS to the DepEd QRF account.

Housing

While housing is mainly a private good, housing programs have been a large component of reconstruction budgets. The government justifies this move in terms of the negative externalities caused by haphazard building activities of

⁴ Estimates from the AIR Worldwide catastrophe risk model

marginalized sectors and the basic rights to shelter of Filipinos.

To highlight the public spending in this sector, out of a total budget of PHP 10.5 billion for those living in landslide-affected areas in the aftermath of Typhoon Pablo, the government allocated approximately PHP 4.2 billion to the in-city housing projects of the Department of Social Welfare and Development (DSWD) and PHP 4.1 billion to the resettlement projects of the National Housing Authority (NHA) (DBM 2014). The same can be observed in the aftermath of Typhoon Yolanda where PHP 75.7 billion out of a total budget of PHP 170.9 billion was allocated for resettlement (OPARR 2014) .

Despite the huge budget, the program outcomes for the sector have not been encouraging. For Typhoon Pablo, all budget allocations were already released less than a year after the disaster. However, the housing projects completed were mainly those implemented by DSWD in partnership with the provincial governments. On the other hand, the NHA not only had issues on the completion of targets but also on the delivery of housing units to target beneficiaries. As of September 2016, the said agency has only completed 15,979 out of a total 17,480 target units. Of this figure, only 5,891 units have been awarded and 3,696 units have been occupied.⁵

In the case of Typhoon Yolanda, merely 30,000 out of the 205,000 required housing units have only been completed. Meanwhile, about 73,000 have yet to be started and the rest are still under the procurement process (NEDA

2015). In particular, the Eastern Visayas report of the resettlement cluster noted a completion rate of merely 16.4 percent in the last three years. Of this figure, only about 40 percent are currently occupied.

Relative to other sectors, fund insufficiency is apparently not the main issue for the shelter sector. Instead, its issues revolve around (1) the poor quality of housing units and unsuitable sites of resettlement projects, (2) the lack of basic facilities at resettlement sites of NHA and DSWD, (3) the weak coordination among NHA, LGUs, and end users during project planning and implementation, and (d) the finding of suitable land for low-cost housing and titled lands for procurement purposes.

Recommendations

This study finds that while the current postdisaster financing instruments of the government may cover for less-costly recurring events, they will be inadequate to meet the needs to address medium to severe events. Moreover, the funding shows signs of depletion and the fiscal burden is becoming a reality with the higher frequency of occurrence of large-scale natural disasters and climate change. Although the government has progressed in improving its overall DRFI management through the implementation of its national DRFI strategy, several improvements are still needed.

Enhance ex ante financing mechanisms

For reconstruction purposes, the government needs to enhance its ex ante financing

⁵ Based on the Presentation from Typhoon Pablo Rehabilitation Plan Assessment Workshop, October 2016

mechanisms especially in improving existing indemnity-based insurance programs as the threat of natural disasters becomes more evident. This study noted that the government has already been integrating more ex ante mechanisms, such as contingent credit lines and parametric insurance.

Reduce funds allocated to damaged private properties

The government should reduce the share of public funds allocated to private properties. Given that the housing sector is largely private, the fact that it is receiving the bulk of resources may possibly be at the expense of more critical projects. Instead of allocating huge funds to it, the government should consider strengthening the role of the private sector in addressing damaged properties.

The NHA should also veer away from the traditional policies and learn from the lessons and experiences of other countries with regard to shelter programs in times of disaster.

Improve funds flows and procurement processes in time of emergency

Aside from funding gaps, the government should also improve its implementation processes, specifically those concerning the approval and release of NDRRMF and procurement in times of emergency. This study notes that the Office of Civil Defense has already approved the revised guidelines on accessing the NDRRMF, which are expected to facilitate the process.

Launch an information campaign on financing instruments

Lastly, the government should also roll out an information campaign on the various available disaster risk financing instruments in the country today. 📄

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