SOCIAL POLICY BRIEF


| Highlights |

- A strong and well-financed shock responsive social protection system can enable governments to shield households and livelihoods from the worst impact of shocks and disasters. Disaster risk financing (DRF) that is effective and anticipates contingencies can save lives. It is particularly crucial for the Philippines, one of the most disaster-prone countries in the world.

- Unlike many other countries in the region, the Philippines already has a DRF Strategy and years of experience in the use of dedicated disaster response funds — the National Disaster Risk Reduction & Management Fund (NDRRMF). Efforts are underway to seek reinsurance and government has contingency credit arrangements with some donors for future disasters including pandemics.

- Use of pre-arranged financing for anticipatory action in the Philippines is still low. Disaster response, rather than anticipatory actions, constitutes the bulk of spending and is largely financed through risk retention instruments such as budget allocations and reallocations. Existing risk transfer instruments are inflexible and specific to the type of risk coverage. However, the actual channel through which funds can flow from the treasury to national government agencies’ social protection responses is unclear and ad hoc.

- The Department of Social Welfare and Development’s Emergency Cash Transfer (ECT) Guidelines are the first attempt to link disaster response to elements of the social protection system. However, there is no enabling policy at the national level to allow for forecast-based financing or disaster risk financing for anticipatory action. Experiences on forecast-based financing and anticipatory action (AA) are mostly funded by donors and use parallel systems. The recent creation of the Technical Working Group on AA within the National Disaster Risk Reduction and Management Council (NDRRMC) should help move this policy agenda.

- Shock responsive social protection requires both the DRRM and Social Protection (SP) actors to work in a coordinated manner with a shared understanding of the various elements of each system and the respective contribution one can play in mitigating the impact of disasters, building resilience and reducing poverty, among the vulnerable.

- Efforts should be made on overall financing institutionalization, especially improving multi-hazard and risk-informed Public Finance Management (PFM) processes, and linking those to social protection. This will require thinking beyond expenditure and disbursement to understand risk-informed PFM, which might in turn increase the utilization of funds as well as transparency.
Introduction

The Philippines ranks 9th on the World Risk Index with a score of 20.96. It’s the second highest in the Association of Southeast Asian Nations. Of the 10 cities in the world most exposed to natural disasters, eight are located in the country, including Manila—ranked 4th.1

Results from country-specific catastrophe risk modelling estimated that the Philippines is expected to incur PHP177 billion (approx. US$3.6bn) per year (1.3% of GDP) in losses to public and private sector assets from typhoons and earthquakes.2 Recent climate modelling exercises also show climate change could make emergency response to severe typhoon events 50% more costly.3

The year 2020 was particularly devastating for the Philippines as it was hit by a string of natural disasters amid the COVID-19 pandemic. In February 2020, a state of calamity was declared in Calabarzon region on the Island of Luzon following the eruption of Taal volcano in January. Several powerful typhoons including Super Typhoon Rolly (Goni) followed by Typhoon Ulysses (Vamco) also pounded Luzon in late October to November. The National Economic and Development Authority (NEDA) has estimated the damage caused by Taal’s eruption and the series of typhoons of late 2020 at PHP113.4 billion (approx. US$2.4 bn).4

Socio-economic Impacts of COVID-19

Lockdowns, or community quarantines imposed in the country since March 2020 slowed the spread of COVID-19, but have been disastrous for family incomes, jobs, education of children, food security, and businesses. The World Bank said the country registered its worst growth contraction in post-war history in the second quarter of 2020. The Philippine Statistics Authority’s latest estimates present a stark decline in annual per capita GDP growth rates—from 4.6% in 2018-19 to a staggering -9.6 in 2020.

With the economy contracting and household income declining, the World Bank estimates poverty to increase from 20.5% in 2019 to 22.6% in 2020 (measured against the lower middle income poverty line of US$3.2/day). It reverses the trend of a steady decline in poverty in recent years, resulting in an additional 2.7 million poor people in 2020 compared to 2019 estimates. UNICEF also estimated child poverty to climb to around 45% under the worst case scenario of a 30% income contraction. This includes a rise in child deprivations in health, nutrition and education as various policy measures adopted to contain the pandemic disrupt access to basic services.

Disaster risk financing in the Philippines

The Philippines has a relatively advanced Disaster Risk Management (DRM) system. DRM is deeply rooted in the country’s governance, in recognition of the fact that disasters and climate change increasingly threaten national security. DRM is devolved, so primary responsibility falls on Local Government Units (LGUs).

The current system for declaring an emergency is after a disaster occurs. Emergency responses can be authorised if an emergency is officially declared by the President or by local governments. This arrangement is particularly important to note as it has implications on public finance arrangements following a declaration. The scale of the disaster also determines the administrative level at which the response is coordinated.

The 2015 National DRF Strategy aims to maintain the sound fiscal health of the national government, develop sustainable financing mechanisms for LGUs, and reduce impact on the poorest and most vulnerable citizens. It encourages risk layering through the use of both risk transfer (like catastrophe risk insurance and catastrophe bond) and risk retention (including calamity fund and quick response fund) instruments. There are ongoing efforts to develop DRF strategies at the LGU level and integrate them in the government’s Local Disaster Rehabilitation and Recovery Plans. The strategy currently does not include any links to SRSP.

Although the country’s exposure to disasters is increasing, the national government’s post-disaster spending has been relatively stable at around 0.6% of GDP, or 4.3% of the total national budget. Disaster response in the Philippines is primarily financed by the government as opposed to international assistance and predominantly through risk retention instruments. This is usually through the annual allocations to the NDRRMF and where insufficient, through budget reallocations. For majority of disaster response, budget reallocations constitute the bulk of financing. The use of more risk transfer instruments like the catastrophe bond, for example, is encouraged so the Philippines can transfer potential financial exposure to earthquakes and tropical cyclones to the international capital markets. Currently, existing risk transfer instruments are inflexible and only cover specific risks.

A World Bank public expenditure review (PER) shows majority of post-disaster funding before 2020, across a number of National Government Agencies (NGAs) came from budget reallocations. Only a third of expenditure came from pre-arranged sources of financing like quick response funds (QRF) and the NDRRMF, although access to and use of these are often delayed. Selected PER case studies showed the national government contributed between 66% and 100% of total post-disaster expenditures in 2015-18, with the remainder financed by LGUs.

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2. Ibid
3. Ibid
Funding Flow: National Disaster Risk Reduction & Management Fund and Quick Response Fund

The Philippines has in place a set of post-disaster Public Finance Management (PFM) arrangements established in advance to set out specific budgetary procedures that can be adopted in the context of disasters. Releases of QRF—usually 30% of NDRRMF—to preapproved line departments occurs automatically with the approval of the budget, so they have them ready, for when the need arises.

The timeliness and adequacy of financing provided through various DRF instruments vary, based in part on pre-established arrangements. The most commonly used source of financing disaster response, budget reallocations, can take up to two weeks for emergency allocations and months for longer term allocations. Regular NDRRM funds can take up to 7 months to be disbursed. National QRF funds can be accessed relatively quickly (a few weeks), especially for first responder agencies like Department of Social Welfare and Development (DSWD).

NDRRMF is a dedicated source of funding to NGAs and LGUs for disaster risk reduction & management. Some of the issues around NDRRMF include:

- No mechanism currently exists to determine the annual budget allocation for the fund. Department of Budget and Management (DBM) determines the amount based on available funds and budget deliberations in Congress. In an ideal scenario, the Office of Civil Defense (OCD) should submit programmed allocation to determine the amount to be allotted. Allocations to the QRF can be improved by assessing funding needs based on analysis of historical datasets of disasters’ impact and projects implemented.
- Despite funding for risk reduction and mitigation, NDRRMF is mainly used for disaster response, recovery and reconstruction. Its potential to fund anticipatory actions or forecast-based financing linked to social protection interventions remains unexplored. Anticipatory actions can help reduce and mitigate potential damage and help save lives and livelihoods.
- The primary source of financing disaster response by the DSWD is the QRF. Requests for accessing the ‘regular NDRRMF/Calamity Fund’ are only made if the QRF is fully utilised. The approval process takes a lengthy 3 to 6 months or more.
- The current provisions in RA 10121 (Disaster Risk Reduction law) on where to use QRF are very broad and have resulted in problem for NGAs because of varying interpretations of the Commission on Audit (COA). Nevertheless, under the current rules, QRF can be combined with budget allocations for regular programmes such as Pantawid Pamilya Pilipino Program (4Ps) only if it will be used to respond to disasters (and not for anticipatory action).
- Although QRF is the quickest source of funds available, some challenges remain: accessing it requires a declaration of a state of calamity, thus prohibiting the provision of assistance to families evacuated as a disaster preparedness measure (pre-emptive evacuation) or for anticipatory actions.
- Another challenge with NDRRMF at the local level is transparency in the use of funds and tracking DRM related expenditures by NGAs & LGUs.

The OCD is reportedly finalising revised guidelines to further streamline access to NDRRMF and enhance its use. These would include giving priority to low income, highly vulnerable LGUs and ensuring that NGAs allocate budget for pre-disaster activities prior to tapping the NDRRMF.

It is important to note that all agencies need to follow COA rules to ensure implementers are protected from possible barriers or legal challenges. This can impact the speed and efficiency of emergency response. The key challenge is to issue internal agency policies that adhere to COA regulations that may affect agency reporting and programming.

Even with a bigger menu of DRF instruments, it is important to clarify the public finance management rules on transfer and use of funds from treasury to line departments and subsequently to the beneficiaries. A case in point is delays in use of payouts in 2018 under the parametric insurance held by Philippines. Because the General Appropriations Act specified its use only for recovery of damaged assets, agencies were required to submit evidence of disaster damage, stalling the downloading of funds to agencies due to differences in interpretation of rules.

5. https://development.asia/inside/using-parametric-insurance-address-rapid-post-disaster-financing
6. Key Informant Interviews
7. Key Informant Interviews
Shock Responsive Social Protection

The Philippines is one of the countries with a more robust social protection system in place, underpinned by a poverty registry, Listahanan, and a large-scale conditional cash transfer program implemented nationwide—the Pantawid Pamilyang Pilipino Programme (4Ps). There are other social protection programmes implemented across various NGAs and LGUs but are small in geographic reach and coverage.

Spending on social protection has risen over time, largely driven by the 4Ps, and is credited with helping to reduce poverty in the country. Estimates from 2016 suggest public spending on all forms of social assistance equated to 0.7% of GDP, with a coverage of 63.4% for the poorest 20% of the population. Social protection programs are funded from annual allocations.

Social protection programs have also been mobilized as a major response to the socioeconomic impact of COVID-19. This included implementation of the PHP 211 billion SAP under Bayanihan I that provided P5,000 to P8,000 per month cash aid over two months to a target 18 million low-income households, and one-time emergency cash assistance of P5,000 to P8,000 for some 14 million poor families under Bayanihan II. The social protection response to COVID-19 represented 67% of total NDRRMC for 2020. The 4Ps beneficiaries were the first to receive the assistance, as the beneficiary list is readily available and payment mechanisms in place, thus leveraging existing SP programme infrastructure to rapidly deliver emergency.

Figure 6: Building blocks of disaster-responsive social protection

**Disaster Responsive Social Protection Framework**

- **Combined Information System**
  - Flexible Programme Design
  - Flexible Delivery System
  - Flexible Financing

- **Institutional Capacity**
- **Invest in the basic social protection system**

Source: ASEAN Guidelines on Disaster Responsive Social Protection to Increase Resilience

Shock responsive social protection systems require both the DRRM and SP actors to work in a coordinated manner. There are broadly three common ways of working with these two systems:

- **Developing and strengthening the core system**
  This involves bringing together social protection and DRRM actors to build the capacity of government staff and systems to extend social protection and DRRM systems (e.g., early warning systems, disaster risk financing, beneficiary lists).

- **Utilizing existing programmes to respond to shocks and emergencies**
  This approach involves adjusting existing programmes, or elements of programmes, such as beneficiary lists or payment mechanisms, to reach crisis-affected populations.

- **Aligning disaster and social protection interventions**
  Where it makes sense, this involves considering how to deliver humanitarian assistance in a manner that can better meet the social protection needs of crisis-affected populations and potentially contribute to building future social protection systems and vice versa, to build resilience of poor households in the face of future shocks.

A promising intervention that explicitly links disaster risk financing and social protection is the nascent Emergency Cash Transfer (ECT) programme established by DSWD in 2019. The guidelines for ECT have been developed and an operations manual is under preparation. ECT aims to provide post-disaster support to vulnerable households by linking it to the 4Ps program and the Listahanan poverty registry. Once operational, this would allow QRF to finance disaster response through social protection programs.

The use of data and information systems are critical in a shock responsive social protection system. Early warning systems in the Philippines exist for rainfall, drought, and storms, as well as earthquakes and geologic hazards, but they are not linked to national social protection programmes. Systems are currently not interoperable. Early warning systems and related triggers and disaster risk financing, two of the critical aspects in a shock-responsive social protection system, have yet to be systematically integrated into social protection programmes.

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9. IMF policy tracker
10. Key Informant Interviews.
The Aquino family in what used to be their home on top of a creek until Typhoon Rolly hit their region and destroyed hundreds of houses.

COVID-19 is an unprecedented crisis which resulted in the passage of national legislation, as well as changes in some rules to allow for an effective and timely response that impacted both disaster risk financing and social protection.

The year 2020 was dominated by spending on addressing the impacts of COVID-19. This was done through the enactment of a four-pillar policy response and the passage of the Bayanihan I and Bayanihan II stimulus packages. Government’s fiscal response to COVID-19 was financed from budget reallocations, domestic and foreign borrowing, and private donation.

National Government Agencies responsible for social protection used reallocated budgets as well as NDRRMRF to finance disaster response in 2020, the bulk of which went to COVID19 response. In 2020, total NDRRMRF allocation was PHP 13.2 billion (approx. US$264m) where PHP 9.2 billion (67% of total fund) was allocated as QRF replenishment for COVID-19 response. Considering the urgency of COVID19, no NDRRMRF amounts were approved for LGUs and only negligible amounts were used for preparedness and risk reduction.

The passage of Bayanihan I legislation impacted the way existing DRF instruments are used. The Act authorised the President to:

- Direct the discontinuance of appropriated programs, projects or activities in the 2019 and 2020 General Appropriations Act (GAA) with unobligated allotments, and use the savings to fund measures that address the COVID-19 emergency
- Lift the 30% cap on the amount appropriated for QRF (which allowed for around 67% allocation to QRF)
- Authorise LGUs to use more than 5% of their calamity fund with additional funding and support from the National Government
- Exempt from RA 9184 (Government Procurement Reform Act) and other relevant laws the procurement of goods and services required to respond to the COVID-19

As a unique calamity, COVID-19 also affected the use of QRF. A special provision extended the use of these funds from one year to two years (until 2022).

The COA, on the request of DSWD, also relaxed the rule requiring submission of liquidation reports by the implementing agency prior to transfer of funds (COA Circular No. 2016-002) so the department can proceed with the distribution of the second tranche of the Social Amelioration Program- Emergency Subsidy Program. Part of these funds have been disbursed to 4Ps beneficiaries using existing payment mechanisms.

A mother and her child poses for a photograph inside the Baseco Evacuation Center in Part Area, Manila on Sunday, 01 November 2020. NCR braces for super typhoon Rolly (Ind name Goni) as it made landfall in the country bringing violent winds and torrential rains.

The implementation of SAP has provided valuable lessons and, in some ways, fast-tracked efforts to digitise identification and payments. It has led to priority being given to the new ID system, which will help identify and bring ‘new beneficiaries.’ The need to develop a payment system rapidly also allowed DSWD to collaborate with private financial service providers.

12. Most LGUs reportedly used up their 5% NDRRMRF allocation to respond to COVID, so when typhoons occurred in 2020, they looked up to national government for augmentation support.
13. CBPSRD. ‘A Results-Based Assessment of the Bayanihan to Heal as One Act’.
Enablers and Blockers to Effective SRSP Financing

The existing law on DRRM, which established pre-arranged funding through the NDRRMF and QRF, as well as institutional arrangements including NDRMC allowed the Government to quickly respond to disasters and COVID-19 including quick disbursement of funds to agencies and LGUs.

The QRF can be readily mobilized to finance disaster response using elements of the social protection system as articulated in the ECT Guidelines, such as the 4Ps and Listahanan.

Unlike many other countries in the region, the Philippines already has a DRF Strategy and years of experience in the use of dedicated disaster response funds (NDRRMF). Efforts are underway to seek reinsurance and government has contingency credit arrangements with some donors for future disasters including pandemics.

In terms of coordination arrangements, DSWD is already designated as a first responder agency which allows it quick access to NDRRMF. This is important as it is also a key agency implementing social protection programs.

The implementation of the Mandanas ruling which provides greater share of revenues to LGUs from 2022 means LGUs will have the incentive to finance disaster response themselves instead of relying on NGAs such as DSWD. The ability of LGUs to finance disaster response efficiently is key to the future of SRSP in the Philippines.

Efforts are also underway in improving beneficiary identification and targeting with the implementation of the PhilSys ID and the updating of Listahanan poverty registry including the implementation of the Community Based Monitoring System. While the inter-operability and linkages will take time, this essentially will help streamline the process of beneficiary identification and selection.

Blockers

The soundness of the Philippines’ PFM system will affect the speed and effectiveness of any social assistance response to disasters. As things stand, a lack of tracking of DRR-related expenditure as well as issues with utilisation and transparency in spending (especially at LGU level) will impact the way pre-arranged sources of finance such as NDRRMMF can be used for SRSP.

The experience of reaching new beneficiaries during COVID-19 has shown that financial inclusion among poor households and informal workers is still low. Even beneficiaries of existing programmes such as 4Ps do not have access to multi-function bank accounts. The use of digital and mobiles payments for disaster response is also low, even during COVID SAP payouts.

Flooding, damage and debris in Barangay (village) Tumana in Marikina City, Metro Manila, Philippines, in the aftermath of Typhoon Vamco (known in the Philippines as Typhoon Ulysses) which brought heavy rains and strong winds as it made landfall in the country.
Policy recommendations

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Improve the coordination between the DRRM and Social Protection actors, ensuring that the applicable core elements of each system are linked and strengthened.

Improved coordination should help operationalize the policy and the roadmap on shock responsive social protection.

Focus on overall financing institutionalisation, especially improving multi-hazard and risk-informed PFM processes, and linking those to social protection.

Despite a lack of sufficient risk financing, funds go unused in emergencies because of barriers in spending rules, or difficulties created by expenditure controls. The NDRRMMF and QRF were underspent in previous years, with only 31 percent of total NDRRMMF utilized in 2019. Improving the flow of funds and PFM disaster arrangements including investments in SRSP will help increase the utilisation of funds.

Continuously build capacity of local government units to prepare, mitigate and respond to emergencies and implement social assistance.

The Mandanas ruling will necessitate the devolution of many social assistance programmes by 2022. For poorer regions, it will take considerable time for LGUs to reach the same capacity as NGA staff in implementing complex programmes. This is particularly important as most disasters are localised so the ability of LGUs to respond is key.

This Policy Note is based on ‘Disaster Risk Financing and Social Protection in Southeast Asia – Philippines Case Study by Maham Farhat and Fides Borja; UNICEF East Asia and the Pacific Policy Working Paper EAPWP/03/2021 and on the UNICEF internal document ‘Landscape Analysis on SRSP in BARMM’ by Georgia Rowe.

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